Results for the year ended 31 December 2014

24 February 2015

Highlights

Year to 31 December 2014	2014	2013	% change
Total production (mmboe)	**19.27**	6.74	*+186%*
Total sales (mmboe)	**17.76**	6.73	*+164%*
Total revenue (US$m)	**1,610.4**	766.3	*+110%*
Net profit after tax (US$m)	**353.2**	205.7	*+72%*
Core profit[1] (US$m)	**482.8**	205.7	*+135%*
Operating cash flow (US$m)	**992.3**	366.8	*+171%*
Total dividend (US cents)	**14.0**	4.0	*+250%*

1. Core profit (net profit after tax before significant items) is a non-IFRS measure that is presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to audit by the Group's auditor. Reconciliation to statutory net profit after tax is shown in the '2014 Performance Summary' on page 7.

- **2014 represented a landmark year for Oil Search, with the successful delivery of the transformational PNG LNG Project. 2014 net profit after tax including significant items was US$353.2 million, 72% higher than in 2013. Excluding significant items, core profit was US$482.8 million, up 135% compared to the previous year and the highest profit in the Company's 86 year history. The strong result was driven by a near tripling of production, again to record levels, following the commencement of LNG production from the PNG LNG Project in April, partially offset by a 12% fall in the average realised oil and condensate price.**

- **In addition to the completion of the PNG LNG Project, significant progress was made on LNG expansion during 2014. Work on the P'nyang gas field led to the signing of an MoU in early 2015, that sets a roadmap for the development of the field to support potential debottlenecking of the PNG LNG Project and the potential construction of a third LNG train. Oil Search also purchased a material stake in PRL 15, containing the Elk/Antelope gas fields, which has the potential to underwrite a second major LNG project in PNG.**

- **A 2014 final unfranked dividend of eight US cents per share plus an unfranked four US cents per share special dividend was announced, taking the total 2014 dividend, including the interim dividend of two cents per share, to 14 US cents per share. This is 3.5 times higher than the 2013 full year dividend of four US cents per share. Including the special dividend, 44% of 2014 full year core profit is being paid out by way of dividends, in line with the Company's target dividend payout ratio of 35-50%.**

- **At year end, the Company held total liquidity of US$1.56 billion, comprising US$960.2 million in cash and US$600.0 million in undrawn committed funding lines. US$803.8 million of the cash balance as at 31 December 2014, previously escrowed in PNG LNG Project accounts, was released following the achievement of Project financial completion in February 2015. The Company's robust balance sheet and liquidity position is able to support all the Company's planned core activities, including LNG expansion.**

- **The Company's total proved and probable (2P) gas reserves and 2C contingent gas resources increased 25% to 5,812 bcf, the highest in the Company's history, primarily due to the booking of 2C contingent resources for the Elk/Antelope fields in PNG. 2P oil and condensate reserves increased 2% to 95.9 mmbbl, largely driven by a 10.7 mmbbl net increase in Kutubu and Moran 2P liquids reserves, partly offset by 2014 annual production of 7.8 mmbbl. Over the past three years, nearly 50 million barrels gross have been added to 1P Expected Ultimate Recoveries from the key PNG producing oil fields, reflecting the ongoing success of the Company's oil field management programme.**

- **In response to the substantial fall in oil prices over the past six months, Oil Search has re-prioritised its 2015 work programmes, to focus on the Company's high-returning core LNG growth projects. A range of discretionary activities has been reduced in scope or deferred, resulting in approximately a 20% reduction in the originally planned 2015 capital expenditure budget. In addition, the Company is targeting approximately a 20% cut in previously planned production costs across operated assets. This represents a measured approach to recalibrate the business cost structure, to one more appropriate for the new lower oil price environment.**

- **Oil Search enters 2015 in a strong position, with a profitable production base from the PNG LNG Project and the PNG oil fields, two potentially high-returning LNG growth opportunities and a solid balance sheet. The Company is well placed to manage the present lower oil price environment as well as support its growth projects.**

Commenting on the 2014 results, Oil Search Managing Director, Peter Botten, said:

Financial results

"In 2014, Oil Search recorded the highest annual production and financial performance in the Company's history, reflecting the first contributions from the PNG LNG Project, which came onstream ahead of expectations.

2014 net profit was US$353.2 million, up 72% on the previous year. This included a US$129.6 million after-tax impairment charge, largely related to the impact of lower oil prices on the carrying value of exploration and evaluation assets. Excluding impairments, core profit was US$482.8 million, 135% higher than in 2013.

Both production unit costs of US$12.21 per barrel of oil equivalent (boe) and depreciation and amortisation charges of US$13.11 per boe were at the lower end of guidance.

At the end of 2014, Oil Search had total liquidity of US$1.56 billion, comprising cash of US$960.2 million and US$600.0 million available from undrawn corporate revolving facilities. Following the achievement of financial completion of the PNG LNG Project, Oil Search has significant cash available to help fund the growth activities identified in the Strategic Review, which we believe can drive continued top quartile returns over the next five years."

Major increase in 2014 final dividend, dividend policy remains unchanged

"The Board has approved the payment of a final unfranked dividend of eight US cents per share and a special unfranked dividend of four US cents per share. Including the two cents per share interim dividend, the total dividend payment for the 2014 full year is 14 US cents per share, compared to the 2013 dividend of four US cents per share, representing a dividend payout ratio of 44%, consistent with the Board's recently adopted dividend policy of distributing between 35% and 50% of core profit.

The Board believes the existing proportional dividend policy, where dividend payments will be related to the Company's future profitability, is appropriate in the current volatile oil price environment and provides the right balance between reinvesting cash flows to finance growth opportunities and providing capital returns to shareholders.

Given the Company's strong balance sheet and the recent fall in share price, the Board has decided to suspend the dividend reinvestment plan."

See Appendix 3A.1 – Notification of Dividend/Distribution announcement for more information on the dividend payment.

PNG LNG Project operating smoothly

"The PNG LNG Project, which came onstream in the first half of 2014 ahead of schedule, continues to perform very well.

In February 2015, the Project reached financial completion. This was a major milestone, with Oil Search receiving more than US$850 million in the Project's first distribution, comprising our share of Project revenues, net of operating costs and debt service reserve funding requirements as at February, and a further US$107 million previously escrowed to support Project lender obligations.

With the achievement of stable operations at the PNG LNG Project, the operator will continue to assess potential debottlenecking opportunities in 2015. Oil Search believes debottlenecking offers the potential for substantial incremental value and is the highest returning opportunity in the Company's portfolio."

Material progress on potential P'nyang development

"During 2014, significant progress was made towards the development of the P'nyang gas field in PRL 3, in the PNG Highlands, culminating in the signing of a Memorandum of Understanding (MoU) between the operator, ExxonMobil PNG Limited, and the PNG Government in January 2015. The MoU includes a roadmap for the development of P'nyang, to support the potential expansion of the PNG LNG Project and the provision of electricity and gas for domestic power generation.

In line with the MoU, the PRL 3 Joint Venture submitted a petroleum development licence application for the field to the Government in February 2015 and expects the new licence to be offered shortly. Initial preparations for an appraisal well on P'nyang, to test potential material resource upside and quantify the 1C contingent resource in the field, are now underway."

Elk/Antelope development activities

"As announced on 11 February 2015, in a complex, non-unanimous decision, the International Court of Arbitration of the International Chamber of Commerce (ICC) declined to issue pre-emptive rights to the Oil Search-owned Pac LNG group of companies over the March 2014 sale of an interest in PRL 15 from an InterOil subsidiary to a subsidiary of the Total SA Group. However, the ICC also determined that Total does not have any rights in PRL 15 or in the Elk/Antelope joint venture, unless and until Total complies with relevant clauses within the PRL 15 Joint Venture Operating Agreement. Oil Search is now working with its co-venturers to establish clarity on the future management of the joint venture.

The arbitration process has had no impact on the appraisal programme, with the Antelope 4 and Antelope 5 wells spudded in the second half of 2014. Key information from this drilling programme, which will help define the size, reservoir connectivity and productivity of the Elk/Antelope field, is expected to be known by around mid-2015. This, together with the results from the Antelope 6 well, which, subject to joint venture approval, is planned to spud later this year, will be used to help narrow potential development concepts.

Oil Search's objective in PRL 15 is to work constructively with all stakeholders, including the PNG Government and PRL 15 joint venture participants, to appraise and develop Elk/Antelope in the most timely and capital efficient manner to maximise the value of this world-class asset."

Appraisal of Taza

"A comprehensive appraisal programme of the 2013 Taza 1 oil discovery in the Kurdistan Region of Iraq continued during 2014. Testing of the Taza 2 appraisal well has recently commenced. Minor amounts of oil flowed to surface from the deepest interval drilled in the well, the Cretaceous, Shiranish Formation, confirming the overall field structure. Further testing is planned in shallower intervals over the next few weeks.

Taza 3 is currently at a depth of 3,706 metres at the top of the Kirkuk Formation. Oil shows have been observed in the Jeribe, Dhiban and Euphrates Formations, in line with expectations. We plan to continue with the appraisal programme through 2015."

Safety performance

"Safety across all operations is a key priority for Oil Search and is embedded in the Company's culture and in the way we operate.

Regrettably, in October, there was a tragic incident in Tunisia during seismic operations on our Tajerouine licence, which led to the death of an employee of the seismic contractor. Both Oil Search and the contractor conducted independent reviews of the incident, to determine the root causes and identify corrective actions to prevent a recurrence of such an incident.

In 2014, Oil Search recorded a Total Recordable Injury Rate (TRIR) of 1.97 per million hours worked, compared to 2.47 per million hours in 2013 and 2.64 in 2012. The improvement was largely driven by an increased focus on high risk hazards and effective implementation of corrective actions.

In 2015, a key safety focus for the Company will be the implementation of our multi-year Process Safety Improvement Plan, which is the first phase in the longer-term implementation of sustainable improvements in our operations' process safety management."

Reserves and resources

"Oil Search has today released its annual Reserves and Resources Statement. Key changes during 2014 included the addition of 1,219.4 bcf of gas (net) in the contingent resource category for the Elk/Antelope fields, following the Company's acquisition of an interest in PRL 15 in March 2014, and an increase in proved and probable oil and condensate reserves for the Kutubu and Moran fields of 10.7 mmbbl (net), following an independent audit. The increase in our oil and condensate reserves was very pleasing. Over the past three years, nearly 50 million barrels gross have been added to 1P Expected Ultimate Recoveries from the key

PNG producing oil fields, reflecting the ongoing success of development drilling combined with a strong focus on maximising production from existing wells through active field management and extension of field life as a consequence of the PNG LNG Project.

At the end of 2014, Oil Search's proved and probable (2P) oil and condensate reserves and contingent resources were 173.6 mmbbl and total proved and probable gas reserves and contingent resources were 5,811.6 bcf.

Based on 2014 production of 19.3mmboe, Oil Search has a 1P reserves life of 19 years and a 2P reserves life of 28 years."

See the 2014 Reserves and Resources Statement for full details.

Revision of 2015 capital and operating cost budgets

"Oil Search's re-examination of the Strategic Review recommendations, prompted by the material and rapid downturn in oil prices, has been completed. As anticipated, the review has concluded that the Company's core strategies remain sound, with the focus on LNG growth in PNG unchanged. These opportunities, including the potential expansion of the PNG LNG Project through debottlenecking, a potential third PNG LNG Project LNG train and the potential development of the Elk/Antelope fields, continue to offer attractive economic returns, based on our current oil price assumptions. Oil Search is well positioned, with material interests in these two potentially high-returning LNG developments. Both these projects could benefit from a recalibrated development cost base, brought about by downward pressure on costs globally as a result of lower oil and gas prices.

Clearly, if oil prices remain weak for an extended period of time, Oil Search's cash flow available for reinvestment will be lower than previously anticipated. The forward business plan, including the 2015 budget, has therefore been restructured, to ensure our priority activities are supported. These include work programmes associated with our high-returning Highlands and Gulf gas commercialisation activities, value-adding production optimisation initiatives for the oil assets (in particular, work on reliability, well integrity and process safety initiatives) and activities that promote a stable operating environment in PNG. All discretionary operating and capital expenditures have been reviewed and, unless there is a strong business case to support activities in the current oil price environment, expenditures have been reduced or deferred. Overall, total 2015 planned capital expenditure has been reduced by approximately 20%, with exploration and evaluation spend down 25%, production capex down 20% and corporate capex down by 40%.

Oil Search has also budgeted to reduce 2015 production costs for its operated assets by approximately 20%. A headcount freeze has been introduced and a comprehensive resourcing review has commenced, to ensure that the workforce is aligned with our business priorities. Additional cost savings are being sought, with active engagement with contractors and suppliers on contract renegotiations now underway.

Oil Search sees this changed oil market pricing environment as an opportunity to recalibrate its cost base and improve the efficiency, cost competitiveness and returns across all its business units. The Company will continue to review efficiency opportunities across our business, in a measured way, through 2015. We are well positioned to support a range of high-returning opportunities, with strong cash flows and a solid balance sheet."

On the outlook for 2015, Mr Botten said:

"While the lower oil price regime presents a challenge to the sector, Oil Search is well positioned, both financially and operationally, to weather a protracted downturn in pricing. The Strategic Review has confirmed that our gas growth opportunities in PNG, where we have a major competitive advantage, are robust, while the long-term legacy cash flows from the PNG LNG Project will continue to bolster the Company's balance sheet. Implementation of the new work programmes and the consequent change to our capital and operating cost base will ensure that we have sufficient funding available to fully pursue our priority growth opportunities."

2015 Full Year Guidance[1]

Year to December	2014 Actual	2015 Guidance
Production		
Oil Search operated (PNG oil and gas)[2]	7.08 mmboe	6 – 7 mmboe[3]
PNG LNG Project		
LNG	52.2 bcf	88 – 91 bcf
Liquids	2.0 mmbbl	2.8 – 3.0 mmbbl
Total PNG LNG Project[2]	12.2 mmboe	20 – 21 mmboe
Total production	**19.3 mmboe**	**26 – 28 mmboe**
Operating costs		
Production costs	US$12.21/boe	US$10 – 12/boe
Other operating costs[3]	$125.8 million	US$145 – 165 million
Depreciation and amortisation	US$13.11/boe	US$13 – 14/boe
Capital costs		
PNG producing fields	US$105.7 million	US$115 – 135 million
PNG LNG Project	US$502.6 million	US$125 – 160 million
Exploration and evaluation[4]	US$1,246.9 million	US$300 – 360 million
Property, plant and equipment	US$21.8 million	US$15 – 30 million
Total	**US$1,877.0 million**	**US$555 – 685 million**

1. Numbers may not add due to rounding.
2. Gas volumes converted to barrels of oil equivalent 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.
3. Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development) and inventory movements.
4. 2014 actual includes PRL 15 and associated acquisition costs of US$918.3 million.

Oil Search

2014 Performance Summary[1]

Year to 31 December 2014	2014	2013	*% change*
Sales data			
PNG LNG Project			
LNG (Billion Btu)	51,922	-	*N.M.*
Condensate ('000 bbls)	1,770	-	*N.M.*
Naphtha ('000 bbls)	53	-	*N.M.*
PNG oil ('000 bbls)	5,759	5,726	*+1%*
Hides GTE			
Gas (Billion Btu)	6,090	5,910	*+3%*
Condensate and refined products ('000 bbls)	106	110	*-4%*
Total barrels of oil equivalent sold ('000 boe)[2]	17,762	6,726	*+164*
Average realised oil and condensate price (US$/bbl)[3]	97.79	110.57	*-12%*
Average realised LNG and gas price (US$/mmBtu)	13.94	13.01	*+7%*
Financial data (US$ million)			
Revenue	1,610.4	766.3	*+110%*
Production costs	(235.4)	(126.4)	*+86%*
Other operating costs	(125.8)	(87.4)	*+44%*
Other income	7.8	0.2	*N.M*
EBITDAX[4]	**1,257.0**	**552.6**	***+127%***
Depreciation and amortisation	(252.7)	(50.2)	*+403%*
Exploration costs expensed	(109.1)	(107.4)	*+2%*
Impairment	(180.6)	-	*+100%*
Net finance costs	(129.6)	(15.2)	*+753%*
Profit before tax	**584.9**	**379.8**	***+54%***
Taxation	(231.8)	(174.1)	*+33%*
Net profit after tax	**353.2**	**205.7**	***+72%***
Impairment (net of tax)	129.6	-	*+100%*
Core profit[4]	**482.8**	**205.7**	***+135%***
Per share data (US cents)			
Basic EPS before significant items	32.59	15.36	*+112%*
Basic EPS after significant items	23.84	15.36	*+55%*
Diluted EPS before significant items	32.50	15.30	*+112*
Diluted EPS after significant items	23.77	15.30	*+55%*
Net operating cash flow per share	66.37	27.39	*+142%*
Interim dividend	2.0	2.0	*Unch*
Final dividend	8.0	2.0	*+300%*
Special dividend	4.0	-	-
Total dividend for the year	14.0	4.0	*+250%*

1. Numbers and percentage moves may not add due to rounding.
2. Gas and LNG volumes for 2014 have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.
3. Average realised price for Kutubu Blend including PNG LNG condensate.
4. EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and Core profit (net profit after tax before significant items) 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 derived from the financial statements which have been subject to audit by the group's auditor.

Cash flow (US$ million)

Year to 31 December 2014	2014	2013	*% change*
Operating cash flow			
Net receipts	1,185.2	521.9	*+127%*
Net interest paid	(11.2)	(5.2)	*+115%*
Tax paid	(181.7)	(149.8)	*+21%*
Net operating cash flow	**992.3**	**366.8**	***+171%***
Net investing cash flow[1]	**(1,740.4)**	**(1,653.8)**	***+5%***
Net financing cash flow	**1,498.6**	**1,008.4**	***+49***
Net cash inflow/(outflow)	**750.5**	**(278.6)**	***N.M.***
Net operating cash flow per share (US cents)	**66.37**	**27.30**	***+142%***

1. Includes US$918.3 million in costs relating to the purchase of an interest in PRL 15.

Financial position (US$ million)

As at	31 Dec 2014	30 Jun 2014	31 Dec 2013
Cash and short-term deposits[1]	960.2	367.8	209.7
Debt[2]			
PNG LNG financing	(4,262.2)	(4,084.0)	(3,824.4)
Corporate revolving facilities[3]	(150.0)	(50.0)	(200.0)
Total	(4,412.2)	(4,134.0)	(4,024.4)
Net debt	**(3,452.0)**	**(3,766.2)**	**(3,814.8)**
Total liquidity[3]	**1,560.2**	**1,067.8**	**509.7**

1. As at 31 December 2014, US$803.8 million was escrowed in PNG LNG Project accounts.
2. Excludes finance leases presented as 'Borrowings' in the Statement of Financial Position.
3. As at 31 December 2014, the Company had drawn down US$150 million under the US$250 million bilateral revolving facilities and nil under the US$500 million revolving corporate facility.

Factors affecting the result

Oil Search delivered a statutory net profit of US$353.2 million in 2014, up 72% on the previous year. This included a US$129.6 million after-tax impairment charge, largely related to the impact of lower oil prices on the carrying value of exploration and evaluation assets. Excluding impairments, core profit was US$482.8 million, 135% higher than in 2013.

Total revenue more than doubled, to US$1.61 billion, driven by the commencement of PNG LNG Project condensate and LNG sales in the first half of the year. This was partly offset by a lower average realised oil and condensate price, of US$97.79 per barrel compared to US$110.57 per barrel in 2013, reflecting the global downturn in oil prices. The average realised price for LNG and gas was US$13.94 per mmBtu.

Production costs on a per barrel of oil equivalent basis declined from US$18.77 in 2013 to US$12.21 in 2014, reflecting lower PNG LNG Project unit production costs relative to average oil field production costs. Other operating costs increased from US$87.4 million to US$125.8 million, mainly due to higher selling and distribution costs, royalties and levies associated with the commencement of LNG sales and higher corporate costs arising from the PRL 15 arbitration and the Strategic Review. Depreciation and amortisation costs increased from US$7.45 per boe in 2013 to US$13.11 per boe in 2014, due to the commencement of depreciation of the PNG LNG Project asset following start-up of production.

Exploration costs of US$109.1 million were expensed in 2014, similar to the previous year. US$88.1 million related to PNG activities, primarily drilling the Usano 4 and Usano 5 near-field exploration wells, while the remaining US$21.0 million was associated with exploration activities in the Middle East/North Africa.

