Oil Search

ANNUAL REPORT 2014

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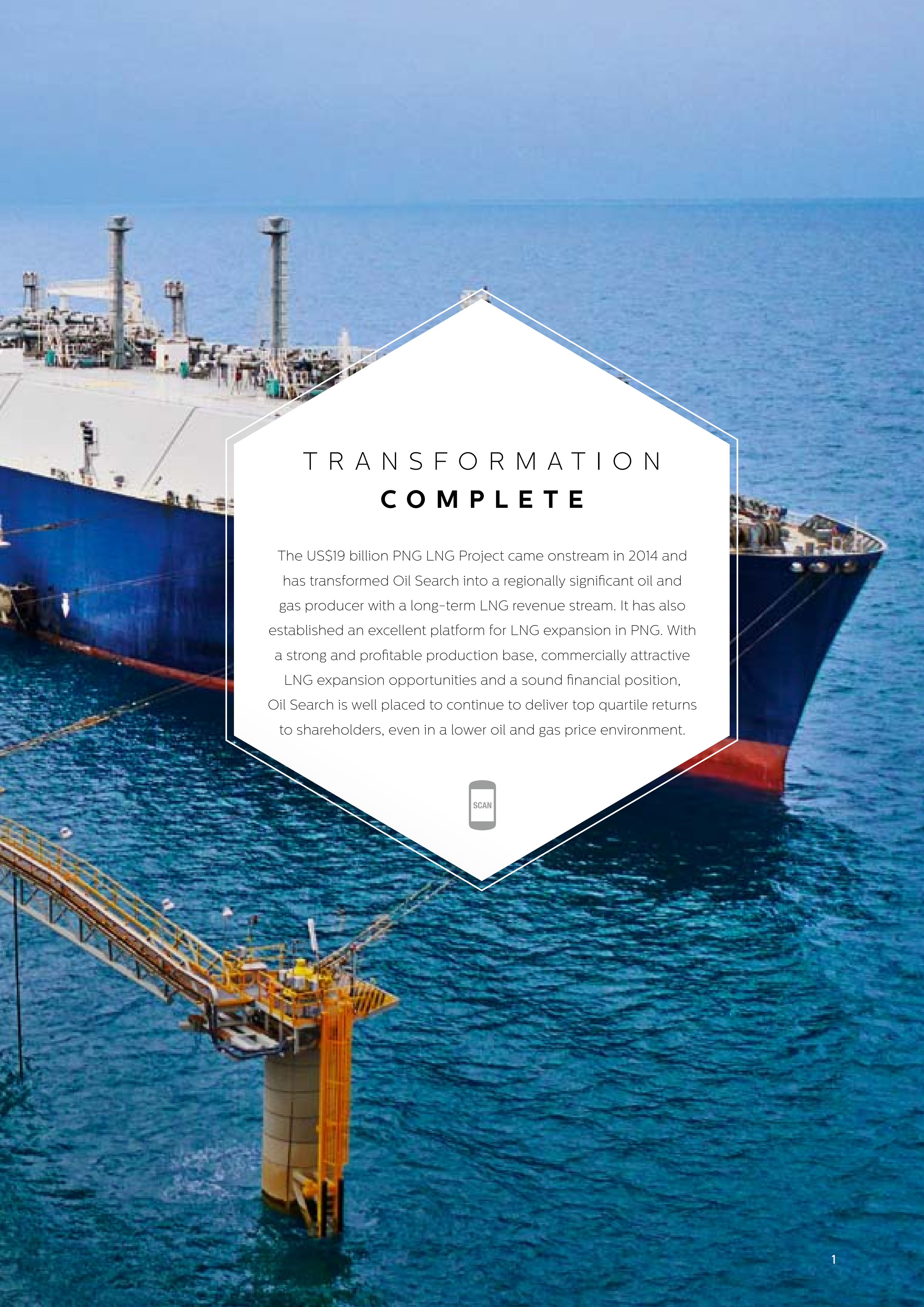
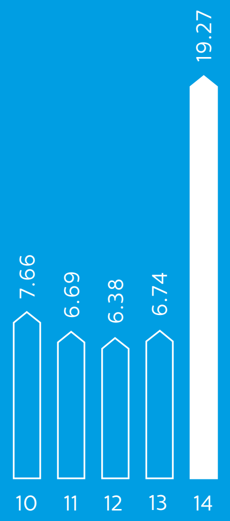


TRANSFORMATION COMPLETE

The US$19 billion PNG LNG Project came onstream in 2014 and has transformed Oil Search into a regionally significant oil and gas producer with a long-term LNG revenue stream. It has also established an excellent platform for LNG expansion in PNG. With a strong and profitable production base, commercially attractive LNG expansion opportunities and a sound financial position, Oil Search is well placed to continue to deliver top quartile returns to shareholders, even in a lower oil and gas price environment.