Net interest costs in 2014 were US$129.6 million, compared to US$15.2 million in 2013, due to the expensing of PNG LNG Project borrowing costs from late April 2014, which were previously capitalised during the Project construction phase, and interest costs incurred on the Company's revolving corporate credit facilities.

The effective tax rate on 2014 statutory profit, including the impact of impairment charges, was 39.6%, compared to 46% in the previous year. This reflected the commencement of LNG revenues which are taxed at 30%, lower than the statutory tax rate for oil earnings in PNG of 50%, as well as the re-designation of the Kutubu and Gobe Main fields from oil to gas fields for taxation purposes. Excluding the impact of impairment charges, the effective tax rate was 36.9%.

The Company conducted a comprehensive review of carrying values for all its assets as at 31 December 2014, utilising the Company's revised oil price outlook. This resulted in a total pre-tax impairment charge of US$180.6 million (US$129.6 million after tax), largely related to exploration and evaluation assets, including US$109.6 million for PPL 219 (Mananda), US$25.5 million for PRL 14 (Cobra) and US$24.7 million for Block 7 in Yemen. A US$20.8 million charge for producing assets was also recorded.

Net operating cash flow for 2014 was US$992.3 million, 171% higher than in 2013. Investing cash flows during the year totalled US$1,740.4 million, including US$422.7 million spent on the PNG LNG Project, US$1,189.7 million on exploration and evaluation (including US$918.3 million on the acquisition of an interest in PRL 15), US$101.9 million on production activities and US$12.5 million on other plant and equipment.

At the end of 2014, Oil Search had total liquidity of US$1.56 billion, comprising cash of US$960.2 million and US$600.0 million available from undrawn corporate revolving facilities. More than US$800 million of this cash balance, previously escrowed, was released in February 2015 following the achievement of financial completion of the PNG LNG Project.

A full analysis of the financial results can be found in the Operating and Financial Review commencing on page 5 of the Directors' Report for the year ended 31 December 2014.

2014 Production Summary[1, 2]

Year to 31 December	2014[3]		2013		*% change*	
	Gross daily production (bopd)	**Net to OSH (mmbbl)**	**Gross daily production (bopd)**	**Net to OSH (mmbbl)**	***Gross daily production***	***Net to OSH***
Oil and Condensate Production						
Kutubu	16,843	3.692	15,848	3.473	*+6*	*+6*
Moran	11,009	1.989	11,295	2.041	*(3)*	*(3)*
Gobe Main	872	0.032	982	0.036	*(11)*	*(11)*
SE Gobe	1,363	0.127	1,412	0.132	*(4)*	*(4)*
SE Mananda	19	0.005	67	0.018	*(71)*	*(71)*
Total PNG Oil	**30,107**	**5.845**	**29,604**	**5.700**	***+2***	***+3***
PNG LNG Project	18,520	1.961	-	-	-	-
Hides [4]	331	0.121	325	0.119	*+2*	*+2*
Total Oil and Condensate	**48,957**	**7.926**	**29,929**	**5.818**	***+64***	***+36***
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project	493.09	52,199	-	-	-	-
Hides [4]	15.55	5,675	15.11	5,513	*+3*	*+3*
Total Gas	**508.63**	**57,874**	**15.11**	**5,513**	***+3,267***	***+950***
	boepd	**mmboe**	**boepd**	**mmboe**		
Total Production	**148,690**	**19.274**	**32,447**	**6.737**	***+358***	***+186***

1. Prior period comparatives updated for subsequent changes.
2. Numbers may not add due to rounding.
3. Gas and LNG volumes for 2014 have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.
4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.

Glossary and Conversion Factors Used

mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.13 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

Note: Minor variations in conversion factors may occur over time, due to changes in gas composition.

PETER BOTTEN, CBE

Managing Director

24 February 2015

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Presentation and Webcast

Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 24 February 2015. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call: +61 2 8280 6000.

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

DISCLAIMER

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

Appendix 4E

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

This information should be read in conjunction with the consolidated Financial Report for the year ended 31 December 2014

Results for announcement to the market

		Year ended 31 December			
		2014		2013	
	% Change[(1)]	US$'000	A$'000 [(2)]	US$'000	A$'000 [(2)]
Revenue from ordinary activities	*up* 110.2%	**1,610,370**	**1,783,751**	766,265	791,106
Profit from ordinary activities after tax attributable to members	*up* 71.7%	**353,218**	**391,247**	205,722	212,931
Net profit for the year attributable to members	*up* 71.7%	**353,218**	**391,247**	205,722	212,931

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

Dividends

	Year ended 31 December			
	2014		2013	
	US cents	A cents	US cents	A cents
Final dividend paid per security [(3)]	**12.00**	**TBA** [(4)]	2.00	2.20
Interim dividend paid per security [(3)]	**2.00**	**2.18**	2.00	2.14

Net tangible assets

	Year ended 31 December			
	2014		2013	
	US$	A$[(5)]	US$	A$[(5)]
Net tangible asset backing per ordinary security	**2.57**	**3.14**	2.41	2.70

Details of entities over which control was gained or lost

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

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

(1) % change calculations are based on the US$ figures.
(2) Amounts have been converted from US$ to A$ at the average exchange rate of 0.9028 (2013: 0.9686).
(3) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea. No part of the dividends represent conduit foreign income.
(4) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final dividend, being 11 March 2015.
(5) Amounts have been converted from US$ to A$ at the 31 December 2014 exchange rate of 0.8202 (31 December 2013: 0.8948).

Oil Search Limited and its subsidiaries
ARBN 055 079 868

Oil Search

Consolidated Financial Report for the year ended 31 December 2014

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Directors' report

The directors submit their report for the financial year ended 31 December 2014.

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, *64 years*

Mr Lee joined the Board on 9 May 2012 and was appointed Chairman on 28 February 2013. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is a Director of Newcrest Mining Limited and a former Chairman of the Australian Institute of Company Directors. *Ordinary shares, fully paid: 71,829*

Mr PR Botten, CBE, BSc, ARSM, (Managing Director), Executive, *60 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: 2,359,164; Performance Rights: 711,300; Restricted shares: 99,460*

Mr G Aopi, CBE, BEc, BAC, MBA, Executive, *60 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: 415,751; Performance Rights: 154,400; Restricted shares: 25,996*

Mr KG Constantinou, OBE, Non-Executive, *57 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 and Good Taste Company in New Zealand. 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), *54 years*

Ms Harris joined the Board on 1 March 2013. Ms Harris has over 19 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 entities BWP Trust, Toro Energy Limited and Infigen Energy 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: 31,961*

Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, Non-Executive, *64 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. He is Managing Director of Transform Exploration Pty Ltd, Apprenticeships Australia Pty Ltd and the Chamber of Commerce & Industry, WA. *Ordinary shares, fully paid: 45,736*

Mr B Philemon, Non-Executive, *69 years*

Mr Philemon joined the Board on 5 November 2012. Mr Philemon is acknowledged as one of Papua New Guinea's most influential leaders, with distinguished careers in both business and public service. Mr Philemon's career highlights include serving as Chairman of Air Nuigini and holding a number of ministerial posts in PNG Government, including Minister of Foreign Affairs and Minister for Finance and Treasury. Mr Philemon served as the member for Lae Open in Government from 1992 until the 2012 elections. Mr Philemon is a director of Highlands Pacific Limited and the Bank of Papua New Guinea. *Ordinary shares, fully paid: 7,241*

Mr KW Spence, BSc (Geophysics) (Hons), Non-Executive, *61 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 and a director of Independence Group. He also chairs a number of other bodies, including the National Offshore Petroleum Safety and Environmental Management Authority Board. *Ordinary shares, fully paid: 25,000*

Dr ZE Switkowski, AO, BSc (Hons), PhD, FAICD, FTSE, Non-Executive, *66 years*

Dr Switkowski joined the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia). Dr Switkowski is Chairman of Suncorp Group and NBN Co and is a director of Tabcorp Limited. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is a former Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia. He holds a PhD in nuclear physics from the University of Melbourne. *Ordinary shares, fully paid: 201,829*

GROUP SECRETARY

Mr SW Gardiner, BEc (Hons), CPA, *56 years*

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in corporate finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009. *Ordinary shares, fully paid: 330,990; Performance Rights: 146,700; Restricted shares: 26,033*

RESULTS AND REVIEW OF OPERATIONS

The Oil Search Limited Group ('the group') delivered a consolidated net profit of US$353.2 million (2013: US$205.7 million) for the year, after providing for income tax of US$231.8 million (2013: US$174.1 million).

Further details on the group's operating and financial performance can be found in the 'Operating and Financial Review' on page 5.

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 8 cents per ordinary share (2013: US 2 cents final dividend) and a special dividend of US 4 cents per ordinary share (2013: nil) to ordinary shareholders in respect of the financial year ended 31 December 2014. The due date for payment is 8 April 2015 to all holders of ordinary shares on the Register of Members on 11 March 2015. The company's dividend reinvestment plan will be suspended for the final dividend. Dividends paid and declared during the year are recorded in note 10 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' on page 5 for details on likely developments and future prospects of the group.

ENVIRONMENTAL DISCLOSURE

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

CORPORATE INFORMATION

Oil Search Limited is a company limited by shares and is incorporated and domiciled in Papua New Guinea. The group had 1,692 employees as at 31 December 2014 (2013: 1,489). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 611,045 share rights (2013: nil) granted under the Employee Share Rights Plan. There were no share appreciation rights (2013: 1,873,950) granted under the Employee Share Appreciation Rights Plan. There were 934,100 performance rights (2013: 1,635,200) granted under the Performance Rights Plan, and 62,700 restricted shares (2013: 361,230) granted under the Restricted Share Plan during the year.

As at 31 December 2014, there were 581,748 share rights (2013: nil), 3,048,400 share appreciation rights (2013: 4,654,190), no options (2013: 121,350), 4,070,768 performance rights (2013: 4,653,631), and 463,930 restricted shares (2013: 609,099) 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 21 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

During the year ended 31 December 2014, the Company had an Audit and Financial Risk Committee, a Corporate Actions Committee, a Health, Safety and Sustainability Committee and a People and Nominations Committee.

Members comprising the Committees of the Board during the year were:

Audit and Financial Risk Committee: Dr AJ Kantsler (Committee Chairman), Ms FE Harris, Mr B Philemon and Dr ZE Switkowski[1]. Mr RJ Lee is an ex-officio attendee of this Committee;

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

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

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

(1) Dr ZE Switkowski was Chairman of the People and Nominations Committee and a Member of the Audit and Financial Risk Committee until his leave of absence, effective 21 October 2013. Mr RJ Lee became Acting Chairman of the People and Nominations Committee effective 21 October 2013, until Dr ZE Switkowski resumed his role with the Board, effective 19 February 2014.

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 and Financial Risk	Corporate Actions	Health, Safety and Sustainability	People and Nominations
Number of meetings held	12	4	-	4	4
Number of meetings attended					
G Aopi	12	-	-	3	-
PR Botten	10	-	-	-	-
KG Constantinou	12	-	-	4	4
FE Harris	12	4	-	4	-
AJ Kantsler	11	4	-	4	-
RJ Lee[1]	12	4	-	4	4
B Philemon	11	4	-	-	4
KW Spence	12	-	-	4	4
ZE Switkowski[2]	10	4	-	-	4

(1) Mr RJ Lee became Acting Chairman of the People and Nominations Committee and a Member of the Audit and Financial risk Committee, effective 21 October 2013 and until Dr ZE Switkowski resumed his role with the Board, effective 19 February 2014. At other times, Mr Lee was an ex-officio attendee at the meetings of the Audit and Financial Risk Committee, Health, Safety and Sustainability Committee and People and Nominations Committee.

(2) Dr ZE Switkowski was granted a five-month leave of absence, effective 21 October 2013. Dr Switkowski resumed his role with the Board, effective 19 February 2014.

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 22 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 25 to the financial statements. Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 35.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 6 February 2015, the PNG LNG Project operator announced that the Project had achieved financial completion by satisfying all the financial completion tests set forth in Project financing agreements. Accordingly, the cash restrictions, as set out in the Project financing agreements, on escrowed PNG LNG sales proceeds and cash held in escrow to partially fund equity commitments during project development, as disclosed in Note 20 to the accounts, have been terminated. In addition, the guarantee issued by Oil Search to the Project lenders in support of its OSL Participants’ 29% share of the senior debt obligations of the Project, as detailed in Note 27(f), has been terminated.

Operating and financial review

1. Financial Overview

1.1 Summary of Financial Performance

Year ended 31 December	2014	2013	% change
Production and Sales Data			
Production (mmboe[1])	19.27	6.74	+186
Sales (mmboe)	17.76	6.73	+164
Average realised oil and condensate price (US$/bbl[2])	97.79	110.57	-12
Average realised LNG and gas price (US$/mmBtu[3])	13.94	13.01	+7
Financial Data ($US million)			
Revenue	1,610.4	766.3	+110
Production costs	(235.4)	(126.4)	+86
Other operating costs	(125.8)	(87.4)	+44
Other income	7.8	0.2	N.M
EBITDAX*	**1,257.0**	**552.6**	**+127**
Depreciation and amortisation	(252.7)	(50.2)	+403
Exploration costs expensed	(109.1)	(107.4)	+2
Impairment	(180.6)	-	+100
Net finance costs	(129.6)	(15.2)	+753
Profit before tax	**584.9**	**379.8**	**+54**
Taxation	(231.8)	(174.1)	+33
Net profit after tax	**353.2**	**205.7**	**+72**
Impairment (net of tax)	129.6	-	+100
Core profit*	**482.8**	**205.7**	**+135**
Net debt	**3,452.0**	**3,814.8**	**-10**

Note: Numbers may not add due to rounding.

* EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and Core profit (net profit after tax before significant items) 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 derived from the financial statements which have been subject to audit by the Group's auditor.

Production and Revenue

Total production for 2014 was 19.27 million barrels of oil equivalent (mmboe), or 186% higher than in 2013 (6.74 mmboe). Further details on performance by operating segment and field are included in Section 2 'Overview of operations'.

Total revenue of US$1,610.4 million was 110% higher than the prior year. LNG and gas sales volumes for 2014 were 58,012 billion Btu, 882% higher than in the prior year. This was due to the delivery of 51 cargoes of liquefied natural gas (LNG) following commencement of production at the PNG LNG Project in April 2014.

Oil and condensate sales volumes for 2014 totalled 7.54 million barrels (mmbbl), 31% higher than the 5.74 mmbbl for 2013, predominantly due to commencement of PNG LNG condensate sales as well as higher oil production and the timing of shipments.

Other revenue, which consists mainly of rig revenue, naptha sales and tariffs, increased to US$64.7 million in 2014 from US$54.8 million in 2013, due to commencement of naptha sales from the PNG LNG Project and marginally higher rig utilisation and charge-out rates.

The average oil and condensate price realised during the year was US$97.79 per barrel, 12% lower than in the prior year, reflecting the global decline in spot oil prices during the second half of 2014. Meanwhile, the average price realised for LNG and gas sales increased 7% to US$13.94 per mmBtu, reflecting the commencement of LNG sales under spot and long-term LNG contracts by the PNG LNG Project and the lag between the spot oil price and realised LNG contract prices. The Company did not establish any oil hedges during the period and remains unhedged to oil price movements.

[1] mmboe = million barrels of oil equivalent. Gas volumes have been converted to barrels of oil equivalent 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. Note that prior year figures have not been restated.
[2] bbl = barrel of oil.
[3] mmBtu = million (10^6) British thermal units.

Production and other operating costs

Production costs increased from US$126.4 million in 2013 to US$235.4 million in 2014 primarily due to the start-up of the PNG LNG Project in April 2014. However, production costs on a per barrel of oil equivalent (boe) basis declined from US$18.77 per boe in 2013 to US$12.21 per boe, reflecting lower average PNG LNG Project unit production costs relative to average oil field unit production costs.

US$ million	**2014**	**2013**
PNG LNG	103.6	-
PNG oil and gas	131.6	126.2
Other	0.2	0.2
	235.4	**126.4**

PNG LNG production unit costs on a per boe basis were US$8.49, which reflected the production ramp up phase of the Project since April 2014. PNG oil and gas unit production costs per boe for 2014 were US$18.59, 1% lower than in the prior year primarily due to lower well work activity in 2014.

Other operating costs increased from US$87.4 million in 2013 to US$125.8 million in 2014 primarily due to selling and distribution costs generated by the commencement of LNG sales cargoes, an increase in royalties and levies due to higher sales revenues and higher corporate costs (mainly PRL 15 arbitration and the strategic review related expenses), partially offset by the inventory build-up for the PNG LNG Project.

Depreciation and amortisation

Depreciation and amortisation increased from US$50.2 million in 2013 to US$252.7 million in 2014. On a cost per boe produced basis, depreciation and amortisation for 2014 was US$13.11/boe, compared to the 2013 cost of US$7.45/boe.

Amortisation costs increased by US$199.4 million to US$236.2 million due to the commencement of production for the PNG LNG Project, higher amortisation rates for oil field assets and higher oil production.

Depreciation increased by US$3.1 million to US$16.5 million mainly driven by a new office lease, finance leases for PNG LNG marine vessels and higher rig utilisation.

Exploration costs expensed

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$109.1 million. This included US$36.8 million attributable to the Usano 5 well and US$30.8 million attributable to the Usano 4 well.

The remaining exploration costs expensed consisted of seismic, geological, geophysical and general and administration expenses.

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

Net interest costs

Net interest costs of US$129.6 million in the 2014 financial year were US$114.4 million higher than the prior year, primarily due to the expensing of borrowing costs of US$108.3 million following commencement of the PNG LNG Project.

Impairment

A pre-tax impairment charge of US$180.6 million (post-tax US$129.6 million) was recognised during 2014 primarily related to the group's exploration and evaluation assets. The following exploration and evaluation assets were impaired:

Asset	**Events and circumstances**	**US$ million**
PPL 219	Commodity price decline and revised risks associated with commercialisation	109.6
PRL 14	Commodity price decline and revised commercialisation opportunities	25.5
Block 7	Uncertainty around political and security environment and revised risks associated with commercialisation	24.7
		159.8

A further pre-tax impairment charge of US$20.8 million was recognised for producing assets.

Taxation

Tax expense on statutory profit in 2014 was US$231.8 million, compared to US$174.1 million in 2013. This resulted in an effective tax rate of 39.6%, lower than in prior years. Broadly this is attributable to the commencement of LNG revenues which are taxed at a lower 30% rate than the prevailing statutory rate for oil income of 50%. Further, our Kutubu field converted to a gas designation effective 30 June 2014 and our Gobe Main field converted to a gas designation effective 30 September 2014. This results in the income from those operations also being taxed at a reduced 30% tax rate. The effective tax rate on Core Profit was 36.9%.

1.2 Summary of Financial Position

Net debt

As at 31 December 2014, Oil Search had net debt (total borrowings less cash) of US$3,452.0 million, US$362.8 million lower than the prior year net debt position of US$3,814.8 million. A reconciliation of the movement in net debt during the year is as follows:

	US$ million
Net debt at 31 December 2013	**3,814.8**
Net draw down – PNG LNG Project finance facility	237.7
Net draw down – Corporate revolving facilities	150.0
Increase in cash balances	(750.5)
Net movement in 2014	**(362.8)**
Net debt at 31 December 2014	**3,452.0**

At 31 December 2014, the group had drawn down US$4,262.2 million under the PNG LNG Project finance facility, US$150 million under the US$250 million bilateral revolving facilities and nil under the US$500 million revolving corporate facility.

Oil Search remained in a strong liquidity position at 31 December 2014, with cash of US$960.2 million, including US$803.8 million in PNG LNG escrow accounts, and US$600.0 million undrawn under the group's corporate revolving facilities.

Investment expenditure

Total investment expenditure (including capitalised borrowing costs) for the 2014 financial year was US$1,877.0 million, which was 12% higher than the prior year expenditure of US$1,673.4 million. The components of capital expenditure for the year were:

US$ million	**2014**	**2013**
PNG LNG Project (1)	502.6	1,214.6
Exploration and evaluation (2),(3)	1,246.9	294.0
Producing assets	105.7	152.6
Other plant and equipment	21.8	12.2
Total capital expenditure	**1,877.0**	**1,673.4**

(1) Includes capitalised financing costs.
(2) Includes US$109.1 million (2013: US$107.4 million) of exploration costs expensed during the year.
(3) Excludes expensed business development costs of US$13.3 million in 2013 (2013: US$10.2 million).