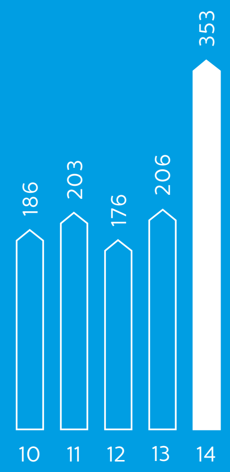
SCAN

2014 HIGHLIGHTS



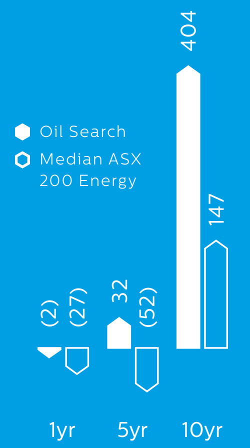
TOTAL PRODUCTION
(MMBOE)

↑186%



NET PROFIT AFTER TAX
INCLUDING SIGNIFICANT ITEMS
(US$ MILLION)

↑72%



TOTAL SHAREHOLDER RETURN
TO 31 DECEMBER 2014
(%)

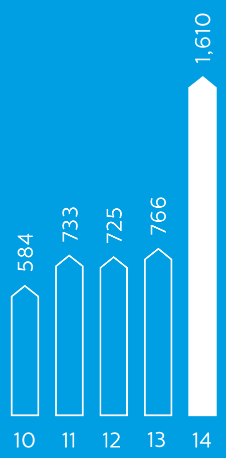
↑404%
(10 YR TSR)

FINANCIAL PERFORMANCE

Year to 31 December		2014	2013	% CHANGE
Total production	mmboe	**19.27**	6.74	186%
Total sales	mmboe	**17.76**	6.73	164%
Average realised oil and condensate price	US$/bbl	**97.79**	110.57	(12%)
Average realised LNG and gas price	US$/mmBtu	**13.94**	13.01	7%
Revenue from operations	US$m	**1,610.4**	766.3	110%
EBITDAX[(1)]	US$m	**1,257.0**	552.6	127%
Depreciation and amortisation	US$m	**(252.7)**	(50.2)	403%
Exploration costs expensed	US$m	**(109.1)**	(107.4)	2%
EBIT	US$m	**895.2**	394.8	127%
Net interest income / (expense)	US$m	**(129.6)**	(15.2)	753%
Impairment loss	US$m	**(180.6)**	–	N.M.
Tax	US$m	**(231.8)**	(174.1)	33%
Net profit after tax[(2)]	US$m	**353.2**	205.7	72%
Impairment (net of tax)	US$m	**129.6**	–	N.M.
Core profit[(1)]	US$m	**482.8**	205.7	135%
Basic EPS[(2)]	Usc/share	**23.8**	15.4	56%
Dividends per share	Usc/share	**14.0**	4.0	250%
Operating cash flow	US$m	**992.3**	366.8	171%
Net cash / (debt)	US$m	**(3,452.0)**	(3,814.8)	(10%)

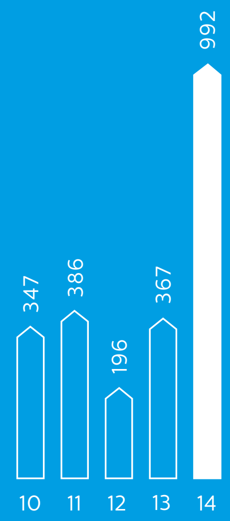
(1) EBITDAX (earnings before interest, tax, depreciation/amortisation, impairment and exploration) and core profit (net profit after tax before significant items) are a non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS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

(2) Including significant items.



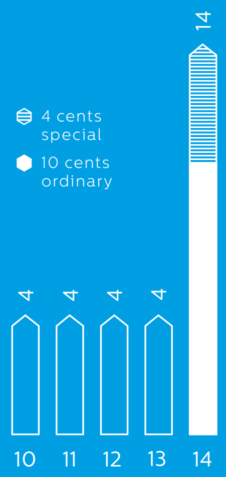
REVENUE FROM OPERATIONS
(US$ MILLION)

↑110%



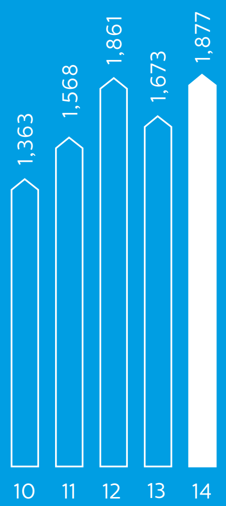
OPERATING CASHFLOW
(US$ MILLION)