Oil Search's share of the PNG LNG Project development cost was US$456.6 million during the 2014 financial year (2013: US$1,062.8 million). An additional US$45.9 million of financing costs related to the Project were capitalised during the year (2013: US$151.8 million).

Exploration and evaluation expenditure for 2014 was US$1,246.9 million (2013: US$294.0 million). This primarily reflected the acquisition in March of a 22.8% interest in PRL 15 for US$918.3 million, including associated acquisition costs, appraisal drilling and seismic on PRL 15 of US$26.9 million, US$67.6 million spent on the Usano 4 and Usano 5 near field exploration wells and US$87.2 million spent on the Taza 2 and Taza 3 appraisal wells in Kurdistan.

Expenditure on producing assets totalled US$105.7 million for the 2014 financial year, compared to US$152.6 million in 2013. Expenditure in 2014 mainly related to the drilling of a development well and ongoing sustaining capital.

Reserves and resources

At 31 December 2014 the Company's total proved and probable reserves (2P) and contingent resources (2C) for oil and condensate were 173.6 mmbbl, down 3% compared to 2013. An increase in reserves at Kutubu and Moran of 10.7 mmbbl following audit by NSAI was offset by 2014 net production of 7.8 mmbbl and a reduction in resources of 6.9 mmbbl at Mananda following analysis of data from recent drilling.

Total proven and probable reserves (2P) and contingent resources (2C) for gas were 5811.6 bcf, up 25% compared to 2013. The change was primarily due to the addition of 1,219.4 bcf resources in the Elk-Antelope fields, reflecting the Company's acquisition of an interest in PRL 15, the addition of 79 bcf of resources at Flinders following analysis of data from the Flinders well, partly offset by 2014 net production of 53.2 bcf and a 65.7 bcf reduction in resources at Mananda following analysis of data from recent drilling.

Further details are included in the 2014 Reserves and Resources Statement.

Oil Search

1.3 Operating cash flows

Year to 31 December (US$ million)	2014	2013	% change
Net receipts	1,185.2	521.9	+127
Net interest expense	(11.2)	(5.2)	+115
Tax paid	(181.7)	(149.8)	+21
Operating cash flow	**992.3**	**366.8**	**+171**
Net investing cash flow	(1,740.4)	(1,653.8)	+5
Net financing cash flow	1,498.6	1,008.4	+49
Net cash inflow/(outflow)	**750.5**	**(278.6)**	**N.M**

Note: Numbers may not add due to rounding.

Net operating cash flow increased primarily due to the commencement of the PNG LNG Project, higher oil and condensate sales volumes and the timing of cash receipts. This was partially offset by higher tax payments.

During 2014, Oil Search's net investing cash flow included expenditures of:

- US$422.7 million on the PNG LNG Project (US$1,226.5 million in 2013).
- US$1,189.7 million on exploration and evaluation (US$258.6 million in 2013).
- US$101.9 million on production activities (US$154.6 million in 2013).
- US$12.5 million on other plant and equipment (US$12.1 million in 2013).

The group distributed US$60.3 million to shareholders by way of the 2013 final and 2014 interim dividends during the year. These distributions were funded by a fully underwritten dividend reinvestment plan. During 2014, net borrowings of US$433.5 million were drawn down, including US$383.5 million under the PNG LNG Project finance facility and US$150 million under the corporate revolving facilities, offset by borrowings of US$200 million drawn under the US$500 million revolving facility in 2013 being repaid in the year.

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 has interests in, and operates all of, PNG's currently producing oil fields. The Company also operates the Hides Gas to Electricity Project and has a 29% interest in the 6.9 MTPA PNG LNG Project, a world scale liquefied natural gas (LNG) development operated by ExxonMobil PNG Limited. The PNG LNG Project commenced gas and liquids production in April 2014 and delivered its first LNG cargo in June 2014. Over its 30 year life, the two train project is expected to produce more than 9 tcf of gas and over 200 million barrels of associated liquids.

Oil Search is pursuing several LNG expansion opportunities in PNG, including the potential expansion of the PNG LNG Project and a new LNG development underpinned by gas resources in PRL 15. The Company is involved in a range of exploration and appraisal activities in PNG aimed at aggregating gas resources to support these potential developments.

Oil Search also operates exploration interests in the Middle East and North Africa, including an oil discovery in Kurdistan which is presently under appraisal.

2.1 Activities in PNG

2.1.1 Operated oil and gas production

In 2014, total net production from Oil Search's PNG fields was 19.27 million barrels of oil equivalent (mmboe), 186% higher than the previous year, reflecting the impact of the start-up of the PNG LNG Project.

Kutubu (PDL 2 – 60.0%, operator)

Gross production from the Kutubu fields averaged 16,843 barrels of oil per day (bopd) in 2014, up 6% on 2013.

The strong production performance from Kutubu reflected the success of recent development drilling, particularly in the Usano and Agogo fields. The Usano field contributed more than 5,500 bopd to gross Kutubu production in 2014, of which approximately 3,500 bopd was produced by the UDT 14 ST1 development well, drilled in 2013 in the Usano East field. The Agogo 7 development well, in the forelimb of the Agogo field, was drilled during the year and came onstream in the fourth quarter of 2014 at a rate of approximately 1,500 barrels of oil per day (bopd). The IDT 25 ST2 well in the main Toro block, which was drilled at the end of 2013 and brought into production in early 2014, also contributed strongly to production during the year. Kutubu commenced delivery of export gas to the PNG LNG Project in April 2014.

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

Moran 2014 gross production averaged 11,009 bopd, down 3% on the previous year. During the year, active reservoir management and a strong sustained production performance from the Moran 13 ST3 well, which was drilled and completed in 2013, helped to mitigate the natural decline from this mature field.

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

Compared to 2013, production from the Gobe Main field fell by 11% in 2014, to 872 bopd, while production from SE Gobe field fell by 3%, to 1,363 bopd. Natural decline from these mature fields and the impact of two scheduled shutdowns at the Gobe Production Facility (GPF) for routine maintenance and servicing were partially offset by optimisation of production from existing wells in both fields. The Gobe Main field commenced delivery of export gas to the PNG LNG Project in August 2014.

SE Mananda (PDL 2 – 72.3%, operator)

The SE Mananda field was shut-in in May 2014, having reached the end of its economic oil life. Gross production from the SE Mananda field during 2014 was 19 bopd, of which 18 bopd was net to Oil Search. Studies are underway to establish how the facilities can be preserved for future use.

Hides Gas to Electricity Project – 100%, operator (PDL 1 – 16.7%)

Gas production from the Hides Gas to Electricity Project was 5.675 bcf, up 3% on 2013 levels due to limited interruptions and steady demand from the Porgera Gold Mine.

2.1.2 PNG LNG Project

In early 2014, the following notable milestones were achieved:

- Construction, commissioning and start-up of all major equipment and facilities at the Hides Gas Commissioning Plant (HGCP) in the PNG Highlands was completed
- Installation of the pipeline gathering system linking the Hides production wells to the HGCP and the 292 kilometre main onshore gas pipeline connecting Hides to the Gulf of Papua coast was completed.
- Construction, commissioning and testing of Train 2 at the LNG plant near Port Moresby was completed.
- Production of condensate, which is blended with crude oil from existing oil fields and sold as 'Kutubu Blend' via the offshore Kumul Marine Terminal, commenced in March.
- Production of LNG from Train 1 commenced in April and from Train 2 in May.
- On 25 May, the PNG LNG Project's inaugural LNG cargo departed PNG on the Spirit of Hela, bound for TEPCO in Japan, reaching its destination in early June, ahead of schedule.
- In late July, the Project reached full operating capacity and the Project recorded its first full quarter of production in the fourth quarter of 2014.

55 cargoes of LNG were loaded and 51 cargoes of LNG plus 23.5 equivalent cargoes of Kutubu Blend were sold in 2014, with the majority of LNG volumes sold on the spot market. Deliveries under long-term LNG contracts with China Petroleum and Chemical Corporation (Sinopec), Osaka Gas Company Limited, The Tokyo Electric Power Company Inc. and CPC Corporation commenced progressively during the third and fourth quarters of 2014.

Total PNG LNG Project production net to Oil Search for 2014 was 12.20 mmboe, comprising 10.24 mmboe of LNG and 1.96 mmbbl of liquids.

Development drilling on the Hides field continued during the year. Two wells at each of the B, C and D Wellpads were completed as producers and two development wells at the G Wellpad, plus a produced water disposal well, were drilled. The G1 and G2 wells intersected the gas-bearing Toro reservoir while the PWD 1 well intersected the Toro in the water leg, as planned. In addition, the first of two Angore development wells and the Hides F1 (Hides Deep) development/exploration well commenced drilling. Studies to delineate the Hides gas reserves and distribution, using data obtained from all the development wells drilled to date, commenced in 2014 and remain ongoing.

Shortly after the end of the year, the PNG LNG Project satisfied all of its financial completion tests, as set out in the Project finance facility agreements, allowing completion guarantees to be released and co-venture distributions to commence.

2.1.3 2014 Production Summary [1, 2]

Year to 31 December	2014		2013		% change	
	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production	Net to OSH
Oil Production						
Kutubu	16,843	3.692	15,848	3.473	6.28	6.28
Moran	11,009	1.989	11,295	2.041	-2.53	-2.53
Gobe Main	872	0.032	982	0.036	-11.20	-11.20
SE Gobe	1,363	0.127	1,412	0.132	-3.50	-3.50
SE Mananda	19	0.005	67	0.018	-71.21	-71.21
Total PNG Oil	**30,107**	**5.845**	**29,604**	**5.700**	**1.70**	**2.55**
PNG LNG Project Liquids	18,520	1.961	-	-	-	-
Hides Liquids	331	0.121	325	0.119	1.75	1.75
Total Liquids	**48,957**	**7.926**	**29,929**	**5.818**	**63.58**	**36.23**
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project LNG	493.09	52,199	-	-	-	-
Hides Gas Production	15.55	5,675	15.11	5,513	2.93	**2.93**
Total Gas	**508.63**	**57,874**	**15.11**	**5,513**	**3,267.25**	**949.69**
	boepd	**mmboe**	**boepd**	**mmboe**		
Total Production[3]	**148,690**	**19.274**	**32,447**	**6.737**	**358.25**	**186.08**

1. Prior period comparatives updated for subsequent changes.
2. Numbers may not add due to rounding.
3. Gas and LNG volumes for 2014 have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.

2.1.4 Gas expansion activities

Elk/Antelope gas fields, PRL 15, PNG

In March 2014, Oil Search completed the purchase of a 22.835% gross interest in Petroleum Retention Licence 15 (PRL 15), containing the Elk/Antelope gas discoveries, through the acquisition of the Pac LNG Group Companies for US$900 million. Elk/Antelope is the largest undeveloped gas resource in PNG and is highly complementary to Oil Search's existing asset base. The purchase was funded by a placement of 149.39 million fully paid ordinary shares to the Independent State of Papua New Guinea.

Two appraisal wells, Antelope 4, located south of Antelope 2, and Antelope 5, located on the western flank of the field, commenced drilling in the second half of the year. The aim of these wells is to delineate the size and structural extent of the field and to determine whether the resource can underpin one or two LNG trains. Subject to approval by the PRL 15 Joint Venture, a third appraisal well, Antelope 6, and an exploration well, Antelope Deep, are planned to be drilled in 2015. Studies also commenced during the year on potential development concepts.

The PRL 15 licence is governed by an existing joint venture operating agreement (JVOA). In late March, InterOil Corporation announced the purported sale of part of its interest in PRL 15 to a subsidiary of the Total SA Group. Oil Search commenced a dispute resolution process to pursue claims to recognise pre-emptive rights under this JVOA. This process included arbitration proceedings in London which concluded in December 2014.

Shortly after the end of the year, the International Court of Arbitration of the International Chamber of Commerce (ICC) declined to issue pre-emptive rights over the sale. In a complex, non-unanimous, judgement, the ICC ruled that while Total is a party to the Elk/Antelope Joint Venture Operating Agreement (JVOA), it does not presently have rights in PRL 15 or in the Elk/Antelope JVOA until relevant JVOA provisions are satisfied. Oil Search intends to work constructively with its co-venturers to resolve all outstanding transfer and joint venture management issues to see this world-class resource developed as soon as practical.

P'nyang gas field, PRL 3, PNG

During the year, the PRL 3 (Oil Search – 38.51%) joint venture completed environmental and social fieldwork studies on the P'nyang gas field in preparation for the submission of a development licence application for P'nyang, which took place in early 2015.

In January 2015, a Memorandum of Understanding (MoU) was signed between ExxonMobil PNG Limited, operator of the PNG LNG Project and the PRL 3 Joint Venture, and the PNG Government for the potential expansion of the PNG LNG Project and the provision of electricity and gas for domestic power generation. Under the MoU, additional gas reserves to support these initiatives will be sourced from the P'nyang field. The MoU has set out a firm roadmap for the development of this resource, which is a key growth asset in Oil Search's portfolio.

Preliminary interpretation of seismic data acquired in 2013 has been positive for the P'nyang resource and near-term appraisal drilling will help quantify the 1C contingent resource in the field.

NW Highlands

During 2014, approximately 78 kilometres of 2D seismic was acquired around the Juha and Hides fields in the PNG Highlands. This data will be used to assess gas exploration targets for potential drilling in 2015/2016. The Minister for Petroleum and Energy offered a new exploration licence, PPL 464, located adjacent to PRL 3, to Oil Search in a 50:50 partnership with ExxonMobil. The first two year period obligations comprise technical studies, field mapping and seismic data acquisition.

In addition, Oil Search entered into a conditional agreement with Strike Oil Limited to acquire a 100% interest in PPL 402, located adjacent to the Hides and Juha gas fields in an area believed to be prospective for gas. Oil Search also farmed-in to PPL 269, with a 10% interest. DPE approval and registration is pending.

Gulf Region

A short seismic acquisition programme based on airborne field data was undertaken over the onshore Gulf area in late 2014. The data acquired will be used to assess the presence of exploration targets in the coastal area along trend from the Elk/Antelope field in PRL 15.

Evaluation of seismic data over PPL 338 in the onshore Gulf area failed to identify any attractive drilling prospects. The election period to farm-in has expired.

2.2 Middle East and North Africa

2.2.1 Kurdistan Region of Iraq

During 2014, appraisal of the Taza oil discovery in the Taza PSC in Kurdistan advanced. The Taza 2 appraisal well, located 10 kilometres north of the Taza 1 discovery well, reached a total depth of 4,200 metres. Hydrocarbon shows were observed in the Jeribe, Euphrates and Kirkuk intervals, as in Taza 1, as well as in a number of deeper intervals, including the Shiranish formation. Operations were suspended in the third quarter of 2014, following an increase in regional tensions which caused supply chain disruptions, but resumed in the fourth quarter once an alternate supply route had been established. At the end of the year, preparations were underway to flow test the well.

A second appraisal well, Taza 3, was spudded in October. The well, located approximately six kilometres south east of Taza 1, will help better define the structural configuration, fluid contacts, reservoir quality and distribution and nature of natural fractures in the southern part of the field.

The acquisition of 630 square kilometres of 3D seismic over the Taza block was completed in late 2014 and processing is now underway.

2.2.2. Tunisia

A 399 kilometre 2D seismic survey over the Tajerouine PSE (Oil Search – 100%, operator), was completed in in the fourth quarter of 2014 and processing of data acquired is now taking place.

2.2.3. Yemen

Block 7 in Yemen (Oil Search – 34%, operator) remained in a state of force majeure throughout 2014.

3. Business Strategy, Outlook and Risk

3.1. Business Strategy

In October 2014, Oil Search announced the findings of its Strategic Review, including a renewed vision: to generate top quartile returns for shareholders through excellence in socially responsible oil and gas exploration and production.

The Company aims to achieve this vision by pursuing six key strategies:

- Sustaining and optimising the value of existing Oil Search assets through safe and reliable operations.
- Commercialising additional LNG trains with gas sourced from the NW Highlands and Gulf Hubs.
- Exploring for and appraising high value oil and gas accumulations in PNG and progressing high value global new venture opportunities.
- Maintaining Oil Search as a leading corporate citizen in PNG. Protecting value and enabling growth by mitigating risks and promoting a stable operating environment.
- Enhancing organisational capabilities to deliver our strategic commitments.
- Optimising capital and liquidity management to support investment and reward shareholders.

3.2. Outlook

Key activities in 2015 are expected to include the following:

- Continued development drilling and workover activities in the PNG producing oil fields.
- Continued delivery of gas from Oil Search's operated fields to the PNG LNG Project and reliable operation of the Project's liquids export system.
- Production optimisation studies on the PNG LNG Project.
- Completion of PNG LNG Project development drilling on the Angore field and the Hides F1 development/exploration well.
- Preparations for drilling an appraisal well on P'nyang and work on the development of P'nyang to support a potential expansion of the PNG LNG Project and domestic power generation.
- Submission for, and award of, a Petroleum Development Licence on PRL 3.
- Completion of the Antelope 4 and 5 appraisal wells.
- Subject to joint venture approval, drilling of the Antelope 6 appraisal well and Antelope Deep exploration well.
- Working with co-venturers and the PNG Government to determine the optimal development concept for Elk/Antelope.
- Completion of the Taza 2 and Taza 3 appraisal wells in Kurdistan, drilling of a potential third appraisal well and continued 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.

Financial and Liquidity risks

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 will impact the group's revenue and cash flows.

International oil and gas prices have fluctuated in past years and will 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 27 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.

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 27 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 forecasts to assess any implications on future liquidity and profitability.

Operational risks

Exploration and development

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

Production risks

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

Other operational risks

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

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

Reserve and resource estimates

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

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

External and Stakeholder

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.

Political and Community

The developing countries in which Oil Search operates expose the organisation to different degrees of political and commercial risk. Profitability of our operating assets may be adversely impacted by political stability, land ownership disputes, and community issues as well as war, civil unrest and terrorism. Oil Search’s ability to acquire, retain and gain full value from licences may also be affected by a number of political and social issues such as differing political agendas and decision making, environmental and social policy and the impact of bribery and corruption. Delays in government lead infrastructure development can also impact the commercial outcome of projects.

Oil Search operates under its Stakeholder Engagement 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. Oil Search has in place a comprehensive corruption prevention framework.

Oil Search also 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 government and communities led by a dedicated and growing Stakeholder Engagement team. The Health, Safety and Sustainability Committee oversees the strategies and processes adopted by management and monitors the group's performance in these areas.

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, can 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 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 which bind the joint venture participants to certain responsibilities and obligations.

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 2014 to 31 December 2014. 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.

1. 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.

2. 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:
  - o The release of the half year results;
  - o The release of the full year results; and
  - o The Oil Search Annual Meeting.

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

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

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

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

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

3. ROLE OF THE PEOPLE AND NOMINATIONS COMMITTEE

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

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration, retention, talent management and termination policies;
- Oversight of the key processes employed to identify and develop talent across the Group;
- 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;
- Board Performance Reviews;
- Proposal to the Board for appointment of new non-executive directors;
- Approval of terms and conditions and contracts for any new Key Management Personnel and other direct reports of the Managing Director.

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

- Dr ZE Switkowski – independent non-executive (Chair from 12 May 2011).
- Mr KG Constantinou OBE – independent non-executive (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 Switkowski was granted leave of absence from the Company's Board on 21 October 2013 to accommodate the role he assumed on an interim basis as Executive Chairman of the National Broadband Network Company. Dr Switkowski recommenced non-executive director duties on 19 February 2014. 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 during Dr Switkowski's leave of absence.

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 from time to time. The table below summarises work undertaken by external consultants at the Committee's request in 2014 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 2014

Consultant	Committee and Board Engagements	Management Engagements
Aon Hewitt	Provision of data to support a review of remuneration of Managing Director and the Senior Management Team completed in February 2014.	General remuneration survey data.
Australian Institute of Company Directors	Assistance in relation to a periodical review of Board Performance	None
Mr Stephen Langton	Executive development and succession	None
Orient Capital	Ad hoc reporting in relation to Total Shareholder Return calculations.	Regular analysis of the Company's shareholder registry.
Ernst & Young	None	Provision of fair value of equity awards

4. 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 Company. In recognition of the significant focus on costs, no Key Management Personnel will receive a TFR increase for 2015. The Board also resolved not to increase Board and committee fees paid to Non-Executive Directors in light of the dramatic change in market circumstances brought about by the sudden fall in oil prices. Board and committee fees have not been adjusted since 1 January 2013.

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 directly affect Shareholder Value and which are directly linked to the Oil Search Strategic Plan.

At the start of each year, the Board determines the hurdles and target levels of performance which form the STI scorecard. For 2014, the STI scorecard comprised the following components:

- Operational components (45% of the scorecard):
  - Safety (10%, comprising 6% Total Recordable Injury Frequency Rate and 4% High Potential Incident Rate)
  - Production (15%)
  - Costs (15%)
  - EBITDAX (5%)

- Business Growth components (55% of the scorecard):
  - Discovery or acquisition of new 2C Gas Resources (20%)
  - Discovery or acquisition of new 2C Oil Resources (15%)
  - Strategic and growth initiatives (20%)

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.

The target levels of performance set by the Board are challenging and if achieved deliver the payment of 50% of STI opportunity. While individual awards above ‘Opportunity’ are possible, the overall STI pool available to all employees is capped at 100% of the opportunity amount.

Performance during 2014

For 2014, performance for the scorecard measures was as follows:

Measure		**Performance during 2014**
Safety	- Total Recordable Injury Frequency rate	Better than target
	- High Potential Incident Rate	Better than target
Production		Better than target
Costs		Close to target
EBITDAX		Better than target
Discovery or acquisition of new 2C Gas Resources		Much better than target
Discovery or acquisition of new 2C Oil Resources		No achievement
Strategic and growth initiatives		Much better than target

Overall for the 2014 performance year, the Board determined an overall scorecard outcome of 100% of Opportunity. For the Managing Director, Executive General Managers and other relevant employees, the scorecard outcome was reduced to 95.8% of Opportunity as a result of the fatality of a third party contractor during Seismic Drilling Operations in Tunisia.

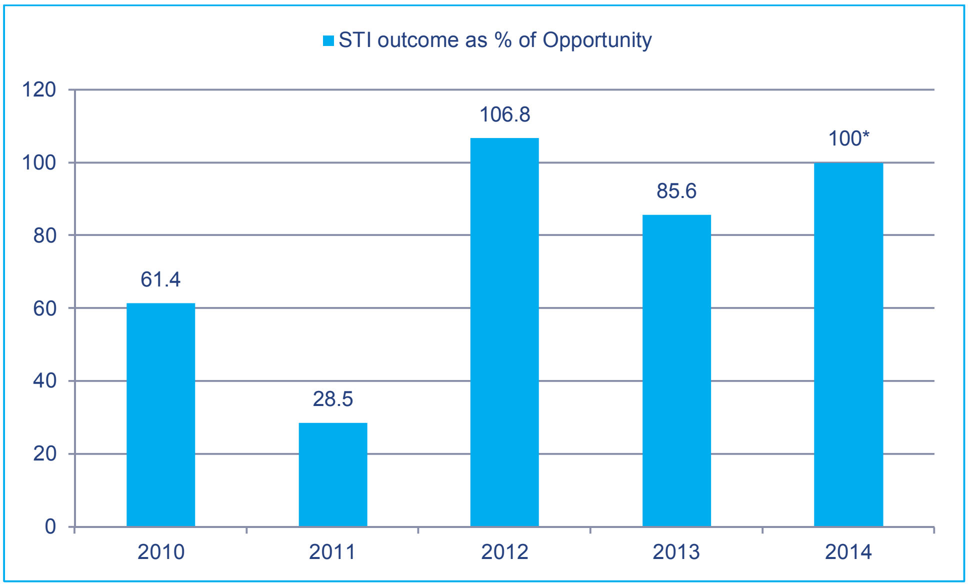
Given the transformational nature of the successful commissioning of PNG LNG, a significant review of the Oil Search strategic plan occurred during 2014 following which both STI and LTI measures for 2015 onwards were reviewed to ensure continued alignment to the revised strategy and that the weightings remained appropriate.

Following the review the scorecard has been reweighted to reflect the increased importance of safe and reliable production post commissioning of PNG LNG and the focus on costs.

- Operational components (55% of the scorecard):
    - Safety (10%, comprising 6% Total Recordable Injury Frequency Rate and 4% High Potential Incident Rate)
    - Production (20%)
    - Costs (20%)
    - EBITDAX (5%)
- Business Growth components (45% of the scorecard):
    - Discovery or acquisition of new 2C Gas Resources (15%)
    - Discovery or acquisition of new 2C Oil Resources (15%)
    - Strategic Growth initiatives (15%)

Table 3 – STI Awards to Employees

Over the period 2010 to 2014 STI awards as a percentage of STI Opportunity have been as follows:



* As noted above, for the Managing Director, Executive General Managers and other relevant employees, the scorecard outcome for 2014 was reduced to 95.8% of Opportunity as a result of the fatality of a third party contractor during Seismic Drilling Operations in Tunisia.

Long-Term Incentives - Executives

Performance Rights

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

Awards of PRs under the Long-term Incentive Plans (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 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 2010 and 2014:

Table 4 – Details of Awards of Performance Rights

	2010	**2011**	**2012[3]**	**2013**	**2014**
Measurement Period	1 Jan 10 to 31 Dec 12	1 Jan 11 to 31 Dec 13	1 Jan 12 to 31 Dec 14	1 Jan 13 to 31 Dec 15	1 Jan 14 to 31 Dec 16
Total Rights Granted	1,997,400	1,696,500	1,899,900	1,635,200	934,100
Oil Search TSR (3 year - AUD)[1]	23%	27.4%	34.7%		
Percentile Rank (ASX peer group)	68.3	59.3	41.1		
Vesting	43.25%	34.25%	0%	May 2016	May 2017
Oil Search TSR (3 year - USD)[2]	n/a	n/a	14.0%		
Percentile Rank (International Group)	93.3	85.7	61.9		
Vesting	50%	50%	36.9%	May 2016	May 2017
Total Vesting	93.3%	84.25%	36.9%	May 2016	May 2017

[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] For awards made from 2012 onwards, TSR outcomes for the international group are normalised against a US dollar base currency to provide consistency of measurement.
[3] While the 2012 Performance Rights will not vest until May 2015, Oil Search relative TSR for the period 1 January 2012 to 31 December 2014 is available.

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.

Long Term Incentives – General Employee Share Plan

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.

Share Appreciation Rights

For awards made in 2010 to 2013, participation in the general employee share plan was through awards of Share Appreciation Rights (SARs). SARs operate in much the same way as Share Options, with an employee only receiving a benefit if the Oil Search share price increases over the vesting period. At the end of the vesting period the share appreciation is calculated and then that value is provided to the individual in Oil Search shares.

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

Share Rights

SARs were replaced with Share Rights (SRs) in 2014. SRs are rights to receive Oil Search shares at the end of the vesting period subject to continued employment at the vesting date. The number of SRs, and therefore the number of shares which will be delivered on the vesting date, is determined at the grant date. This is a simpler mechanism than the previous SARs. SRs provide a less leveraged and therefore less volatile outcome for participants making the awards easier to value and therefore increasing the perceived retention value.

Table 5 – Details of Share Appreciation Rights and Share Rights awards

	2010	2011	2012	2013	2014
Award Type	SARs	SARs	SARs	SARs	**SRs**
Grant Date	1 Jun 10	23 May 11	21 May 2012	20 May 2013	**19 May 2014**
Vesting Date	17 May 13[(1)]	16 May 14	15 May 15	13 May 16	**19 May 2017**
Total Award	1,554,200	1,498,560	1,744,200	1,873,950	**611,045**
Exercise/Vesting Price	$5.63	$6.98	$7.26	$7.82	**$nil**

(1) 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.

Long Term Incentives – Retention

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 determines otherwise, 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.

Long Term Incentive Plan Rules

Under the LTIP, all grants are automatically exercised on vesting. All unvested awards lapse on termination of employment unless the Board determines otherwise.

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

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

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

Total Fixed Remuneration (TFR)

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

At Risk Remuneration & Relationship to Company Performance

As noted above in section 5, Oil Search executives are eligible to receive a STI and participate in a LTI program which is “at risk” remuneration, with any payment dependent on performance. The Board’s objective is that the size of these incentives should reflect Oil Search’s success in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

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

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

Short Term Incentive

Following a detailed review of senior executive and Managing Director remuneration arrangements against market, including quantum and mix, the STI quantum was adjusted for 2014 onwards such that it provides an incentive opportunity of 100% of TFR for senior executives and 180% of TFR for the Managing Director.

The target payout under the STI provides for a payment of 50% of the incentive opportunity. Half of the STI outcome is deferred in to Restricted Shares vesting two years after the end of the performance period to which the STI relates.

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

	STI outcome as a % of Opportunity	**STI outcome as % of TFR**	
		Senior Executives	**Managing Director**
Minimum	0%	0%	0%
Target	50%	50%	90%
‘Opportunity’	100%	100%	180%

Individual awards above ‘Opportunity’ are possible in exceptional circumstances with the maximum STI outcome possible being capped at 200% of TFR. The overall STI pool is capped at 200% of the target amount.

The STI is awarded in March each year for performance in the previous calendar year. Awards since 2010 have averaged 76.5% of opportunity.

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

For all senior executives, 50% of their STI award is paid in cash and the other 50% is converted to Restricted Shares under the LTIP. The Restricted Shares are held in Trust on behalf of the employee and vest on 1 January two years after the end of the performance period to which the award relates, providing the executive remains employed with Oil Search. Any dividends payable on Restricted Shares issued as the deferred component of an executive's STI award are paid to the executive.

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

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

	2010	2011	2012	2013	2014
Managing Director	61.4%	28.5%	106.8%	**85.6%**	**172.4%**
Senior Executives	49.1%	22.8%	85.4%	**68.5%**	**95.8%**

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

	2010		2011		2012		2013		2014	
	No.	**Vest**	**No.**	**Vest**	**No.**	**Vest**(1)	**No.**	**Vest**	**No.**	**Vest**
Directors										
P Botten	273,400	93.25%	245,800	84.25%	248,700	36.9%	240,000	2016	222,600	2017
G Aopi	54,200	93.25%	51,100	84.25%	53,600	36.9%	52,300	2016	48,500	2017
Executives										
P Caldwell	65,300	93.25%	58,700	84.25%	59,300	36.9%	57,300	2016	53,100	2017
P Cholakos	32,400	93.25%	55,200	84.25%	55,900	36.9%	53,900	2016	50,000	2017
G Darnley-Stuart	28,900	93.25%	25,700	84.25%	26,100	36.9%	53,200	2016	49,400	2017
S Gardiner	32,400	93.25%	44,200	84.25%	44,700	36.9%	52,300	2016	49,700	2017
J Fowles	-	-	-	-	55,300	36.9%	54,900	2016	51,000	2017
M Herrett	-	-	-	-	-	-	45,200	2016	42,500	2017
M Kay	-	-	-	-	-	-	22,668(2)	2016	49,400	2017
I Munro	-	-	-	-	-	-	18,700(2)	2016	49,400	2017
Former Executives										
R Robinson	55,800	93.25%	49,700	48.95%	49,800	17.25%	-	-	-	-

(1) The vesting date of the 2012 Performance Rights is 15 May 2015. Oil Search's TSR for the period 1 January 2012 to 31 December 2014 will result in 36.9% vesting.

(2) Granted on the 10th of January 2014.

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	2010	2011	2012	2013	2014
Net profit after tax (US$m)	185.6	202.5	175.8	205.7	353.2
Diluted Earnings per share (US cents)	14.1	15.3	13.2	15.3	23.8
Dividends per share (US cents)	4.0	4.0	4.0	4.0	14.0(1)
Shares Closing price (A$)(2)	$7.04	$6.25	$7.01	$8.11	$7.89
Oil Search Three Year TSR(3)	53%	44%	23%	27.4%	34.7%

(1) Comprising an ordinary dividend of 8 US cents per share, a special dividend of 4 US cents per share and an interim dividend of 2 US cents per share.
(2) The closing price of Oil Search shares is taken on the last day of the financial year.
(3) 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.

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

Mr Paul Cholakos – Executive General Manager PNG Operations

Incumbent for the full year

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

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

Incumbent for the full year

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

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

Dr Julian Fowles – Executive General Manager Exploration & Business Development

Incumbent for the full year

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

Mr Stephen Gardiner – Chief Financial Officer & Group Secretary

Incumbent for the full year

Stephen's role is to manage the Corporate finance, Treasury, Tax and Audit functions for the company as well as all Group Secretarial matters. He is also responsible for the Corporate Sustainability function and delivering an appropriate financial control and reporting framework.

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

Incumbent for the full year

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

Mr Ian Munro – Executive General Manager – Gas Business Development

Incumbent for the full year

Ian has day-to-day responsibility for directing and managing Oil Search's gas business development strategy, including managing the Company's gas interests and assets, from a commercial and operational perspective. This includes but is not limited to Oil Search's LNG interests in PNG. Ian is accountable for stewardship of Oil Search's investment in the PNG LNG Project and the identification, promotion and joint venture management of growth and expansion opportunities for LNG in PNG.

Mr Matthew Kay – Executive General Manager – Commercial

Incumbent from 6 January 2014

Matthew has day-to-day responsibility for leading all commercial aspects of the business, establishing cross business commercial guidelines, processes and overseeing all commercial capability within the organisation. He co-ordinates the development of Corporate Strategy with the Executive team and the Board of Directors, and drives Corporate initiatives including screening & executing material (including corporate) mergers, divestments & acquisitions.

Former Executives

Mr Richard Robinson – Executive General Manager PNG Operations

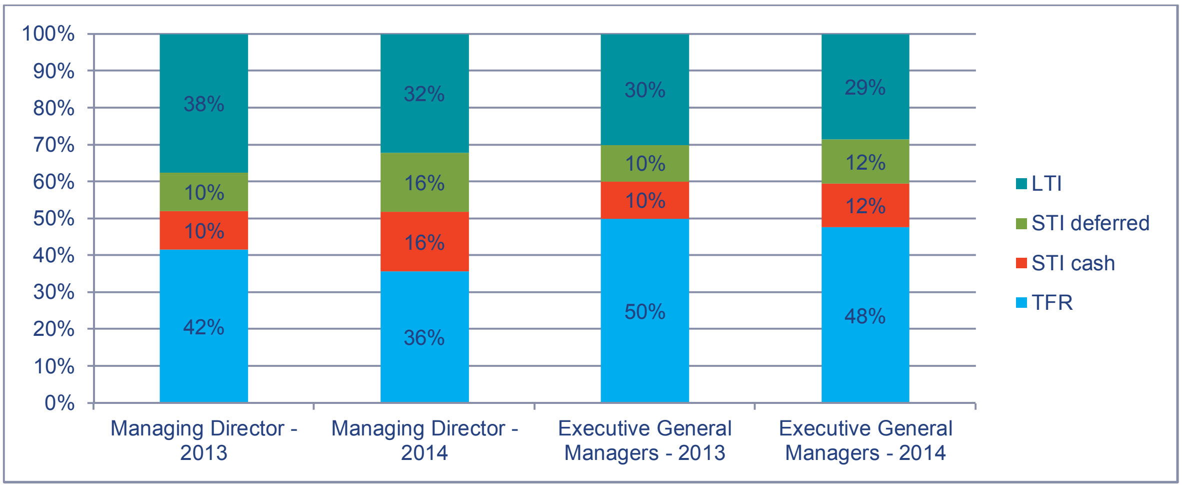
Departed 31 May 2013

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

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

Table 9 – Current Key Management Personnel Remuneration Mix

As noted above the remuneration mix and quantum for the Managing Director and Executive General Managers was reviewed against market to ensure it was aligned with the Company's targeted positioning.



The pay mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming target STI awards and LTI awards at 100% of their 'face value' (i.e. not discounted to take account of the performance conditions nor dividends forgone over the vesting period). 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	2013	2014
AUD/USD	0.9686	0.9028
PGK/USD	0.4545	0.3994

Table 10 – Key Management Personnel Remuneration (US$)

	Year	Short Term			Post Employment	Long Term	Equity[6]		Other	Total
		Salaries fees and allowances (1)	Non-Monetary benefits (2)	Short Term Incentive (3)	Company contribution to super[4]	Long Service Leave accrual[5]	Perform. Rights	Restricted Shares	Sign on / termi-nation benefits	
Directors										
P Botten Managing Director	2014	2,036,505	9,464	1,662,634	16,502	107,653	1,057,235	842,218	-	5,732,211
	2013	2,087,827	11,763	847,362	16,527	124,079	1,074,582	608,330	-	4,770,470
G Aopi EGM External Affairs and Sustainability	2014	394,414	222,434	291,221	68,774	23,922	228,343	264,783	-	1,493,891
	2013	475,074	213,744	221,475	77,998	48,281	227,438	299,882	-	1,563,892
Executives										
P Caldwell EGM Enterprise Systems Development	2014	588,877	-	332,187	16,502	-	257,476	236,410	-	1,431,452
	2013	621,732	-	242,717	20,027	24,814	259,145	170,021	-	1,338,456
P Cholakos EGM PNG Operations	2014	632,950	12,434	312,647	16,502	-	242,405	353,965	-	1,570,903
	2013	651,359	-	228,439	16,585	-	231,305	299,761	-	1,427,449
G Darnley-Stuart EGM Project Development	2014	673,110	54,853	296,541	16,502	26,411	185,265	82,474	-	1,335,156
	2013	593,462	-	225,521	16,585	9,955	143,185	-	-	988,708
J Fowles EGM Exploration & Business Development	2014	662,039	-	306,135	16,502	-	216,847	187,870	-	1,389,393
	2013	652,981	-	232,818	16,585	-	138,541	90,287	-	1,131,212

	Year	Short Term			Post Employment	Long Term	Equity[6]		Other	Total
		Salaries fees and allowances (1)	Non-Monetary benefits (2)	Short Term Incentive (3)	Company contribution to super[4]	Long Service Leave accrual[5]	Perform. Rights	Restricted Shares	Sign on / termi-nation benefits	
S Gardiner Chief Financial Officer & Group Secretary	2014	619,330	-	323,005	16,502	17,678	218,753	216,136	-	1,411,404
	2013	637,096	-	221,790	16,585	17,019	197,485	148,817	-	1,238,792
M Herrett EGM Human Resources, Health & Administration	2014	561,609	-	265,891	16,502	-	124,315	110,445	-	1,078,762
	2013	547,797	-	191,527	16,585	-	47,253	35,509	-	838,671
I Munro EGM Gas Business Development	2014	655,473	-	320,765	16,502	-	81,547	64,728	-	1,139,015
	2013	241,183	-	78,871	8,608	-	-	-	-	328,662
M Kay EGM Strategy & Commercial	2014	641,632	-	302,135	16,502	-	87,904	157,032	-	1,205,205
	2013	-	-	-	-	-	-	-	-	-
Former Executives										
R Robinson EGM PNG Operations	2014	-	-	-	-	-	-	-	-	-
	2013	134,009	-	187,548[7]	7,976	-	6,332	34,243	-	370,108

(1) Includes salaries, allowances, expatriate allowances and movements in annual leave accruals.
(2) Includes the grossed up FBT value of all benefits provided to an employee in the year that the FBT is payable.
(3) STI is based on the year that the performance period relates to, regardless of when paid and excludes the 50% which is deferred into Oil Search Shares under the Restricted Share Plan, which is captured in the *Restricted Shares* data in the *Equity* section.
(4) Superannuation is the contributions made to an approved superannuation fund.
(5) Long service leave accrual is based on the relevant legislation.
(6) Equity is the expensed value of all Performance Rights or Restricted Shares.
(7) 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	Cash	Deferred
P Botten	3,325,268	95.8%	1,662,634	1,662,634
G Aopi	582,442	92.5%	291,221	291,221
P Caldwell	664,374	96.2%	332,187	332,187
P Cholakos	625,294	96.2%	312,647	312,647
G Darnley-Stuart	593,082	92.5%	296,541	296,541
J Fowles	612,270	92.5%	306,135	306,135
S Gardiner	646,010	100.0%	323,005	323,005
M Herrett	531,782	96.2%	265,891	265,891
I Munro	641,530	100.0%	320,765	320,765
M Kay	604,270	96.2%	302,135	302,135

(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 2017.