↑171%



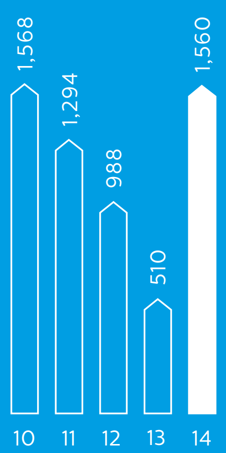
DIVIDENDS PER SHARE
(US CENTS)

↑250%



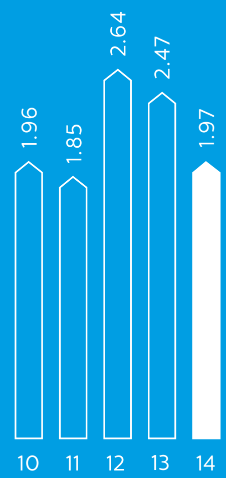
TOTAL INVESTMENT EXPENDITURE
(US$ MILLION)

↑12%



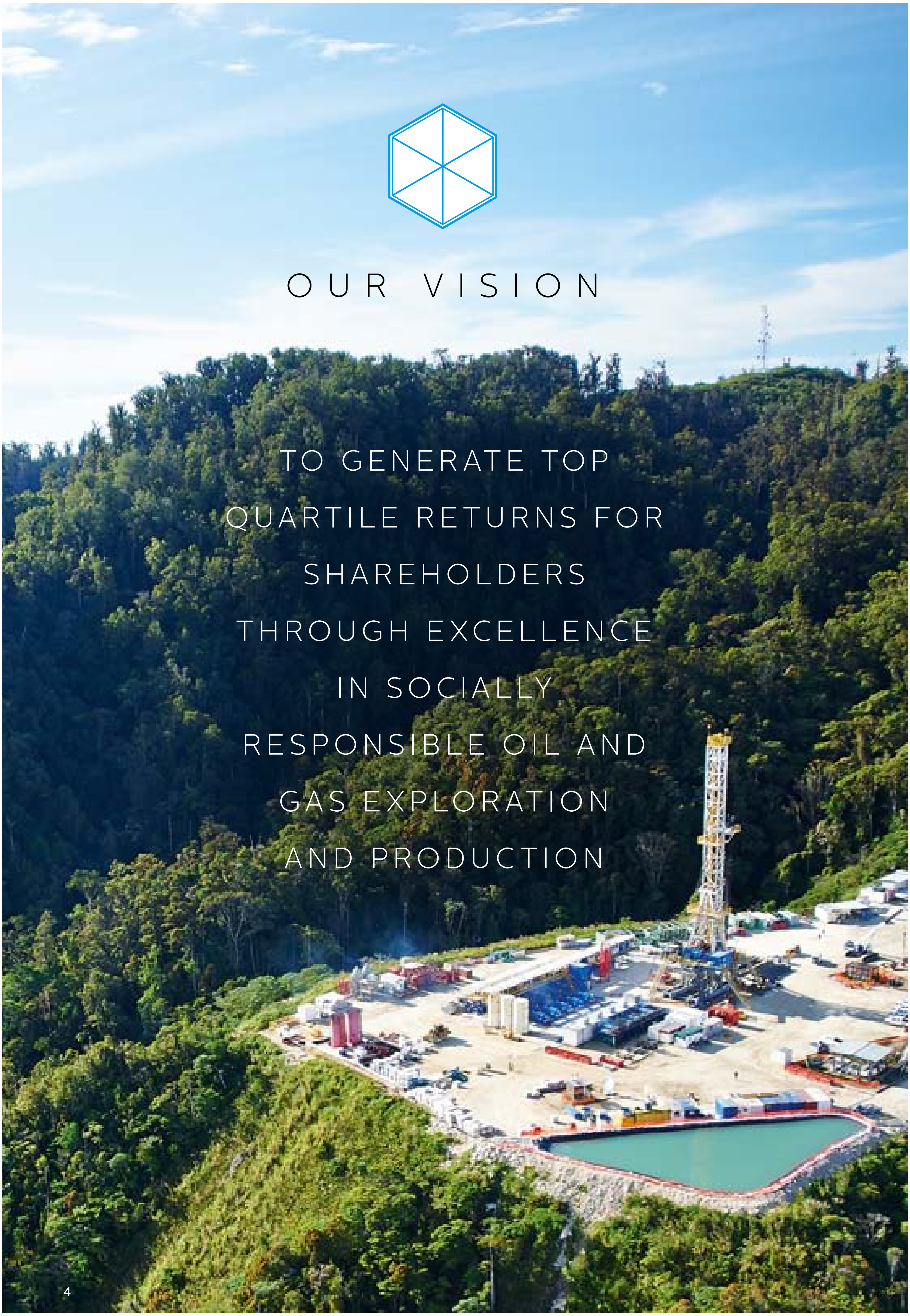
TOTAL LIQUIDITY
(US$ MILLION)