7. 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)

8. 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 2014	Grant Date	Fair value per right (A$)	Exercise price per right (A$)	Expiry date	Number of rights vested during 2014
P Botten	222,600	19 May 2014	$5.59	$0.00	19 May 2017	207,087
G Aopi	48,500	19 May 2014	$5.59	$0.00	19 May 2017	43,052
P Caldwell	53,100	19 May 2014	$5.59	$0.00	19 May 2017	49,455
P Cholakos	50,000	19 May 2014	$5.59	$0.00	19 May 2017	46,506
G Darnley-Stuart	49,400	19 May 2014	$5.59	$0.00	19 May 2017	21,652
J Fowles	51,000	19 May 2014	$5.59	$0.00	19 May 2017	Nil
S Gardiner	49,700	19 May 2014	$5.59	$0.00	19 May 2017	37,239
M Herrett	42,500	19 May 2014	$5.59	$0.00	19 May 2017	Nil
I Munro	18,700	10 Jan 2014	$5.28	$0.00	19 May 2016	Nil
	49,400	19 May 2014	$5.59	$0.00	19 May 2017	Nil
M Kay	22,668	10 Jan 2014	$5.28	$0.00	19 May 2016	Nil
	49,400	19 May 2014	$5.59	$0.00	19 May 2017	Nil

All Performance Rights expire on the earlier of their expiry date or termination of the individual's employment. The Performance Rights automatically exercise on the vesting dates detailed in the tables above conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Performance Rights granted in 2014 the earliest exercise date is 19 May 2017.

The deferred component of the 2013 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain Key Management Personnel in 2014. 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 2014	Grant Date	Fair value (A$)	Exercise price (A$)	Vesting date
P Botten[1]	99,460	19 May 2014	$9.04	$0.00	1 January 2016
G Aopi[1]	25,996	19 May 2014	$9.04	$0.00	1 January 2016
P Caldwell	28,489	19 May 2014	$9.04	$0.00	1 January 2016
P Cholakos	26,813	19 May 2014	$9.04	$0.00	1 January 2016
G Darnley-Stuart	26,471	19 May 2014	$9.04	$0.00	1 January 2016
S Gardiner	26,033	19 May 2014	$9.04	$0.00	1 January 2016
J Fowles	27,327	19 May 2014	$9.04	$0.00	1 January 2016
M Herrett	22,481	19 May 2014	$9.04	$0.00	1 January 2016
I Munro	9,258	19 May 2014	$9.04	$0.00	1 January 2016

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

Table 14b – Details of other awards of Restricted Shares

	Number granted during 2014	Grant Date	Fair value (A$)	Exercise price (A$)	Vesting date
M Kay[1]	34,200	10 January 2014	$8.11	$0.00	50% on 24 February 2015 and 50% on 24 February 2016
I Munro[2]	40,000	7 November 2014	$8.69	$0.00	1 March 2016

(1) M Kay received the above on commencement in the role of EGM Strategy & Commercial as partial compensation for equity foregone on the resignation from his former employer.

(2) I Munro did not receive any sign on awards on commencement but was subsequently awarded with the above to ensure that there are appropriate retention arrangements in place given the criticality of his role.

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 2014	Number of shares	Amount paid per share (A$)
P Botten	207,087	$0.00
G Aopi	75,988	$0.00
P Caldwell	49,455	$0.00
P Cholakos	46,506	$0.00
G Darnley-Stuart	21,652	$0.00
S Gardiner	62,299	$0.00

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

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

Details of vesting profiles and movements of Performance Rights and Restricted Shares granted as remuneration to Key Management Personnel are:

Table 16 – Details of Vesting Profile and movements of Performance Rights

		Movements during the year							
	Grant Date	**Balance at 1 Jan 2014**	**Rights Granted**	**Rights Exercised**	**Rights Lapsed**	**Balance at 31 Dec 2014**	**% vested in the year**	**% forfeited in the year**	**Financial Year of Vesting**
P Botten	23/5/11	245,800	-	(207,087)	(38,713)	-	84.25%	15.75%	2014
	21/5/12	248,700	-	-	-	248,700			2015
	10/5/13	240,000	-	-	-	240,000			2016
	19/5/14	-	222,600	-	-	222,600			2017
	Total	**734,500**	**222,600**	**(207,087)**	**(38,713)**	**711,300**			
G Aopi	23/5/11	51,100	-	(43,052)	(8,048)	-	84.25%	15.75%	2014
	21/5/12	53,600	-	-	-	53,600			2015
	10/5/13	52,300	-	-	-	52,300			2016
	19/5/14	-	48,500	-	-	48,500			2017
	Total	**157,000**	**48,500**	**(43,052)**	**(8,048)**	**154,400**			
P Caldwell	23/5/11	58,700	-	(49,455)	(9,245)	-	84.25%	15.75%	2014
	21/5/12	59,300	-	-	-	59,300			2015
	24/5/13	57,300	-	-	-	57,300			2016
	19/5/14	-	53,100	-	-	53,100			2017
	Total	**175,300**	**53,100**	**(49,455)**	**(9,245)**	**169,700**			
P Cholakos	23/5/11	55,200	-	(46,506)	(8,694)	-	84.25%	15.75%	2014
	21/5/12	55,900	-	-	-	55,900			2015
	24/5/13	53,900	-	-	-	53,900			2016
	19/5/14	-	50,000	-	-	50,000			2017
	Total	**165,000**	**50,000**	**(46,506)**	**(8,694)**	**159,800**			
G Darnley-Stuart	23/5/11	25,700	-	(21,652)	(4,048)	-	84.25%	15.75%	2014
	21/5/12	26,100	-	-	-	26,100			2015
	24/5/13	53,200	-	-	-	53,200			2016
	19/5/14	-	49,400	-	-	49,400			2017
	Total	**105,000**	**49,400**	**(21,652)**	**(4,048)**	**128,700**			
J Fowles	21/5/12	55,300	-	-	-	55,300			2015
	24/5/13	54,900	-	-	-	54,900			2016
	19/5/14	-	51,000	-	-	51,000			2017
	Total	**110,200**	**51,000**	**-**	**-**	**161,200**			
S Gardiner	23/5/13	44,200	-	(37,239)	(6,961)	-	84.25%	15.75%	2014
	21/5/12	44,700	-	-	-	44,700			2015
	24/5/13	52,300	-	-	-	52,300			2016
	19/5/14	-	49,700	-	-	49,700			2017
	Total	**141,200**	**49,700**	**(37,239)**	**(6,961)**	**146,700**			
M Herrett	24/5/13	45,200	-	-	-	45,200			2016
	19/5/14	-	42,500	-	-	42,500			2017
	Total	**45,200**	**42,500**	**-**	**-**	**87,700**			
M Kay	10/1/14	-	22,668	-	-	22,668			2016
	19/5/14	-	49,400	-	-	49,400			2017
	Total	**-**	**72,068**	**-**	**-**	**72,068**			
I Munro	10/1/14	-	18,700	-	-	18,700			2016
	19/5/14	-	49,400	-	-	49,400			2017
	Total	**-**	**68,100**	**-**	**-**	**68,100**			

Table 17 – Details of Vesting Profile and movements of Restricted Shares

		Movements during the year							
	Grant Date	Balance at 1 Jan 2014	Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Balance at 31 Dec 2014	% vested in the year	% forfeited in the year	Financial Year of Vesting
P Botten	5/3/12	37,905	-	(37,905)	-	-	100%	0%	2014
	10/5/13	136,761	-	-	-	136,761			2015
	19/5/14	-	99,460	-	-	99,460			2016
	Total	**174,666**	**99,460**	**(37,905)**	**-**	**236,221**			
G Aopi	27/4/10	100,000	-	(100,000)	-	-	100%	0%	2014
	5/3/12	9,454	-	(9,454)	-	-	100%	0%	2014
	10/5/13	36,464	-	-	-	36,464			2015
	19/5/14	-	25,996	-	-	25,996			2016
	Total	**145,918**	**25,996**	**(109,454)**	**-**	**62,460**			
P Caldwell	5/3/12	10,860	-	(10,860)	-	-	100%	0%	2014
	7/3/13	39,167	-	-	-	39,167			2015
	19/5/14	-	28,489	-	-	28,489			2016
	Total	**50,027**	**28,489**	**(10,860)**	**-**	**67,656**			
P Cholakos	5/3/12	10,222	-	(10,222)	-	-	100%	0%	2014
	7/3/13	40,000	-	(40,000)	-	-	100%	0%	2014
	7/3/13	35,020	-	-	-	35,020			2015
	19/5/14	-	26,813	-	-	26,813			2016
	Total	**85,242**	**26,813**	**(50,222)**	**-**	**61,833**			
G Darnley-Stuart	19/5/14	26,471	-	-	-	26,471			2016
	Total	**26,471**	**-**	**-**	**-**	**26,471**			
J Fowles	7/3/13	27,270	-	-	-	27,270			2015
	19/5/14	-	27,327	-	-	27,327			2016
	Total	**27,270**	**27,327**	**-**	**-**	**54,597**			
S Gardiner	5/3/12	8,178	-	(8,178)	-	-	100%	0%	2014
	7/3/13	35,823	-	-	-	35,823			2015
	19/5/14	-	26,033	-	-	26,033			2016
	Total	**44,001**	**26,033**	**(8,178)**	**-**	**61,856**			
M Herrett	7/3/13	10,725	-	-	-	10,725			2015
	19/5/14	-	22,481	-	-	22,481			2016
	Total	**10,725**	**22,481**	**-**	**-**	**33,206**			
M Kay	10/1/14	-	32,400	-	-	32,400			2015/2016
	Total	**-**	**32,400**	**-**	**-**	**32,400**			
I Munro	19/5/14	-	9,258	-	-	9,258			2016
	7/11/14	-	40,000	-	-	40,000			2016
	Total	**-**	**49,258**	**-**	**-**	**49,258**			

Analysis of Movement in value of 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 19 – Movement in 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	1,122,380	244,992	8.15	1,997,544	38,713	8.31	321,541
G Aopi	456,705	185,442	7.93	1,471,357	8,048	8.31	66,845
P Caldwell	500,245	60,315	8.13	490,275	9,245	8.31	76,787
P Cholakos	470,936	96,728	7.99	772,757	8,694	8.31	72,210
G Darnley-Stuart	375,144	21,652	8.31	179,836	4,048	8.31	33,622
J Fowles	480,173	-	-	-	-	-	-
S Gardiner	463,058	70,477	8.17	575,630	6,961	8.31	57,816
M Herrett	397,765	-	-	-	-	-	-
M Kay	499,484	-	-	-	-	-	-
I Munro	562,895	-	-	-	-	-	-

(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.

KMP shareholdings

The following table summarises the movements in shareholdings of Executive KMP including their personally related entities for the 2014 financial year.

Table 20 – KMP shareholdings

	Balance at 1 January 2014	Acquired (disposed) during 2014	Balance at 31 December 2014
P Botten	2,075,582	146,821	2,222,403
G Aopi	312,188	82,414	394,602
P Caldwell	40,000	(40,000)	-
P Cholakos	76,213	98,557	174,770
G Darnley-Stuart	46,495	(46,495)	-
J Fowles	-	1,829	1,829
S Gardiner	221,608	73,559	295,167
M Herrett	-	1,829	1,829
M Kay	-	-	-
I Munro	-	-	-

9. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

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

Remuneration Payable

Fees payable to Non-Executive Directors are reviewed periodically and are fixed by the Board as discussed above. Table 20 below sets out the fee structure applied from 1 January 2013. The fees are based on data from independent advisors and were last increased in 2013.

Table 21 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars

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

[1] The fees paid to the Chairman of the Board are inclusive of any Committee Fees.
[2] The Remuneration and Nominations Committee was renamed the People and Nominations Committee during 2013.

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

Board fees are paid to non-executive directors only.

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

The total remuneration which was paid to each non-executive director in 2013 and 2014 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. The following table summarises the movements in shareholdings of Non-Executive Directors including their personally related entities for the 2014 financial year.

Table 22 – KMP shareholdings

	Balance at 1 January 2014	Acquired (disposed) during 2014	Balance at 31 December 2014
KG Constantinou	-	-	-
FE Harris	10,026	21,935	31,961
AJ Kantsler	25,200	20,536	45,736
RJ Lee	40,000	31,829	71,829
B Philemon	7,203	38	7,241
KW Spence	-	25,000	25,000
ZE Switkowski	200,000	1,829	201,829

Details of Directors' Remuneration

The details of the remuneration received by Oil Search directors in 2013 and 2014 are set out in Table 19 below.

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

Table 23 – Remuneration (US$) of Directors of Oil Search Limited

	Year	Short Term			Post Emp'ment	Long Term	Equity		Other	Total
		Salaries fees and allowances	Non-Monetary benefits	Short Term Incentive	Company contribution to super	Long Service Leave accrual	Perform. Rights	Restricted Shares	Sign on / termination benefits	
Executive Directors										
P Botten Managing Director	2014	2,036,505	9,464	1,662,634	16,502	107,653	1,057,235	842,218	-	5,732,211
	2013	2,087,827	11,763	847,362	16,527	124,079	1,074,582	608,330	-	4,770,470
G Aopi EGM External Affairs and sustainability	2014	394,414	222,434	291,221	68,774	23,922	228,343	264,783	-	1,493,891
	2013	475,074	213,744	221,475	77,998	48,281	227,438	299,882	-	1,563,892
Non-Executive Directors										
R Lee[(1)]	2014	469,907	-	-	-	-	-	-	-	469,907
	2013	463,817	-	-	-	-	-	-	-	463,817
KG Constantinou	2014	211,707	-	-	-	-	-	-	-	211,707
	2013	227,137	-	-	-	-	-	-	-	227,137
F Harris[(2)]	2014	214,866	-	-	-	-	-	-	-	214,866
	2013	192,746	-	-	-	-	-	-	-	192,746
A Kantsler	2014	236,534	-	-	-	-	-	-	-	236,534
	2013	247,989	-	-	-	-	-	-	-	247,989
B Philemon	2014	214,866	-	-	-	-	-	-	-	214,866
	2013	230,527	-	-	-	-	-	-	-	230,527
KW Spence	2014	221,911	-	-	-	-	-	-	-	221,911
	2013	250,824	-	-	-	-	-	-	-	250,824
ZE Switkowski[(3)]	2014	198,489	-	-	-	-	-	-	-	198,489
	2013	194,231	-	-	-	-	-	-	-	194,231
Former Non-Executive Directors										
BF Horwood[(4)]	2013	82,626	-	-	-	-	-	-	-	82,626

(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 was granted leave of absence from the Company's Board for the period 21 October 2013 to 19 February 2014 to accommodate the role he assumed on an interim basis as Executive Chairman of the National Broadband Network Company.
(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, 23 February 2015

Deloitte.

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

23 February 2015

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 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Code of Ethics for Professional Accountants*, issued by the *International Ethics Standards Board for Accountants (IESBA)* in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Statements of comprehensive income for the year ended 31 December 2014

		Consolidated		Parent	
		2014 $'000	2013 $'000	2014 $'000	Dec 2013 $'000
Revenue	3	**1,610,370**	766,265	**-**	-
Cost of sales	4	**(554,963)**	(226,834)	**-**	-
Gross profit		**1,055,407**	539,431	**-**	-
Other income		**7,762**	216	**53,463**	500,000
Other expenses	5	**(348,582)**	(144,625)	**(13,481)**	(10,579)
Profit from operating activities		**714,587**	395,022	**39,982**	489,421
Net finance costs	6	**(129,595)**	(15,152)	**(1,187)**	(1,199)
Profit before income tax		**584,992**	379,870	**38,795**	488,222
Income tax expense/(benefit)	8	**(231,774)**	(174,148)	**4,185**	(1,257)
Net profit after tax		**353,218**	205,722	**42,980**	486,965
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations		**(9,111)**	(4,410)	**-**	-
Total comprehensive income for the year		**344,107**	201,312	**42,980**	486,965
		cents	**cents**		
Basic earnings per share	9	**23.84**	15.36		
Diluted earnings per share	9	**23.77**	15.30		

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

Statements of financial position as 31 December 2014

		Consolidated		Parent	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	20(a)	**960,166**	209,661	**149,398**	75,295
Receivables	11	**237,068**	246,933	**776,013**	1,516,114
Inventories	12	**160,189**	131,654	**-**	-
Other financial assets	13	**-**	75,483	**-**	-
Prepayments		**24,575**	42,513	**2,886**	1,238
Total current assets		**1,381,998**	706,244	**928,297**	1,592,647
Non-current assets					
Receivables		**1,078**	4,757	**-**	-
Other financial assets	13	**91,249**	-	**-**	-
Prepayments		**4,141**	6,358	**-**	-
Exploration and evaluation assets	7,14	**1,576,668**	594,169	**55,932**	56,360
Oil and gas assets	15	**7,182,144**	6,710,189	**-**	-
Other plant and equipment	15	**73,066**	68,446	**-**	-
Investments		**-**	-	**2,294,864**	326,507
Deferred tax assets	8	**416,902**	331,374	**26,226**	24,362
Total non-current assets		**9,345,248**	7,715,293	**2,377,022**	407,229
Total assets		**10,727,246**	8,421,537	**3,305,319**	1,999,876
Current liabilities					
Payables	16	**318,085**	284,754	**9,399**	7,152
Provisions	17	**9,673**	11,417	**-**	-
Borrowings	18	**102,388**	-	**-**	-
Current tax payable		**59,098**	123,033	**1,736**	1,846
Total current liabilities		**489,244**	419,204	**11,135**	8,998
Non-current liabilities					
Payables	16	**21,040**	21,408	**-**	-
Provisions	17	**405,652**	267,127	**-**	-
Loans and borrowings	18	**4,318,677**	4,024,421	**-**	-
Deferred tax liabilities	8	**467,157**	268,325	**63**	62
Total non-current liabilities		**5,212,526**	4,581,281	**63**	62
Total liabilities		**5,701,770**	5,000,485	**11,198**	9,060
Net assets		**5,025,476**	3,421,052	**3,294,121**	1,990,816
Shareholders' equity					
Share capital	19	**3,147,340**	1,821,957	**3,147,340**	1,821,957
Reserves	19	**(10,386)**	3,474	**(1,896)**	2,853
Retained earnings		**1,888,522**	1,595,621	**148,677**	166,006
Total shareholders' equity		**5,025,476**	3,421,052	**3,294,121**	1,990,816

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

Statements of cash flows for the year ended 31 December 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Cash flows from operating activities					
Receipts from customers and third parties		**1,592,809**	764,064	**-**	-
Payments to suppliers and employees		**(383,279)**	(205,983)	**(964)**	(8,671)
Interest received		**1,275**	2,922	**291**	1,187
Borrowing costs paid		**(12,481)**	(8,136)	**(862)**	(2,047)
Income tax (paid)/refund		**(181,670)**	(149,836)	**2,884**	2,817
Payments for exploration and evaluation - seismic, G&A, G&G		**(24,350)**	(36,227)	**(572)**	(2,166)
Net cash from/(used in) operating activities	20(b)	**992,304**	366,804	**777**	(8,880)
Cash flows from investing activities					
Payments for other plant and equipment		**(12,499)**	(12,060)	**-**	-
Payments for exploration and evaluation expenditure		**(1,189,749)**	(258,567)	**(910,976)**	(41,010)
Payments for development asset expenditure		**(422,727)**	(1,226,477)	**-**	-
Payments for producing asset expenditure		**(101,897)**	(154,623)	**-**	-
Net proceeds from sale of investments		**-**	23,698	**-**	-
Loan to third party in respect of exploration and evaluation		**(13,494)**	(25,758)	**-**	-
Net cash used in investing activities		**(1,740,366)**	(1,653,787)	**(910,976)**	(41,010)
Cash flows from financing activities					
Proceeds from private placement		**1,097,037**	-	**1,097,037**	-
Proceeds from share purchase plan		**169,466**	-	**169,466**	-
Proceeds from underwriter of dividend reinvestment plan (DRP)		**36,082**	31,361	**36,082**	31,361
Dividend payments (net of DRP) [(1)]		**(36,073)**	(31,286)	**(36,081)**	(31,324)
Purchase of treasury shares		**(14,954)**	-	**(14,954)**	-
Contributions received for employee share schemes		**16,398**	1,018	**16,398**	1,018
Costs relating to share issues		**(1,428)**	(88)	**(1,428)**	(88)
Proceeds from borrowings		**433,539**	1,007,365	**-**	-
Repayment of borrowings		**(200,000)**	-	**-**	-
Establishment fee on credit facility		**(1,500)**	-	**(1,500)**	-
Loans to related entities		**-**	-	**(280,718)**	(249,311)
Net cash from/(used in) financing activities		**1,498,567**	1,008,370	**984,302**	(248,344)
Net increase / (decrease) in cash and cash equivalents		**750,505**	(278,613)	**74,103**	(298,234)
Cash and cash equivalents at the beginning of the year		**209,661**	488,274	**75,295**	373,529
Cash and cash equivalents at the end of the year	20(a)	**960,166**	209,661	**149,398**	75,295

[(1)] Total dividend payments including cash and dividend reinvestment was $60.3 million (2013: $53.5 million). Total dividend payments net of dividends reinvested under the dividend reinvestment plan were $36.1 million (2013: $31.3 million), refer to Note 10.