↑206%



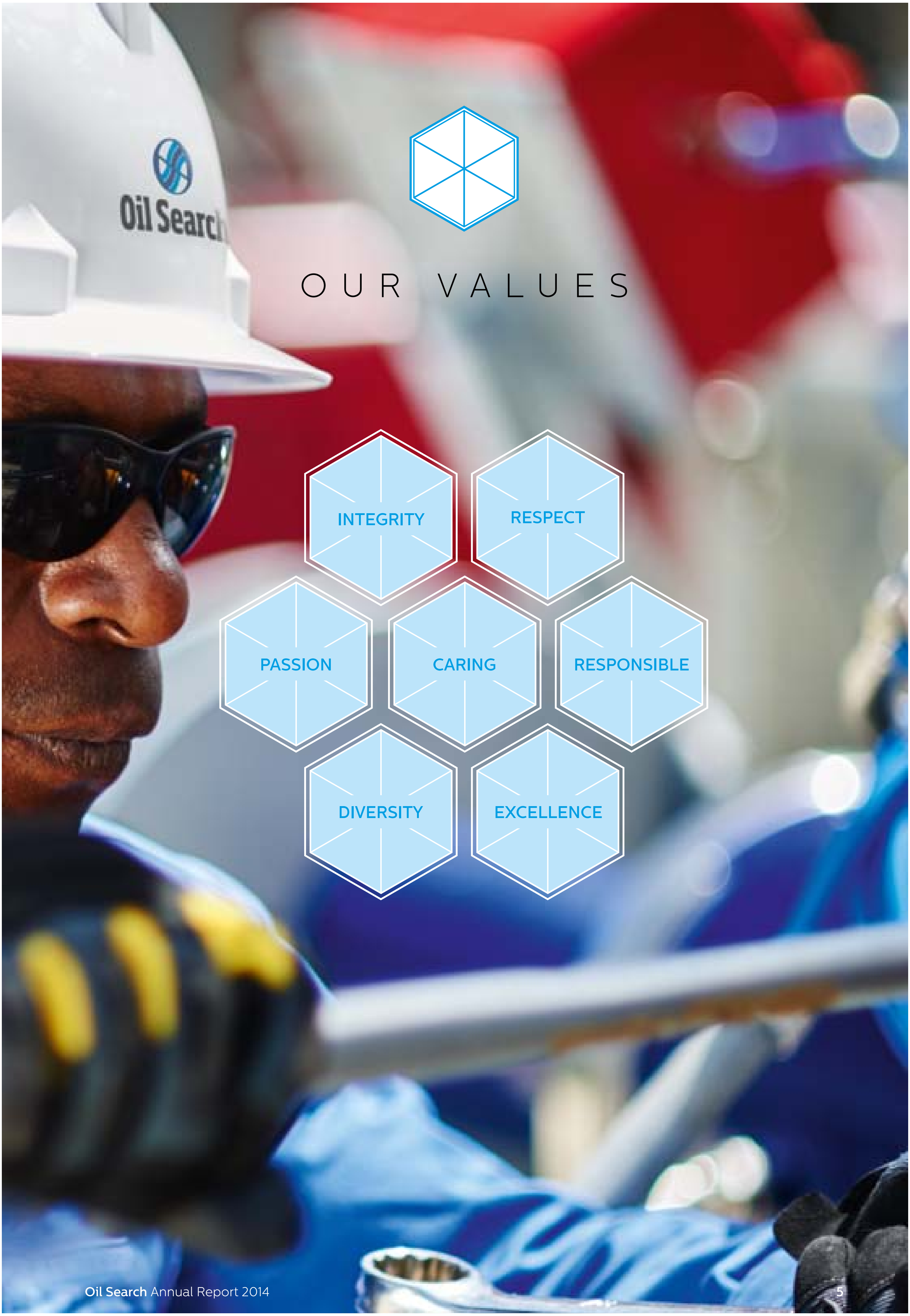
TOTAL RECORDABLE INCIDENTS
(PER MILLION HOURS WORKED)

↓20%



OUR VISION

TO GENERATE TOP QUARTILE RETURNS FOR SHAREHOLDERS THROUGH EXCELLENCE IN SOCIALLY RESPONSIBLE OIL AND GAS EXPLORATION AND PRODUCTION



OUR VALUES

- INTEGRITY
- RESPECT
- PASSION
- CARING
- RESPONSIBLE
- DIVERSITY
- EXCELLENCE

OUR SIX STRATEGIES

SUSTAIN AND OPTIMISE OUR OIL AND GAS ASSETS

COMMERCIALISE GAS IN PNG

PURSUE HIGH-VALUE EXPLORATION OPPORTUNITIES

SCAN

CONTRIBUTE TO A STABLE OPERATING ENVIRONMENT

ENHANCE ORGANISATIONAL CAPABILITY

OPTIMISE CAPITAL MANAGEMENT

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

ABOVE: Oil Search Chairman, Richard Lee (top) and Managing Director, Peter Botten.

SCAN

Dear Shareholder,

2014 was one of the most significant in Oil Search's 86-year history. At the beginning of 2014, we set ourselves a range of ambitious targets, for safety, production, costs and earnings. These targets were largely achieved and, in many cases, exceeded. Much of the strong performance in 2014 was a result of the completion of construction and the successful commissioning of the PNG LNG Project, ahead of schedule and within the revised budget. We would like to congratulate the operator, ExxonMobil PNG Limited, on the smooth and efficient delivery of this world-scale LNG project.

2014 was also the year when we made substantial progress on our next phase of LNG growth in PNG. Early in the year we acquired an interest in the Elk/Antelope gas fields in the Gulf Province of PNG, which are expected to underwrite a second major LNG project in PNG. Significant headway was also made on a potential expansion of the PNG LNG Project.

We ended the year in a strong financial position, with cash of just under US$1.0 billion and liquidity of nearly US$1.6 billion.

SAFETY

In 2014, Oil Search recorded a Total Recordable Injury Rate (TRIR) of 1.97 per million hours worked, an improvement relative to the TRIR of 2.47 per million hours in 2013 and 2.64 in 2012. However, most regrettably, in October, a tragic incident on our Tajerouine licence in Tunisia led to the death of an employee of our seismic contractor. Oil Search and the contractor subsequently conducted independent reviews of the incident, to determine the root causes and identify corrective actions. Lessons learned have been incorporated into our future planning.

ABOVE: Hides Gas Conditioning Plant, PNG Highlands. Photo courtesy of ExxonMobil.

RECORD PRODUCTION AND PROFITABILITY ACHIEVED IN 2014

Oil Search produced 19.3 million barrels of oil equivalent in 2014, nearly three times higher than in 2013 and a record for the Company. This reflected both the start-up of the PNG LNG Project in the first half of the year and a solid performance from our PNG oil and gas fields.

Higher production helped drive a 72% increase in reported net profit after tax, to US$353.2 million. This included US$129.6 million of impairments after tax, largely related to the impact of lower oil prices on the carrying value of exploration and evaluation assets. Excluding these one-off items, Oil Search's core profit was US$482.8 million, up 135% from 2013 and an all-time high for the Company.

DIVIDENDS MORE THAN TRIPLED

With the start of long-term cash flows from the PNG LNG Project, the Company's dividend policy was reassessed as part of the 2014 Strategic Review. The Board has decided to adopt a proportional dividend payout ratio (where dividend payments will be related to the Company's profitability), of between 35% and 50% of core profit. The Board believes that this provides a good balance between reinvesting cash flows into our already identified high-returning growth projects and providing predictable returns to shareholders. This is particularly appropriate in the current volatile oil price environment.

In line with this new policy, the final dividend for 2014 was increased from two cents per share in 2013 to eight cents per share and a special dividend of four cents per share was also declared. This brought the total dividend for 2014 to 14 cents per share, compared to four cents per share in 2013, representing a 44% payout ratio based on 2014 core profit.

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

ABOVE: Tri Ethylene Glycol (TEG) Dehydration Unit, Central Processing Facility, PNG Highlands.

RENEWED STRATEGIC DIRECTION AND RESPONSE TO OIL PRICE FALL

In light of the successful start-up of the PNG LNG Project, in 2014 Oil Search conducted a major Strategic Review, to evaluate its position and strategy and to set a roadmap for the Company's next phase of growth. The Review concluded that the commercialisation of gas within our existing PNG portfolio, where we have a major strategic advantage, has the potential to drive continued top quartile returns to shareholders over the next five years. The Review also highlighted the importance of social responsibility, sustainable development and government and community relationships to Oil Search's past and future success.