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 2014

Consolidated	Share capital $'000	Foreign currency translation reserve $'000	Reserve for treasury shares $'000	Employee equity compensation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2014	**1,821,957**	**(5,412)**	**(2,620)**	**11,506**	**1,595,621**	**3,421,052**
Dividends provided for or paid	-	-	-	-	(60,308)	(60,308)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	353,218	353,218
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(9,111)	-	-	-	(9,111)
Total comprehensive income for the year	-	(9,111)	-	-	353,218	344,107
Transactions with owners, recorded directly in equity						
Shares issued through private placement	1,097,037	-	-	-	-	1,097,037
Shares issued for the share purchase plan	169,466	-	-	-	-	169,466
Issue of shares through underwritten dividend reinvestment plan	60,308	-	-	-	-	60,308
Costs associated with share issues	(1,428)	-	-	-	-	(1,428)
Transfer of vested shares	-	-	9,007	(9,007)	-	-
Exercise of share options	-	-	468	-	-	468
Employee share-based remuneration	-	-	-	10,335	-	10,335
Purchase of treasury shares	-	-	(14,954)	-		(14,954)
Net exchange differences	-	-	-	(598)	-	(598)
Trust distribution	-	-	-	-	(9)	(9)
Total transactions with owners	1,325,383	-	(5,479)	730	(9)	1,320,625
Balance at 31 December 2014	**3,147,340**	**(14,523)**	**(8,099)**	**12,236**	**1,888,522**	**5,025,476**
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 underwritten dividend reinvestment plan	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)	-	-
Exercise of share options	1,018	-	-	-	-	1,018
Employee share-based remuneration	-	-	-	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 for the year ended 31 December 2014 (continued)

Parent	Share capital $'000	Amalgam-ation reserve $'000	Reserve for treasury shares $'000	Employee equity compensation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2014	**1,821,957**	**(2,990)**	**-**	**5,843**	**166,006**	**1,990,816**
Dividends provided for or paid	-	-	-	-	(60,308)	(60,308)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	42,980	42,980
Total comprehensive income for the year	-	-	-	-	42,980	42,980
Transactions with owners, recorded directly in equity						
Shares issued through private placement	1,097,037	-	-	-	-	1,097,037
Shares issued for the share purchase plan	169,466	-	-	-	-	169,466
Issue of shares through underwritten dividend reinvestment plan	60,308	-	-	-	-	60,308
Costs associated with share issues	(1,428)	-	-	-	-	(1,428)
Transfer of vested shares	-	-	9,007	(9,007)	-	-
Exercise of share options	-	-	468	-		468
Employee share-based remuneration	-	-	-	10,335		10,335
Purchase of treasury shares	-	-	(14,954)	-	-	(14,954)
Net exchange differences	-	-	-	(598)	-	(598)
Dividends received on shares held in trust [(1)]	-	-	-	-	(1)	(1)
Total transactions with owners	1,325,383	-	(5,479)	730	(1)	1,320,633
Balance at 31 December 2014	**3,147,340**	**(2,990)**	**(5,479)**	**6,573**	**148,677**	**3,294,121**
Balance at 1 January 2013	**1,753,192**	**(2,990)**	**-**	**9,649**	**(267,390)**	**1,492,461**
Dividends provided for or paid	-	-	-	-	(53,532)	(53,532)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	486,965	486,965
Total comprehensive income for the year	-	-	-	-	486,965	486,965
Transactions with owners, recorded directly in equity						
Issue of shares through dividend reinvestment plan / underwriting agreement	53,570	-	-	-	-	53,570
Costs associated with share issues	(88)	-	-	-	-	(88)
Transfer of vested shares	13,404	-	-	(13,404)	-	-
Issue of shares on exercise of options and rights	1,018	-	-	-	-	1,018
Employee share-based remuneration	-	-	-	10,060	-	10,060
Issue of treasury shares	861	-	-	(861)	-	-
Net exchange differences	-	-	-	399	-	399
Dividends received on shares held in trust [(1)]	-	-	-	-	(37)	(37)
Total transactions with owners	68,765	-	-	(3,806)	(37)	64,922
Balance at 31 December 2013	**1,821,957**	**(2,990)**	**-**	**5,843**	**166,006**	**1,990,816**

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

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

1 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 2014 comprises the parent entity and its controlled entities (together, 'the Group').

The financial statements were authorised for issue by the Board of Directors on 23 February 2015.

(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 2014 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) New accounting standards not yet effective

The following new accounting standards are not yet effective but may have an impact on the Group in the financial years commencing 1 January 2015 or later:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations

The Group is in the process of determining the potential impact of adopting the above standards and they have not been applied in the preparation of these financial statements.

(b) Principles of consolidation

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

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

(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 26.

(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 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:

(c) Currency translation

(iii) Group companies (continued)

- 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) Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue for the Group's main products are recognised as follows:

Liquefied natural gas
Liquefied natural gas sales are recognised when ownership is transferred to the buyer when product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms.

Oil and condensate
Crude oil and condensate sales are recognised after each vessel is loaded.

Gas
Gas sales are recognised after production upon delivery into the sales pipeline.

Dividend income
Dividend revenue from controlled entities is recognised as the dividends are declared, and from other parties as the dividends are received.

(e) Borrowing costs

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

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

(f) Share-based remuneration

The fair value at grant date of equity-settled, share-based compensation plans are charged to the statement of comprehensive income over the period for which the benefits of employee services are to be derived. The corresponding accrued employee entitlement is recorded in the employee equity compensation reserve. The fair value of the awards is calculated using an option pricing model which considers a number of factors. Where awards are forfeited because non-market vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. At each statement of financial position 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.

Where shares in Oil Search Limited are acquired by on-market purchases prior to settling vested entitlements, the cost of the acquired shares is carried as treasury shares and deducted from equity. 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 .

(g) 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 statement of financial position 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 statement of financial position 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.

(h) 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, LNG and refined products stored in tanks, pipeline systems and aboard vessels are valued using the full absorption cost method.

(i) Exploration and evaluation assets

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

All other exploration and evaluation expenditures including directly attributable general administration costs, geological and geophysical costs, exploration, seismic and new venture activity expenditures are expensed 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.

Exploration licence acquisition costs are initially capitalised. For exploration and appraisal wells, costs directly associated with drilling the wells are initially capitalised pending evaluation of whether potentially economic reserves of hydrocarbons have been discovered.

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.

(j) Oil and gas assets

Assets in development
When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated and approval of commercial development occurs, the field enters its development phase. The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation.

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

Amortisation of oil and gas assets
Amortisation is calculated using the units of production method for an asset or group of assets from the date of commencement of production. Depletion charges are calculated using the units of production method over the life of the estimated Developed, Proven plus Probable (“2P”) reserves for an asset or group of assets.

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 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.

(k) Other 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 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:

Marine	4%
Corporate plant and equipment	20% - 33%
Rigs	Drilling days based on a 10 year drilling life

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

(l) Leases

(i) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased asset is measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group’s statement of financial position.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(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.

(m) Impairment of assets (continued)

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.

(n) Employee benefits

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

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

(o) Investments and other financial assets

(i) Investments

Investments in subsidiaries are accounted for at cost in the parent entity financial statements.

(ii) Other financial assets

All other financial assets are initially recognised at the fair value of consideration paid. Subsequently, all financial assets are carried at amortised cost less impairment. Financial assets 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.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(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 14 to 15.

Restoration obligations
The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs are made considering relevant legislation and industry practice and require management to make judgments regarding the removal date, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(j). The carrying amount of the provision for restoration is disclosed in note 17.

Reserve estimates
The estimated reserves are management assessments and take into consideration reviews by an independent third party, Netherland Sewell and Associates, under the Company's reserves audit program which requires an external audit of each material producing field every three years, as well as other assumptions, interpretations and assessments.

(q) Critical accounting estimates and assumptions (continued)

Reserve estimates (continued)
These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the statement of comprehensive income and the calculation of inventory. Reserves estimation conforms with guidelines prepared by the Society of Petroleum Engineers and the Australian Stock Exchange Listing Rules.

Exploration and evaluation
The Group's policy for exploration and evaluation expenditure is discussed in note 1(i). 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 14.

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 26(b). 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 26(c).

(r) Rounding

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

2 Segment reporting

(a) Information about reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. Each segment has a management team that is accountable to the Managing Director. The following operating segments are identified by management based on the nature and geographical location of the business or project:

PNG oil and gas

Exploration, evaluation, development, production and sale of crude oil, natural gas, condensate and other refined products from the Group's interest in its operated assets for PNG crude oil and Hides gas-to-electricity operations.

PNG LNG Project

Exploration, evaluation, development, production and sale of liquefied natural gas, condensate and naphtha from the Group's interest in the PNG LNG Project.

Middle East and North Africa ('MENA') oil and gas

Exploration and evaluation of crude oil and gas through the Group's licence interests in the Republic of Yemen, Republic of Iraq and Tunisian Republic.

Other

This segment includes the Group's ownership of drilling rigs and corporate activities. Net finance costs (excluding the PNG LNG project financing) and income taxes are managed at a Group level.

(b) Segment information provided to the executive management team

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		Other		Total	
	Oil and gas		LNG		Oil and gas					
$'000	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External revenues	**678,731**	736,546	**896,682**	-	**-**	**-**	**34,957**	29,719	**1,610,370**	766,265
Costs of production	**(182,851)**	(179,225)	**(84,876)**	-	-	-	**(180)**	-	**(267,907)**	(179,225)
Selling and distribution costs	**-**	-	**(38,850)**	-	-	-	**(1,185)**	(826)	**(40,035)**	(826)
Rig operating costs	**-**	-	**-**	-	-	-	**(2,826)**	(2,517)	**(2,826)**	(2,517)
Corporate	**-**	-	**-**	-	-	-	**(50,761)**	(30,758)	**(50,761)**	(30,758)
Foreign currency gains/(losses)	**-**	-	**-**	-	-	-	**381**	(508)	**381**	(508)
Other income	**-**	-	**375**	-	-	-	**7,387**	216	**7,762**	216
EBITDAX	**495,880**	557,321	**773,331**	-	**-**	**-**	**(12,227)**	(4,674)	**1,256,984**	552,647
Depreciation and amortisation	**(55,109)**	(44,266)	**(181,059)**	-	**(559)**	(242)	**(15,945)**	(5,693)	**(252,672)**	(50,201)
Exploration costs expensed	**(88,511)**	(67,366)	**-**	-	**(20,621)**	(40,058)	**-**	-	**(109,132)**	(107,424)
Impairment	**(155,879)**	-	**-**	-	**(24,714)**	-	**-**	-	**(180,593)**	-
EBIT	**196,381**	445,689	**592,272**	-	**(45,894)**	(40,300)	**(28,172)**	(10,367)	**714,587**	395,022
Net finance costs	**-**	-	**(108,905)**	-	**-**	-	**(20,690)**	(15,152)	**(129,595)**	(15,152)
Profit before income tax									**584,992**	379,870
Income tax expense									**(231,774)**	(174,148)
Net profit after tax									**353,218**	205,722
Capital expenditure										
Exploration and evaluation assets	**(1,076,885)**	(206,927)	**-**	-	**(170,054)**	(87,058)	**-**	-	**(1,246,939)**	(293,985)
Oil and gas assets - development and production	**(105,677)**	(152,600)	**(502,566)**	(1,214,615)	**-**	-	**-**	-	**(608,243)**	(1,367,215)
Property, plant and equipment	**-**	-	**-**	-	**(905)**	(370)	**(11,925)**	(11,825)	**(12,830)**	(12,195)
	(1,182,562)	(359,527)	**(502,566)**	(1,214,615)	**(170,959)**	(87,428)	**(11,925)**	(11,825)	**(1,868,012)**	(1,673,395)

The difference between capital expenditure and assets disclosed above for the period ended 31 December 2014 and the additions in note 15 relate to finance leased assets recognised during the period that are not included as capital expenditure for management reporting purposes.

2 Segment reporting (continued)

Geographical segments

The Oil Search Group operates primarily in Papua New Guinea, but also has activities in Republic of Yemen, Republic of Iraq, Tunisian Republic and Australia.

Production from the designated segments is sold on commodity markets and may be sold to other geographical segments.

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

	Revenue		Non-current assets	
$'000	2014	2013	2014	2013
PNG	**1,610,370**	766,265	**8,918,608**	7,499,739
Australia	**-**	-	**45,542**	44,926
MENA	**-**	-	**381,098**	170,628
Total	**1,610,370**	766,265	**9,345,248**	7,715,293

Major customers

There are three customers with revenue exceeding 10% of the Group's total sales revenue.

Revenue from one customer represents approximately $595.3 million or 81% of the Group's total oil and condensate sales revenues (2013: $418.8 million, 57%) and 37% of the Group's total revenue of $1,610.4 million (2013: 55% of $766.3 million).

Revenue from one other customer represents approximately $373.3 million or 51% of the Group's total LNG sales revenues (2013: $nil) and 23% of the Group's total revenue of $1,610.4 million (2013: $nil).

Revenue from one other customer represents approximately $198.8 million or 27% of the Group's total LNG sales revenues (2013: $nil) and 12% of the Group's total revenue of $1,610.4 million (2013: $nil).

	Consolidated		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
3 Revenue				
Liquefied natural gas sales	**729,343**	-	**-**	-
Oil and condensate sales	**737,134**	634,540	**-**	-
Gas sales	**79,221**	76,920	**-**	-
Other revenue	**64,672**	54,805	**-**	-
Total revenue	**1,610,370**	766,265	**-**	-
4 Cost of sales				
Costs of production:				
Production costs	**(235,380)**	(126,442)	**-**	-
Royalties and levies	**(19,722)**	(12,638)	**-**	-
Gas purchases	**(39,259)**	(37,078)	**-**	-
Inventory movements	**26,454**	(3,066)	**-**	-
	(267,907)	(179,224)	**-**	-
Selling and distribution costs	**(40,035)**	(826)	**-**	-
Rig operating costs	**(2,827)**	(2,517)	**-**	-
Depreciation and amortisation				
Oil and gas assets	**(236,168)**	(36,808)	**-**	-
Marine assets	**(350)**	-	**-**	-
Rig assets	**(7,676)**	(7,459)	**-**	-
Total cost of sales	**(554,963)**	(226,834)	**-**	-
5 Other expenses				
Corporate[(1)]	**(50,761)**	(30,758)	**(12,854)**	(5,887)
Exploration costs expensed	**(109,132)**	(107,424)	**(826)**	(4,161)
Impairment	**(180,593)**	-	**-**	-
Depreciation	**(8,477)**	(5,935)	**-**	-
Foreign currency gain/(loss)	**381**	(508)	**199**	(531)
Total other expenses	**(348,582)**	(144,625)	**(13,481)**	(10,579)

[(1)] Includes business development costs of $13.3 million (2013: $10.2 million) on a consolidated basis.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
6 Net finance costs				
Interest income	**3,723**	3,905	**426**	848
Borrowing costs	**(123,377)**	(11,462)	**(1,613)**	(2,047)
Unwinding of discount on site restoration	**(9,941)**	(7,595)	**-**	-
Net finance costs	**(129,595)**	(15,152)	**(1,187)**	(1,199)

7 Acquisition of subsidiaries

On 13 March 2014, Oil Search Limited acquired 100% of the issued share capital of the following entities:

- Pac LNG Investments Limited;
- Pac LNG Assets Limited;
- Pac LNG International Limited;
- Pac LNG Overseas Limited; and
- Pac LNG Holdings Limited.

The principal activity of the entities acquired is the exploration, evaluation and development of hydrocarbon resources in PNG. This is carried out as non-operator participants in the joint venture of the PRL15 licence covering the Elk-Antelope fields. At the time of acquisition, the acquired entities collectively held a 22.835% interest in PRL15.

This acquisition has been accounted for as an asset acquisition.

(i) Consideration transferred

The following summarises the consideration transferred:

	$'000
Cash paid	900,000
Transaction costs	16,948
Total consideration transferred	**916,948**

(ii) Assets acquired and liabilities assumed

	$'000
Exploration and evaluation	918,316
Trade creditors and accruals	(241)
Site restoration provision (non-current)	(1,127)
Net assets acquired	**916,948**

(iii) Contingent payments

Under the agreement, Oil Search Limited is required to make contingent payments of $0.775/mcf for any certified 2C raw gas contingent resource within the Elk-Antelope fields greater than 7 tcf (applied to Oil Search's gross share before Government back-in). No amounts were recognised at the acquisition date, or during the subsequent period to 31 December 2014, in respect of the contingent payment as no certification indicating 2C raw gas contingent resource greater than 7 tcf has been completed.

8 Income tax

	Consolidated		**Parent**	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
The major components of tax expenses are:				
Current tax expense	**155,345**	210,184	**-**	-
Adjustments for current tax of prior periods	**(23,554)**	(17,663)	**(57)**	(22)
Deferred tax expense/(income)	**99,983**	(18,373)	**(4,128)**	1,279
Income tax expense/(benefit)	**231,774**	174,148	**(4,185)**	1,257
Reconciliation of income tax expense to prima facie tax payable:				
Profit/(loss) before tax	**584,992**	379,870	**38,795**	488,222
Tax at PNG rate for gas and non-oil (30%)	**175,501**	113,961	**11,639**	244,111
Tax at PNG rate for petroleum (50%)	**48,926**	(29,851)	**-**	-
Effect of differing tax rates across tax regimes	**13,630**	71,356	**-**	(97,645)
	238,057	155,466	**11,639**	146,466
Tax effect of items not tax deductible or assessable:				
Over provisions in prior periods	**(23,554)**	(17,663)	**(57)**	(22)
Non-deductible expenditure	**23,747**	35,819	**4,578**	4,813
Non-assessable income	**(2,170)**	-	**(2,170)**	(150,000)
Reinstatement deferred tax assets	**(4,306)**	-	**(4,306)**	-
Exempt dividends	**-**	-	**(13,869)**	-
Other	**-**	526	**-**	-
Income tax expense/(benefit)	**231,774**	174,148	**(4,185)**	1,257

8 Income tax (continued)

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Deferred tax expense/(income) recognised in net profit for each type of temporary difference:				
Exploration and development	**154,391**	(22,894)	**(4,549)**	613
Other assets	**(2,294)**	(507)	**-**	-
Provisions and accruals	**(53,260)**	1,327	**190**	(289)
Other items	**318**	(505)	**167**	(167)
Tax losses	**828**	4,206	**64**	1,122
Deferred tax (income)/expense	**99,983**	(18,373)	**(4,128)**	1,279
Deferred tax assets				
Temporary differences				
Exploration and development	**262,395**	222,233	**26,226**	24,001
Other assets	**3,357**	1,410	**-**	167
Provisions	**141,419**	98,890	**-**	194
Tax losses recognised	**9,731**	8,841	**-**	-
	416,902	331,374	**26,226**	24,362
Deferred tax liabilities				
Temporary differences				
Exploration and development	**455,631**	254,046	**-**	-
Prepayments and receivables	**11,033**	13,727	**63**	62
Other assets	**493**	552	**-**	-
	467,157	268,325	**63**	62

9 Earnings per share

	Consolidated 2014 cents	Consolidated 2013 cents
Basic earnings per share	**23.84**	15.36
Diluted earnings per share	**23.77**	15.30

	No.	No.
Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
Basic earnings per share	**1,481,502,290**	1,339,184,811
Employee share options, share appreciation rights and share rights	**540,762**	225,209
Employee performance rights	**3,815,607**	5,055,230
Diluted earnings per share	**1,485,858,659**	1,344,465,250

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of $353.2 million (2013: $205.7 million). There are 1,968,748 share appreciation rights and share rights (2013: 2,799,740), and 4,070,768 performance rights (2013: 4,653,631) 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 34,003 (2013: 237,873) 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 employee share-based payments was based on quoted market prices for the period 1 January 2014 to 31 December 2014.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000

10 Dividends paid or proposed

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Unfranked [1] dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividend [2]	**121,815**	26,867	**121,815**	26,867
Special dividend [2]	**60,908**	-	**60,908**	-
	182,723	26,867	**182,723**	26,867
Unfranked [1] dividends paid during the year:				
Ordinary – previous year final	**29,892**	26,704	**29,892**	26,704
Ordinary – current year interim [3]	**30,416**	26,828	**30,416**	26,828
	60,308	53,532	**60,308**	53,532

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

(2) On 23 February 2015, the Directors declared a final unfranked dividend of 8 cents per ordinary share for the current year (2013: 2 cents final dividend) and a special dividend of 4 cents per ordinary share (2013: nil) to be paid on 8 April 2015. The proposed final dividend for 2014 is payable to all holders of ordinary shares on the Register of Members on 11 March 2015 (record date). The estimated dividends to be paid are $182,723,110 and have not been included as a liability in these financial statements.