The Strategic Review resulted in a renewed vision, which is to generate top quartile returns for shareholders through excellence in socially responsible oil and gas exploration and production, six key strategies (which are outlined in this report) and a range of initiatives to support the delivery of our strategic objectives.

In the latter months of 2014, oil prices fell dramatically, leading to a re-examination of the Strategic Review recommendations. This work confirmed that Oil Search's key strategy, to focus on LNG growth in PNG, remains sound, with the potential expansion of the PNG LNG Project and the development of the Elk/Antelope gas fields commercially attractive, even if oil prices remain under pressure for some time. It also established that, while profitability will be negatively affected, Oil Search remains very well placed, both operationally and financially, to withstand a lower oil price environment and potentially to take advantage of a recalibration in global oil and gas costs.

Nonetheless, all discretionary operating and capital expenditures have been reviewed and work programmes have been re-prioritised. Overall, planned capital expenditures in 2015 have been reduced by 20% and production costs for operated assets reduced by a similar amount, with additional cost savings being sought from our contractors and suppliers. In addition, our internal cost and staffing structures are being reviewed and during 2015, we will seek to realign the organisation to reduce costs, while ensuring our priority activities are fully supported. By making these changes to our cost base, we will be in a strong position to manage even a protracted period of oil price weakness and will have sufficient financial capacity to pursue all our growth opportunities.

ORGANISATIONAL AND LEADERSHIP CHANGES

The Strategic Review highlighted the importance of PNG to Oil Search's future growth. As a result, a number of organisational changes are taking place, including the relocation of several senior managers to PNG. This will assist the development of broader relationships with key PNG stakeholders, improve the understanding and management of key in-country issues as well as facilitate senior management development and succession planning.

In recognition of the rapid growth of the Company, Oil Search is also moving to a new operating model, comprising four key Business Units – PNG, Gas Development, Exploration and Corporate – with functional support, to enhance the Company's capabilities to deliver on its strategic commitments.

ABOVE: Oil Search is involved in a range of community programmes including agricultural sustainability initiatives that promote food security and empower women.

CONTRIBUTING TO PNG

The PNG LNG Project has had a transformational impact on PNG, materially increasing the country's export revenues and providing a new income stream to the Government, landowners and local communities. However, these cash flows have also been impacted by the fall in the oil price, while landowner and community expectations remain high. It is vitally important that the PNG Government manages the distribution of PNG LNG Project cash flows and delivers promised infrastructure and services in an equitable, efficient and transparent way. We are delighted that the formation of a Sovereign Wealth Fund, to handle the large benefits from the Project that accrue to the Government, has now passed into legislation, which will help this process.

Given the capacity constraints within PNG, it is imperative that the private sector partners with the Government to ensure infrastructure and services are delivered. Oil Search is presently working together with the Government on the provision of competitively priced and reliable power in Port Moresby and the PNG Highlands and is exploring opportunities to become involved in small-scale LNG for resource projects and remote communities. The Company is also project managing more than US$200 million of infrastructure projects on behalf of the Government, under the Infrastructure Tax Credit Scheme, while the Oil Search Health Foundation remains a key provider of positive health outcomes in-country.

As a major operator in a developing country, we strongly believe that we have a responsibility to make a meaningful contribution to the people of PNG and that these activities are critical to protecting Oil Search's value, driving growth and maintaining our social licence to operate.

OUTLOOK FOR 2015

Oil Search is in a strong position as we enter 2015. We have an excellent production base, which is profitable even in the current lower oil price environment, strong operating cash flows, a solid financial position and a range of identified high-returning growth opportunities. We remain focused on rigorous financial management and fiscal discipline, with capital, gearing and liquidity to be conservatively managed. Our aim is to be in a position where we can fully support the required investment in our key potential LNG growth projects, while still rewarding shareholders with dividend distributions, in line with the new dividend policy.

In this time of oil price weakness, we believe that the industry has an opportunity to recalibrate its cost structure and to materially improve productivity. This will have substantial long-term benefits. While lower oil prices will present challenges to the global oil and gas sector, our business is robust and we are confident of Oil Search's continued success.

RICHARD LEE
Chairman

PETER BOTTEN
Managing Director

SENIOR EXECUTIVE TEAM

PETER BOTTEN

Managing Director

Peter was appointed Managing Director of Oil Search in 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.

GEREA AOPI

Executive General Manager, External and Government Affairs and Sustainability

Gerea was appointed to the Oil Search management team in August 1998. Prior to joining Oil Search, Gerea was Managing Director of Telikom PNG Ltd, held several very senior positions in the PNG public service and served as the Secretary of the Department of Finance and Planning.

PHILIP CALDWELL

Executive General Manager, Business Systems Development

Philip joined Oil Search in 1998, after a 15-year career with British Petroleum. In 2003 he became the PNG Asset Manager and subsequently EGM, Operations. In 2005 he was appointed EGM, PNG LNG Project and in 2013 transitioned to EGM, Business Systems Development, responsible for leading the development of the Company's management systems.

JULIAN FOWLES

Executive General Manager, Exploration and Business Development

Julian joined Oil Search in 2012, after a 23-year career with a number of large international oil and gas companies, including 16 years with Shell. Julian holds geology degrees from Edinburgh and Cambridge Universities and his experience encompasses all aspects of the exploration and production business on both technical and commercial fronts.

IAN MUNRO

Executive General Manager, Gas Business Development

Ian joined Oil Search in August 2013 to drive growth of the Company's gas business and deliver opportunities for gas commercialisation. Ian's career spans more than 25 years in the oil and gas industry, including senior technical and commercial roles at ExxonMobil and Woodside Petroleum.

PAUL CHOLAKOS

Executive General Manager, PNG Operations

Paul joined Oil Search in 2010, after more than 20 years' experience in the international oil and gas and mining industries. He was appointed as EGM, PNG Operations in 2013, having previously held the role of EGM, Project Development. Paul played a major role in the Company's transition to a major LNG exporter through its contributions to the PNG LNG Project.

GLENN DARNLEY-STUART

Executive General Manager, Project Development

Glenn joined Oil Search in 2003, after seven years with Chevron and 20 years in the Australian Army. He spent the first five years with Oil Search as General Manager, PNG Operations, prior to being seconded to ExxonMobil as a Project Manager on the PNG LNG Project based in PNG. Glenn was appointed to the position of EGM, Project Development in early 2013.

STEPHEN GARDINER

Chief Financial Officer and Group Secretary

Stephen joined Oil Search in 2004, after a 20-year career in corporate finance at two of Australia's largest multinational construction materials companies and a major Australian telecommunications company. Stephen was appointed Chief Financial Officer in 2012. Stephen is also the Group Secretary of Oil Search, a role he has held since May 2009.

MICHAEL HERRETT

Executive General Manager, Human Resources

Michael joined Oil Search in 2012, after a career with BHP Billiton which spanned more than 30 years in senior Human Resources roles, including Vice President positions based in the USA, the UK and Australia. He has extensive international HR experience, with previous responsibilities covering oil and gas, mining and manufacturing operations in Africa, Latin America, Asia, Australia and the US.

MATT KAY

Executive General Manager, Strategy and Commercial

Matt joined Oil Search in January 2014 to lead the Company's strategy, commercial, supply chain, economics, marketing, M&A and legal functions. Matt's 23-year career includes key roles with Woodside Petroleum and Santos, including significant experience across LNG, international, commercial, corporate, M&A and production.

SUSTAIN AND OPTIMISE OUR OIL AND GAS ASSETS

Oil Search has a 29% interest in the PNG LNG Project, operates five oil fields and one gas field in PNG, supplies approximately 20% of the gas required by the PNG LNG Project from its operated fields and is responsible for the Project's liquids export system. Oil Search aims to optimise the value of its PNG assets by operating in a safe, reliable and sustainable manner.


Oil Search
Oil Search

SUSTAIN AND OPTIMISE OUR OIL AND GAS ASSETS

After a four-year construction period, the PNG LNG Project came onstream in the first half of 2014, ahead of schedule and within the revised budget. 2014 LNG and liquids sales from the Project, net to Oil Search, were 12.2 mmboe, lifting the Company's total production to 19.3 mmboe, nearly triple 2013 production and the highest in Oil Search's history.

ABOVE: PNG LNG plant, located approximately 20 kilometres north-west of Port Moresby.

STRATEGIC OBJECTIVES

The recent Strategic Review has reaffirmed that the key priority of Oil Search's operating business is to protect our people, assets and the environment by operating safely, reliably and efficiently. As well as operating all of PNG's oil fields and the Hides Gas-to-Electricity project, Oil Search is responsible for supplying approximately 20% of the PNG LNG Project's gas requirements from the Oil Search-operated oil fields and for operating the liquids export system. Oil Search's aim is to maximise the value of these assets by actively managing its oil field reservoirs and facilities and driving sustained improvements in operating efficiencies, as well as meeting all its PNG LNG Project obligations to supply gas and export liquids safely and reliably.