(3) On 19 August 2014, the Directors declared an interim unfranked dividend of 2 cents per ordinary share (2013: 2 cents interim dividend), paid to the holders of ordinary shares on 7 October 2014.

11 Receivables

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Current				
Trade debtors [1][2]	**126,652**	105,766	**-**	-
Other debtors [1]	**110,416**	141,167	**573**	17,958
Amounts due from subsidiary entities [3]	**-**	-	**775,440**	1,498,156
	237,068	246,933	**776,013**	1,516,114

(1) During 2014, no current receivables have been determined to be impaired and no related impairment loss has been charged to the statement of comprehensive income (2013: nil).

(2) Credit sales are on 30 day terms.

(3) Receivables from related entities are payable on call.

12 Inventories

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Current				
At cost				
Materials and supplies	**129,706**	127,625	**-**	-
Petroleum products	**30,483**	4,029	**-**	-
	160,189	131,654	**-**	-

13 Other financial assets

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Current				
Loan receivable	**-**	75,483	**-**	-
Non-Current				
Loan receivable	**91,249**	-	**-**	-

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 ($31.0 million) and non-interest bearing ($60.2 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. The loan receivable is payable based on contractual arrangements.

14 Exploration and evaluation assets

(a) Exploration and evaluation assets

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
At cost	**1,823,862**	681,588	**79,725**	80,153
Less impairment	**(247,194)**	(87,419)	**(23,793)**	(23,793)
	1,576,668	594,169	**55,932**	56,360
Balance at start of year	**594,169**	401,597	**56,360**	14,884
Additions	**1,246,939**	293,985	**3,551**	42,661
Exploration costs expensed during the year	**(109,132)**	(107,424)	**(3,120)**	(1,185)
Changes in restoration obligations	**5,326**	7,664	**-**	-
Net exchange differences	**(859)**	(1,653)	**(859)**	-
Impairment	**(159,775)**	-	**-**	-
Balance at end of year	**1,576,668**	594,169	**55,932**	56,360

Exploration and evaluation assets include $1,109.1 million (2013: $181.5 million) of licence acquisition costs and signature bonuses that are classified as intangible assets.

(b) Impairment of non-current assets – Exploration and evaluation

At 31 December 2014 the Group assessed each exploration asset to determine whether an indicator of impairment existed. The indicators of impairment included changes in future commodity prices, development costs, risks related to discovery and commercialisation options. An assessment of future plans for the assets was also considered. The estimated recoverable amounts of the exploration assets were based on their fair value less costs of disposal with the difference to the carrying amounts realised as an impairment loss of $159.8 million (2013: nil).

Asset	Segment	Events and circumstances	Impairment amount $'000	Recoverable amount $'000
PPL 219	PNG – Oil and Gas	Commodity price decline and revised risks associated with commercialisation	109,591	96,257
PRL 14	PNG – Oil and Gas	Commodity price decline and revised commercialisation opportunities	25,470	13,367
Block 7	MENA – Oil and Gas	Uncertainty around political and security environment and revised risks associated with commercialisation	24,714	-
			159,775	**109,624**

Fair value less costs of disposal for PPL 219 and PRL 14 was determined using the income approach and Block 7 was determined using the market approach. All fair value measurements are categorised as Level 3 in the fair value hierarchy.

The oil price assumption used under the income approach was based on market prices at the date of assessment escalating to US$85/bbl long-term real from 2018. Pre-tax discount rates of between 12.6% and 18.4% were used.

15 Property, plant and equipment

	Consolidated Oil and Gas			Consolidated Other plant and equipment			
	Development	Producing	Total	Marine	Rigs	Corporate	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
Balance at 1 January 2013	5,103,463	1,515,818	6,619,281	-	83,777	95,299	179,076
Transferred from producing assets	63,688	-	63,688	-	-	-	-
Transferred from assets in development	-	(63,688)	(63,688)	-	-	-	-
Additions	1,062,840	152,600	1,215,440	-	-	12,195	12,195
Borrowing costs capitalised	151,775	-	151,775	-	-	-	-
Changes in restoration obligations	18,413	(62,242)	(43,829)	-	-	761	761
Net exchange differences	-	-	-	-	-	(3,022)	(3,022)
Balance at 31 December 2013	**6,400,179**	**1,542,488**	**7,942,667**	**-**	**83,777**	**105,233**	**189,010**
Transferred to producing assets	(6,759,425)	-	(6,759,425)	-	-	-	-
Transferred from assets in development	-	6,759,425	6,759,425	-	-	-	-
Additions	456,621	105,677	562,298	9,003	702	12,088	21,793
Borrowing costs capitalised	45,945	-	45,945	-	-	-	-
Changes in restoration obligations	-	120,698	120,698	-	-	40	40
Net exchange differences	-	-	-	-	-	(710)	(710)
Impairment[1]	-	(20,818)	(20,818)	-	-	-	-
Balance at 31 December 2014	**143,320**	**8,507,470**	**8,650,790**	**9,003**	**84,479**	**116,651**	**210,133**
Amortisation and Depreciation							
Balance at 1 January 2013	-	(1,195,671)	(1,195,671)	-	(34,579)	(72,591	(107,170)
Amortisation/depreciation for the year	-	(36,807)	(36,807)	-	(7,459)	(5,935)	(13,394)
Balance at 31 December 2013	**-**	**(1,232,478)**	**(1,232,478)**	**-**	**(42,038)**	**(78,526)**	**(120,564)**
Amortisation/depreciation for the year	-	(236,168)	(236,518)	(350)	(7,676)	(8,477)	(16,503)
Balance at 31 December 2014	**-**	**(1,468,646)**	**(1,468,646)**	**(350)**	**(49,714)**	**(87,003)**	**(137,067)**
Carrying Amounts							
At 1 January 2013	5,103,463	320,147	5,423,610	-	49,198	22,708	71,906
At 31 December 2013	**6,400,179**	**310,010**	**6,710,189**	**-**	**41,739**	**26,707**	**68,446**
At 1 January 2014	6,400,179	310,010	6,710,189	-	41,739	26,707	68,446
At 31 December 2014	**143,320**	**7,038,824**	**7,182,144**	**8,653**	**34,765**	**29,648**	**73,066**

[1] At 31 December 2014 the Group assessed each asset or cash generating unit to determine whether an indicator of impairment existed. The indicator was a change in future commodity prices. As a result, the recoverable amounts of producing assets were assessed, which resulted in an impairment loss of $20.8 million (2013: $nil).

16 Payables

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current				
Trade creditors and accruals[1]	**312,665**	278,860	**9,399**	7,152
Deferred lease liability	**5,420**	5,894	**-**	-
	318,085	284,754	**9,399**	7,152
Non-current				
Other payables	**8,462**	9,693	**-**	-
Deferred lease liability	**12,578**	11,715	**-**	-
	21,040	21,408	**-**	-

[1] Trade liabilities are normally settled on 30 day terms.

17 Provisions

		Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Current					
Employee entitlements	(i)	**6,923**	6,985	**-**	-
Site restoration	(ii)	**-**	2,432	**-**	-
Contingent consideration		**2,000**	2,000	**-**	-
Other provisions		**750**	-	**-**	-
		9,673	11,417	**-**	-
Non-current					
Employee entitlements	(i)	**13,128**	13,040	**-**	-
Site restoration	(ii)	**392,524**	254,087	**-**	-
		405,652	267,127	**-**	-

(i) Movement in employee entitlement liability

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Balance at start of year	**20,025**	15,314	**-**	-
Additional provision recognised	**9,083**	12,706	**-**	-
Provision utilised	**(9,057)**	(7,995)	**-**	-
Balance at end of year	**20,051**	20,025	**-**	-

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

(ii) Movement in site restoration provision

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Balance at start of year	**256,519**	284,329	**-**	-
Additional provision recognised	**126,064**	(35,405)	**-**	-
Unwinding of discount	**9,941**	7,595	**-**	-
Balance at end of year	**392,524**	256,519	**-**	-

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.

18 Loans and borrowings

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Current				
Finance lease	**249**	-	**-**	-
Secured loan from joint operation[1]	**102,139**	-	**-**	-
	102,388	-	**-**	-
Non-current				
Finance lease	**8,622**	-	**-**	-
Revolving credit facility[1]	**150,000**	200,000	**-**	-
Secured loan from joint operation[1]	**4,160,055**	3,824,421	**-**	-
	4,318,677	4,024,421	**-**	-

[1] Details regarding loans and borrowings are contained in Note 27(f).

	Consolidated 2014 $'000	Consolidated 2013 $'000

19 Share capital and reserves

	2014 $'000	2013 $'000
Issued 1,522,692,587 (2013: 1,343,361,150)		
Ordinary shares, fully paid (no par value)	**3,147,340**	1,821,957

Movements in issued and fully paid shares	2014 Shares	2013 Shares	2014 $'000	2013 $'000
Balance at the beginning of the year	**1,343,361,150**	1,334,756,742	**1,821,957**	1,753,192
Transfer of vested shares from employee equity compensation reserve	**-**	-	**-**	13,404
Ordinary shares issued on exercise of options and rights, and grants of restricted shares	**-**	1,775,000	**-**	1,879
Shares issued through private placement	**149,390,244**	-	**1,097,037**	-
DRP underwriting agreement [1]				
Ordinary shares issued at $7.65 (2013 final dividend)	**2,196,784**	-	**16,794**	-
Ordinary shares issued at $8.35 (2014 interim dividend)	**2,309,820**	-	**19,287**	-
Ordinary shares issued at $7.74 (2012 final dividend)	**-**	1,900,006	**-**	14,702
Ordinary shares issued at $8.09 (2013 interim dividend)	**-**	2,058,706	**-**	16,658
DRP [2]				
Ordinary shares issued at $7.58 (2013 final dividend)	**1,744,275**	-	**13,066**	-
Ordinary shares issued at $7.79 (2014 interim dividend)	**1,360,542**	-	**11,161**	-
Ordinary shares issued at $7.58 (2012 final dividend)	**-**	1,586,782	**-**	12,028
Ordinary shares issued at $7.93 (2013 interim dividend)	**-**	1,283,914	**-**	10,181
Shares issued under share purchase plan	**22,329,772**	-	**169,466**	-
Share issue costs	**-**	-	**(1,428)**	(88)
	1,522,692,587	1,343,361,150	**3,147,340**	1,821,957

(1) A fully underwritten DRP has been utilised for all dividends paid during the period covered by the financial statements.
(2) The price for shares issued under the DRP was calculated in accordance with the DRP Rules and was the arithmetic average of the daily volume weighted average sales price of all Oil Search shares sold on the Australian Securities Exchange (excluding off-market trades) during ten trading days following the Record Date for the dividend, less a discount of 2.00%.

		Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Reserves at the end of the year					
Foreign currency translation reserve	(1)	**(14,523)**	(5,412)	**-**	-
Amalgamation reserve	(2)	**-**	-	**(2,990)**	(2,990)
Reserve for treasury shares	(3)	**(8,099)**	(2,620)	**(5,479)**	-
Employee equity compensation reserve	(4)	**12,236**	11,506	**6,573**	5,843
Balance at end of the year		**(10,386)**	3,474	**(1,896)**	2,853

(1) The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.
(2) The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.
(3) The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust.
(4) 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.

20 Statement of cash flows

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
(a) Cash and cash equivalents				
Cash at bank and on hand [1][2]	**772,946**	165,799	**40,718**	73,615
Share of cash in joint operations	**43,540**	42,182	**-**	-
Interest-bearing short-term deposits [3][4][5]	**143,680**	1,680	**108,680**	1,680
	960,166	209,661	**149,398**	75,295

(1) Includes $10.1 million (2013: $10.1 million) in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the $500 million revolving facility agreement.
(2) Includes $696.5 million escrowed in the PNG LNG Project account. Refer to note 28 for further details.
(3) Includes $2.0 million (2013: $1.7 million) held as security for letters of credit on issue.
(4) Includes $107.0 million (2013: $nil) held in escrow to meet future PNG LNG Project base equity commitments. Refer to note 27(f) for further details.
(5) Short-term deposits have maturity dates of 3 months or less.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
(b) Reconciliation of cash flows from operating activities				
Net profit after tax	**353,218**	205,722	**42,980**	486,965
Add/(deduct):				
Exploration costs expensed [1]	**84,782**	71,111	**826**	(981)
Impairment expense	**180,593**	-	**-**	-
Profit on sale of non-current assets	**(150)**	(216)	**-**	-
Dividend income	**-**	-	**(46,230)**	(500,000)
Depreciation and amortisation	**252,671**	50,201	**-**	-
Non-cash interest expense	**108,289**	-	**-**	-
Unwinding of site restoration discount	**9,941**	7,595	**-**	-
Employee share-based remuneration	**10,335**	10,060	**-**	-
Exchange (gains)/ losses - unrealised	**(8,782)**	(989)	**(199)**	531
Movement in tax provisions	**49,370**	25,319	**(2,036)**	4,074
(Increase)/decrease in receivables	**(16,585)**	(7,586)	**2,483**	(8,425)
(Increase)/decrease in inventories	**(55,882)**	(15,495)	**177**	964
(Increase)/decrease in other current and non-current assets	**(33,987)**	1,754	**-**	13
Increase in payables	**57,602**	7,873	**2,776**	7,975
Increase in provisions	**889**	11,455	**-**	-
	639,086	161,082	**(42,203)**	(495,845)
Net cash from/(used in) operating activities	**992,304**	366,804	**777**	(8,880)

(1) Exploration costs expensed totalled $109.1 million (2013: $107.4 million) of which $84.8 million (2013: $71.1 million) represents the write-off of costs for unsuccessful wells which are not included in operating cash flows.

(c) Non-cash transactions	Consolidated 2014 $'000	Consolidated 2013 $'000
Borrowing costs capitalised into developing assets [1]	**(44,685)**	(151,006)

(1) This amount differs to the amount disclosed in Note 15 as interest on the Group's revolving credit facility is cash-settled when due.

21 Employee benefits and share-based payments

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Salaries and short-term benefits	**77,474**	66,176	**11**	1,710
Post-employment benefits	**3,397**	2,982	**-**	-
Employee share-based payments	**10,335**	10,060	**-**	-
Total	**91,206**	79,218	**11**	1,710

Employee Share Rights, Share Option Plan and Share Appreciation Rights Plans

Share Rights (SR's) are granted for $nil consideration. A Share Right is a right to an allocation of ordinary shares in Oil Search Limited (at no cost) subject to continued employment at the vesting date. On the vesting date, the number of Share Rights that have vested will be automatically exercised and converted to ordinary shares in Oil Search Limited. Commencing with the 2014 grant, share appreciation rights (SAR's) are no longer awarded. Commencing with the 2010 grant, share options are no longer awarded.

There are currently 1,064 (2013: 960) employees participating in the Employee Share Rights, Share Options Plan and Share Appreciation Rights plans.

	2014	2013	2012	2011	2010	2009	2008	2007
Share price at grant date	A$9.04	A$8.04	A$6.72	A$6.92	A$5.61	A$5.73	A$5.65	A$3.66
Fair value	A$8.46	A$1.67	A$1.29	A$1.73	A$1.52	A$2.02	A$2.16	A$1.01
Exercise date	19 May 2017	13 May 2016	15 May 2015	16 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010
Exercise price	A$nil	A$7.82	A$7.26	A$6.98	A$5.63	A$5.22	A$4.88	A$3.57
Number of awards								
Balance as at 1 Jan 2014	-	1,854,450	1,559,900	1,239,840	-	121,350	-	-
Granted during year	611,045	-	-	-	-	-	-	-
Forfeited during year	(29,297)	(193,050)	(172,900)	(65,520)	-	(24,000)	-	-
Exercised during year	-	-	-	(1,174,320)	-	(97,350)	-	-
Balance at 31 Dec 2014	**581,748**	**1,661,400**	**1,387,000**	**-**	**-**	**-**	**-**	**-**
Exercisable at 31 Dec 2014	-	-	-	-	-	-	-	-
Avg. share price at date of exercise	-	-	-	A$9.13	-	A$9.02	-	-
Balance at 1 Jan 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	-	-	-	-	(353,379)	(139,800)	(138,210)	-
Balance at 31 Dec 2013	-	1,854,450	1,559,900	1,239,840	-	121,350	-	-
Exercisable at 31 Dec2013	-	-	-	-	-	-	-	-
Avg. share price at date of exercise	-	-	-	-	A$7.83	A$7.94	A$7.85	-

An expense of $2,387,223 (2013: $2,004,758) has been recognised in the statement of comprehensive income in respect of these SR's, options and SAR's.

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

	2014	2013	2012	2011	2010	2009	2008	2007
Volatility	20%	25%	30%	30%	35%	40%	38%	32%
Dividend yield	2.2%	0.48%	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%
Risk-free interest rate	2.85%	2.53%	2.43%	4.88%	4.64%	4.55%	5.96%	5.93%

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. The two peer groups are:

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

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

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

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

21 Employee benefits and share-based payments (continued)

Performance Rights Plan (continued)

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 163 (2013: 138) employees participating in the Performance Rights Plans.

	2014	2013	2012	2011	2010	2009	2008
Grant date	19 May 2014	24 May 2013	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008
Share price at grant date	A$9.04	A$8.16	A$6.72	A$6.92	A$5.61	A$5.73	A$5.65
Fair value	A$5.59	A$5.28	A$4.52	A$4.40	A$3.54	A$4.70	A$4.39
Exercise date	19 May 2017	20 May 2016	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011
Exercise price	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of rights							
Balance at 1 January 2014	-	1,635,200	1,595,900	1,307,400	-	115,131	-
Granted during year	934,100	-	-	-	-	-	-
Forfeited during year	-	(24,332)	(70,100)	(235,056)	-	-	-
Exercised during year	-	-	-	(1,072,344)	-	(115,131)	-
Balance at 31 December 2014	**934,100**	**1,610,868**	**1,525,800**	**-**	**-**	**-**	**-**
Exercisable at 31 December 2014	-	-	-	-	-	-	-
Average share price at date of exercise	-	-	-	A$9.13	-	A$9.03	-
Balance at 1 January 2013	-	-	1,773,500	1,460,800	1,454,600	457,015	199,000
Granted during year	-	1,635,200	-	-	-	-	-
Forfeited during year	-	-	(156,885)	(98,415)	(103,033)	-	-
Exercised during year	-	-	(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$7.685	A$7.68	A$7.81	A$7.86	A$7.99

	2014	2013	2012	2011	2010	2009	2008
Volatility	20%	25%	30%	30%	35%	40%	38%
Dividend yield	2.2%	0.48%	0.60%	0.60%	0.90%	2.00%	1.50%
Risk-free interest rate	2.85%	2.60%	2.43%	4.88%	4.64%	4.16%	6.00%

An expense of $5,894,621 (2013: $5,563,960) has been recognised in the statement of comprehensive income in respect of these rights.

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

21 Employee benefits and share based-payments (continued)

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

Restricted shares are granted under the plan in two situations. Firstly, as a way of retaining key management and other employees, secondly, by way of a 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 10 (2013: 315) employees participating in the Restricted Share Plan.

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

Executives	**2014**	**2014**	**2014**	**2014**	**2014**	**2013**	**2013**	**2012**	**2011**	**2010**
Grant date	7 Nov 2014	19 May 2014	19 May 2014	10 Jan 2014	10 Jan 2014	7 Mar 2013	7 Mar 2013	5 Mar 2012	1 Mar 2011	27 Apr 2010
Share price at grant date	$8.69	$7.92	$7.92	$7.72	$7.72	$7.87	$7.87	A$7.21	A$6.96	A$5.79
Exercise date	1 Mar 2016	1 Jan 2016	1 Jan2015	24 Feb 2016	24 Feb 2015	31 Oct 2014	1 Jan 2015	1 Jan 2014	1 Jan 2013	27 Apr 2014
Exercise price	$A nil	$A nil	$A nil	$A nil	$A nil	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of shares										
Balance at 1 January 2014	-	-	-	-	-	40,000	321,230	72,648	-	100,000
Granted during year	40,000	15,150	15,150	16,200	16,200	-	-	-	-	-
Forfeited during year	-	-	-	-	-	-	-	-	-	-
Vested during year	-	-		-	-	-	-	(72,648)	-	(100,000)
Balance at 31 December 2014	**40,000**	**15,150**	**15,150**	**16,200**	**16,200**	**40,000**	**321,230**	**-**	**-**	**-**
Exercisable at 31 December 2014	-	-	-	-	-	40,000	-	-	-	-
Balance at 1 January 2013	-	-	-	-	-	-	-	94,480	152,745	100,000
Granted during year	-	-	-	-	-	40,000	321,230	-	-	-
Forfeited during year	-	-	-	-	-	-	-	-	-	-
Vested during year	-	-	-	-	-	-	-	(21,832)	(152,745)	-
Balance at 31 December 2013	**-**	**-**	**-**	**-**	**-**	**40,000**	**321,230**	**72,648**	**-**	**100,000**

Oil Search (PNG) Limited	**2011**	**2011**	**2010**	**2010**	**2009**
Grant date	15 Jul 2011	15 Jul 2011	26 Jul 2010	26 Jul 2010	15 Jun 2009
Share price at grant date	A$6.58	A$6.58	A$5.80	A$5.80	A$5.85
Exercise date	15 Jul 2014	17 Jun 2013	15 Jul 2014	17 Jun 2013	17 Jun 2013
Exercise price	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of shares					
Balance at 1 January 2014	38,720	-	36,501	121,102	596,627
Granted during year	-	-	-	-	-
Forfeited during year	(2,100)	-	(3,458)	(2,189)	(1,883)
Vested during year	(36,620)	-	(33,043)	(118,913)	(594,744)
Balance at 31 December 2014	**-**	**-**	**-**	**-**	**-**
Exercisable at 31 December 2014	**-**	**-**	**-**	**-**	**-**
Balance at 1 January 2013	38,720	155,022	36,501	121,102	596,627
Granted during year	-	-	-	-	-
Forfeited during year	-	-	-	(2,189)	(1,883)
Vested during year	-	(155,022)	-	(118,913)	(594,744)
Balance at 31 December 2013	**38,720**	**-**	**36,501**	**-**	**-**

An expense of $2,053,151 (2013: $2,490,908) has been recognised in the statement of comprehensive income in respect of these restricted shares.

22 Key management personnel remuneration

Directors' and executive remuneration

Remuneration paid or payable, or otherwise made available, in respect of the financial year, to all directors and executives of Oil Search Limited, directly or indirectly, by the company or any related party:

	Directors'		Executives	
	2014	2013	2014	2013
	$	$	$	$
Short-term benefits	**6,384,952**	5,747,142	**7,561,613**	5,688,850
Long-term benefits	**131,575**	172,360	**44,089**	51,788
Post-employment benefits	**85,276**	97,728	**132,016**	119,536
Share-based payments	**2,392,579**	2,008,170	**2,823,572**	1,801,884
	8,994,382	8,224,259	**10,561,290**	7,662,058

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

	No.	No.	No.	No.
\$80,000 – \$89,999	**-**	1	**-**	-
\$190,000 – \$199,999	**1**	2	**-**	-
\$210,000 – \$219,999	**3**	-	**-**	-
\$220,000 – \$229,999	**1**	1	**-**	-
\$230,000 – \$239,999	**1**	1	**-**	-
\$240,000 – \$249,999	**-**	1	**-**	-
\$250,000 – \$259,999	**-**	1	**-**	-
\$320,000 – \$329,999	**-**	-	**-**	1
\$370,000 – \$379,999	**-**	-	**-**	1
\$460,000 – \$469,999	**1**	1	**-**	-
\$830,000 – \$839,999	**-**	-	**-**	1
\$980,000 – \$989,999	**-**	-	**-**	1
\$1,070,000 – \$1,079,999	**-**	-	**1**	-
\$1,130,000 – \$1,139,999	**-**	-	**1**	1
\$1,200,000 – \$1,209,999	**-**	-	**1**	-
\$1,230,000 – \$1,239,999	**-**	-	**-**	1
\$1,330,000 – \$1,339,999	**-**	-	**1**	1
\$1,380,000 – \$1,389,999	**-**	-	**1**	-
\$1,410,000 – \$1,419,999	**-**	-	**1**	-
\$1,420,000 – \$1,429,999	**-**	-	**-**	1
\$1,430,000 – \$1,439,999	**-**	-	**1**	-
\$1,490,000 – \$1,499,999	**1**	-	**-**	-
\$1,560,000 – \$1,569,999	**-**	1	**-**	-
\$1,570,000 – \$1,579,999	**-**	-	**1**	-
\$4,770,000 – \$4,779,999	**-**	1	**-**	-
\$5,730,000 – \$5,739,999	**1**	-	**-**	-

23 Key management personnel transactions

The directors and other key management personnel of Oil Search Limited during the year to 31 December 2014, 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]	
Directors	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
BF Horwood[2]	**-**	25,000	**-**	-	**-**	-
PR Botten	**2,222,403**	2,075,582	**711,300**	734,500	**236,221**	174,666
G Aopi	**394,602**	312,188	**154,400**	189,936	**62,460**	145,918
KG Constantinou	-	-	**-**	-	**-**	-
FE Harris	**31,961**	10,026	**-**	-	**-**	-
AJ Kantsler	**45,736**	25,200	**-**	-	**-**	-
RJ Lee	**71,829**	40,000	**-**	-	**-**	-
B Philemon	**7,241**	7,203	**-**	-	**-**	-
KW Spence	**25,000**	-	**-**	-	**-**	-
ZE Switkowski	**201,829**	200,000	**-**	-	**-**	-
Other key management personnel						
P Caldwell	**-**	40,000	**169,700**	175,300	**67,656**	50,027
P Cholakos	**174,770**	76,213	**159,800**	165,000	**61,833**	85,242
G Darnley-Stuart	**-**	46,495	**128,700**	105,000	**26,471**	-
J Fowles	**1,829**	-	**161,200**	110,200	**54,597**	27,270
S Gardiner	**295,167**	221,608	**146,700**	166,260	**61,856**	44,001
M Herrett	**1,829**	-	**87,700**	45,200	**33,206**	10,725
I Munro	**-**	-	**68,100**	-	**49,258**	-
M Kay	**-**	-	**72,068**	-	**32,400**	-
R Robinson[2]	**-**	273,528	**-**	32,920	**-**	9,192

[1] Refer to note 21 for key terms.
[2] Number of ordinary shares held by the Director or Executive at date of ceasing employment with the Group.

23 Key management personnel transactions (continued)

Some directors and other 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	**2014**	**2013**
	$'000	**$'000**
Airways Hotel and Apartments Limited [1]	**55**	167
Airways Residence Limited[1]	**152**	101
Alotau International Hotel[1]	**9**	19
Lamana Hotel Port Moresby [1]	**69**	340

[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.

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

	Consolidated		Parent	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
24 Commitments				
Finance lease commitments				
Lease of PNG LNG marine vessels				
Payable within 12 months	**1,284**	-	**-**	-
Payable 1 to 5 years	**5,135**	-	**-**	-
Payable greater than 5 years	**12,088**	-	**-**	-
	18,507	-	**-**	-
Future finance charges	**(9,636)**	-	**-**	-
Finance lease liability	**8,871**	-	**-**	-
Operating lease commitments				
Rental of premises, equipment and LNG charter vessels				
Payable within 12 months	**36,271**	33,820	**-**	-
Payable 1 to 5 years	**114,294**	87,126	**-**	-
Payable greater than 5 years	**139,561**	159,395	**-**	-
	290,126	280,340	**-**	**-**
Expenditure commitments				
Capital expenditure commitments	**791,390**	949,230	**17,739**	17,007
Other expenditure commitments	**190,606**	206,493	**-**	-
	981,996	1,155,723	**17,739**	17,007

25 Auditor's remuneration

	Consolidated		Parent	
	2014	**2013**	**2014**	**2013**
Amounts paid or due and payable in respect of:				
Auditing the Group's financial report	**377**	360	**125**	121
Other services	**91**	117	**-**	-
	468	477	**125**	121

The audit fees are in Australian dollars and are translated at 0.9028 (2013: 0.9686).

26 Subsidiaries and interests in joint arrangements

(a) Subsidiaries

	Ownership interest % 2014	Ownership interest % 2013	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
Pac LNG Investments Limited	**100**	-	PNG
Pac LNG Assets Limited	**100**	-	PNG
Pac LNG International Limited	**100**	-	PNG
Pac LNG Overseas Limited	**100**	-	PNG
Pac LNG Holdings Limited	**100**	-	PNG

(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.

(b) Interests in joint operations

The principal activities of the following joint operations, in which the Group holds an interest, are for the exploration and 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 2014	% Interest 2013
PPL 233	PNG	**52.50**	52.50
PPL 234 [(1)(2)]	PNG	**80.00**	80.00
PPL 277 [(2)]	PNG	**50.00**	50.00
PPL 312[(4)]	PNG	**-**	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 out/in agreement.
(3) Participating interest is 34%. Paying interest is 40%.
(4) License withdrawal approved on 30 April 2014.

(ii) Gas licences

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 3	P'nyang gas field	PNG	**38.51**	38.51
PRL 9 [(1)]	Barikewa gas field	PNG	**45.11**	45.11
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) Joint operation operated by an Oil Search Group entity.

26 Subsidiaries and interests in joint arrangements (continued)

(iii) Other projects

	Principal place of business	% Interest 2014		2013
Papua New Guinea Liquefied Natural Gas Global Company LDC	Bahamas	**29.00**		29.00
Biomass	PNG	**67.0**	(1)	60.00

(1) Participating interest is 67.0%. Paying interest is 100%.

(c) 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 are as follows:

(i) Production licences

PDL 1 [1]	Hides gas to electricity project	PNG	**100.00**	100.00
PDL 2 [2]	Kutubu & Moran oil fields	PNG	**60.05**	60.05
PDL 2 [2]	South East Mananda oil fields	PNG	**72.27**	72.27
PDL 3 [2]	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	Moran oil field	PNG	**40.69**	40.69
PDL 6 [2]	Moran oil field	PNG	**71.07**	71.07
PL 1 [2]	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.

(ii) Exploration licences

PPL 219 [1]	PNG	**71.25**		71.25	
PPL 244 [1][2]	PNG	**40.00**		40.00	
PPL 260 [1][2]	PNG	**40.00**		40.00	
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 out/in 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

PRL 2 [3]	Juha gas field	PNG	**-**	31.51
PRL 8 [1]	Kimu gas field	PNG	**60.71**	60.71
PRL 10 [1][2]	Uramu gas field	PNG	**100.00**	100.00
PRL 14	Cobra, Iehi, Bilip gas fields	PNG	**62.56**	62.56
PRL 15	Elk/Antelope	PNG	**22.84**	-

(1) Operated by an Oil Search Group entity.
(2) Subject to farm out/in agreement.
(3) Majority of licence areas now form part of PDL 9.

27 Financial and capital 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 statement of financial position 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 may also give rise to translation exposures.

The Group's overall approach to financial risk management 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.

(a) Market risk

Foreign exchange risk

The Group's revenue flows and major capital obligations are predominantly denominated in US$.

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

- Administrative and business development expenditures incurred at the corporate level in Australian dollars (A$); and
- Operating and capital expenditures incurred by the Group in relation to its PNG operations in Papua New Guinea Kina (PGK) and A$.

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. The Operator's A$ and PGK requirements are bought on the spot market. Where these currencies are purchased in advance of requirements, A$ and PGK cash balances do not exceed three months' requirements.

As at 31 December 2014, there were no foreign exchange hedge contracts outstanding (2013: 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.

(b) Interest rate risk

The Group is exposed to interest rate movements directly through borrowings and investments in each of the currencies of its operations. Surplus cash is invested in accordance with Board approved credit counterparty limits, based on minimum credit ratings, and managed to ensure adequate liquidity is maintained. Whilst some of the 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 2014, there was no interest rate hedging in place (2013: nil). Cash was invested in short-term instruments with an average maturity of 1 to 3 months.

Interest rate sensitivity

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

At the reporting date, if interest rates had been 25 basis points (2013: 25 basis points) higher or lower and all other variables were held constant, the Group's net profit after tax would increase/decrease by $9.2 million (2013: $0.5 million).

At the reporting date, if interest rates had been 25 basis points (2013: 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 (2013: $0.4 million).

27 Financial and capital risk management (continued)

(b) Interest rate risk (continued)

Consolidated

Financial Instruments	Floating Interest Rate $'000	Fixed interest rate maturing in: 1 year or less $'000	1-5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total carrying amount in the statement of financial position $'000
2014						
Financial assets						
Cash and cash equivalents	**816,486**	**143,680**	**-**	**-**	**-**	**960,166**
Trade debtors	**-**	**-**	**-**	**-**	**126,652**	**126,652**
Other debtors	**-**	**-**	**-**	**-**	**110,416**	**110,416**
Loan receivable	**31,082**	**-**	**-**	**-**	**60,167**	**91,249**
Non-current receivables	**-**	**-**	**-**	**-**	**1,078**	**1,078**
Total financial assets	**847,568**	**143,680**	**-**	**-**	**298,313**	**1,289,561**
Financial liabilities						
Trade creditors and accruals	**-**	**-**	**-**	**-**	**312,665**	**312,665**
Other payables	**-**	**-**	**-**	**-**	**8,462**	**8,462**
Finance lease	**-**	**249**	**1,795**	**6,827**	**-**	**8,871**
Loans and borrowings	**3,592,409**	**-**	**-**	**819,786**	**-**	**4,412,194**
Total financial liabilities	**3,592,409**	**249**	**1,795**	**826,613**	**321,127**	**4,742,192**
2013						
Financial assets						
Cash and cash equivalents	207,981	1,680	-	-	-	209,661
Trade debtors	-	-	-	-	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
Total financial liabilities	3,385,743	-	-	638,678	288,553	4,312,974

Parent

Financial Instruments	Floating Interest Rate $'000	Fixed interest rate maturing in: 1 year or less $'000	1-5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total carrying amount in the statement of financial position $'000
2014						
Financial assets						
Cash and cash equivalents	**40,718**	**108,680**	**-**	**-**	**-**	**149,398**
Other debtors	**-**	**-**	**-**	**-**	**573**	**573**
Total financial assets	**40,718**	**108,680**	**-**	**-**	**573**	**149,971**
Financial liabilities						
Trade creditors and accruals	**-**	**-**	**-**	**-**	**9,399**	**9,399**
Total financial liabilities	**-**	**-**	**-**	**-**	**9,399**	**9,399**
2013						
Financial assets						
Cash and cash equivalents	73,615	1,680	-	-	-	75,295
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

27 Financial and capital risk management (continued)

(c) Commodity price risk

The Group has exposure to commodity price risk associated with the production and sale of oil, condensate and liquefied natural gas.

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 any hedging programme maturities are spread over time and there are maximum hedge cover levels that apply to future years. 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 2014, there was no oil price hedging in place (2013: nil). No commodity price sensitivity analysis is required as there was no hedging in place.

(d) 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 liquefied natural gas, oil, condensate and gas;
- Other receivables;
- Loan receivable; and
- Granting financial guarantees in support of the PNG LNG Project.

Credit risk management

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

The Group markets Kutubu crude oil, blended with PNG LNG condensate, 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 Limited 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 Limited to acquire an equity interest in the issued share capital of the Borrower (note 13).

At 31 December 2014 there was no significant concentration of credit risk exposure to any counterparty (2013: nil).

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

		Consolidated		Parent	
	Note	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
Current					
Cash at bank and on hand	20(a)	**772,946**	165,799	**40,718**	73,615
Share of cash in joint operations	20(a)	**43,540**	42,182	**-**	-
Interest-bearing short-term deposits	20(a)	**143,680**	1,680	**108,680**	1,680
Receivables	11	**237,068**	246,933	**776,013**	1,516,114
Loan receivable	13	**-**	75,483	**-**	-
Loans and borrowings	18	**102,388**	-	**-**	-
		1,299,622	532,077	**925,411**	1,591,409
Non-current					
Receivables		**1,078**	4,757	**-**	-
Loan receivable	13	**91,249**	-	**-**	-
Loans and borrowings	18	**4,318,677**	4,024,421	**-**	-
		4,411,004	4,029,178	**-**	-

27 Financial and capital risk management (continued)

(e) 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 any unexpected liquidity needs in the normal course of business. The Group's 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.

Each participant in the PNG LNG Project severally provides participant equity funding pro rata with each disbursement of Export Credit Agency/Bank loans so that participant equity funding is provided for at least 30% of project capital costs at such time. 60% of Oil Search Limited's future equity commitments are held in escrow. Oil Search Limited plans to meet its remaining share of its currently estimated equity funding out of existing cash, corporate debt and cash flows.

As at 31 December 2014, the Group has cash of US$960.2 million (2013: US$209.7 million), of which US$143.7 million was invested in short-term instruments (2013: US$1.7 million) and undrawn loan facilities of US$600.0 million (2013: US$300.0 million).

The table below shows the Group's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

		Contractual cash flows			
	Carrying amount $'000	**Total $'000**	**Less than 1 year $'000**	**1 to 5 years $'000**	**More than 5 years $'000**
Non-derivative financial liabilities					
2014					
Trade creditors and accruals	**312,665**	**312,665**	**312,665**	**-**	**-**
Other payables	**8,462**	**8,462**	**8,462**	**-**	**-**
Secured loan from joint operation	**4,262,194**	**5,910,631**	**262,541**	**2,039,912**	**3,609,178**
Revolving credit facility	**150,000**	**151,772**	**895**	**150,877**	**-**
Finance lease	**8,871**	**18,507**	**1,284**	**5,135**	**12,088**
Total	**4,742,192**	**6,402,037**	**585,847**	**2,194,920**	**3,621,266**
2013					
Trade creditors and accruals	278,860	278,860	278,860	-	-
Other payables	9,693	9,693	9,693	-	-
Secured loan from joint operation	3,824,421	5,216,485	-	1,567,411	3,649,074
Revolving credit facility	200,000	209,417	820	208,597	-
Total	4,312,974	5,714,455	289,643	1,776,008	3,649,074

(f) Financing facilities

Revolving credit facility
Oil Search (Finance) Limited ("OSFL") signed a five year non-amortising financing facility effective 29 October 2012 for US$500 million. 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.

Bilateral facility
Oil Search (PNG) Limited ("OSP") entered into two new bilateral revolving facilities with facility limits of US$125 million each. Advances drawn down bear interest at variable markets rates and are repayable within two years. As part of the terms and conditions of this facility, OSP has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Secured loan from joint operation
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 2014 is 29.0% (December 2013: 29.0%)).

The PNG LNG Project ("LNG Project") achieved 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.

Interest and principal on the loan is 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.

27 Financial and capital risk management (continued)

(f) Financing facilities (continued)

Following completion, the LNG sales proceeds are received into a sales escrow account from which agreed expenditure obligations are firstly made and, subject to meeting certain debt service cover ratio tests, surpluses 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 $3,441.4 million at 31 December 2014 (2013: $3,258.5 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 Limited has also granted security over:

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

(g) Capital management

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

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

(h) Fair values

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 amortised cost. The fair values of financial assets and liabilities approximate their carrying amounts.

28 Events occurring after the reporting period

On 6 February 2015, the PNG LNG Project operator announced that the Project had achieved financial completion by satisfying all the financial completion tests set forth in Project financing agreements. Accordingly, the cash restrictions, as set out in the Project financing agreements, on escrowed PNG LNG sales proceeds and cash held in escrow to partially fund equity commitments during project development, as disclosed in Note 20 to the accounts, have been terminated. In addition, the guarantee issued by Oil Search Limited to the Project lenders in support of its OSL Participants' 29% share of the senior debt obligations of the Project, as detailed in Note 27(f), has been terminated.

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 consolidated entity:

(i) give a true and fair view of the consolidated entity's financial position as at 31 December 2014, and its 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 2014.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

....

RJ LEE

Chairman

....

PR BOTTEN

Managing Director

Sydney, 23 February 2015

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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 2014, 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 36 to 68.

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 *Papua New Guinea Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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 2014 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 *Papua New Guinea 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 15 to 33 of the directors' report for the year ended 31 December 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 23 February 2015

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Zanie Theron
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 23 February 2015