PNG LNG PROJECT

The PNG LNG Project, operated by ExxonMobil PNG Limited, came onstream in the first half of 2014, ahead of schedule and within the revised US$19 billion budget. This followed the completion of construction of key upstream and downstream infrastructure and smooth and relatively trouble-free commissioning, testing and ramp-up to full production.

The Project has transformed Oil Search into a major LNG exporter and has established a long-term legacy cash flow. In addition, it has demonstrated the capacity of the co-venture partners and PNG to deliver a world-class LNG project in a developing country and has created an excellent platform for future LNG developments in PNG.

55 LNG cargoes were lifted during the year, of which 51 LNG cargoes, as well as 23.5 equivalent cargoes of Kutubu Blend (comprising liquids from the LNG project and oil field crude), were sold, with four LNG cargoes in transit at year end. The majority of LNG volumes were sold on the spot market, with strong demand seen from LNG buyers. Sales under the Project's four long-term sales agreements with China Petroleum and Chemical Corporation (Sinopec), Osaka Gas Company Limited, The Tokyo Electric Power Company Inc. and CPC Corporation, Taiwan, commenced towards the end of the year. Together, these customers will purchase more than 95% of the Project's annual LNG output over the next 20 years.

Development drilling activities continued at Hides during 2014. 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 (PWD) well, were drilled. Studies to delineate the Hides gas reserves and distribution using data obtained from the development wells commenced during the year and remain ongoing.

In October, development drilling commenced on the Angore field and the Hides F1 (Hides Deep) development/exploration well. In early 2015, the Hides F1 well was successfully logged and cased in the Toro reservoir as a future producer for the Project, but the exploration target, the Koi-lange interval, was unsuccessful.

In February 2015, the Project achieved financial completion, enabling co-venture distributions of Project cash flows to commence.

Delivery of gas from the Associated Gas (AG) fields and PL 2 Life Extension Project

The delivery of commissioning gas from the Kutubu field to the LNG plant and the Hides Gas Conditioning Plant (HGCP), which commenced in September and December 2013 respectively, continued into the first quarter of 2014. The availability of liquids-rich commissioning gas from Kutubu, prior to first deliveries from the Hides field in April, was a key driver behind the rapid production ramp-up of the LNG plant. In April 2014, Kutubu commenced supplying the Project with gas for export. The delivery of gas from the Gobe Main field to the Project began in August 2014. The Oil Search-operated AG fields (Kutubu, Gobe Main, Moran and Agogo) will supply approximately 20% of the total gas feedstock over the life of the Project.

The PL 2 Life Extension Project, comprising upgrades to the Oil Search-operated liquids export system, which handles liquids associated with the PNG LNG Project, was completed in early 2014. This has extended the operating life of key facilities, including the Kumul Marine Terminal and the export line. Importantly, it has also increased the reliability of Oil Search's PNG operations, which is integral to meeting the Company's PNG LNG obligations.

2014 PRODUCTION SUMMARY[1][2]

YEAR TO 31 DECEMBER	2014	2013	% CHANGE
OIL PRODUCTION	**MMBBLS**	**MMBBLS**	**NET TO OSH**
Kutubu	**3.692**	3.473	6%
Moran	**1.989**	2.041	(3%)
Gobe Main	**0.032**	0.036	(11%)
SE Gobe	**0.127**	0.132	(4%)
SE Mananda	**0.005**	0.018	(71%)
Total PNG Oil	**5.845**	**5.700**	**3%**
PNG LNG Project Liquids	**1.961**	–	N.M.
Hides GTE Liquids[4]	**0.121**	0.119	2%
Total Liquids	**7.926**	**5.818**	**36%**
GAS PRODUCTION	**MMSCF**	**MMSCF**	
PNG LNG Project LNG	**52,199**	**–**	N.M.
Hides GTE Gas Production[4]	**5,675**	**5,513**	3%
Total Gas	**57,874**	**5,513**	**950%**
TOTAL OIL AND GAS PRODUCTION	**MMBOE**	**MMBOE**	
Total Production[3]	**19.274**	**6.737**	**186%**

NOTE:
(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.

2014 PNG LNG PROJECT MILESTONES

MARCH
Commencement of condensate production and export.

APRIL
Supply of export gas from the Kutubu field to the LNG plant commenced.

LNG production commenced from Train 1.

MAY
LNG production commenced from Train 2.

First LNG shipment departed from PNG.

JUNE
Inaugural LNG shipment to TEPCO arrived in Japan.

JULY
Full nameplate operating capacity was reached, only three months after the start of production.

AUGUST
Supply of associated gas from the Gobe Main field commenced.

SEPTEMBER
The 120-day Lenders' Operational Completion Test commenced.

OCTOBER
The Project reached steady-state full operating capacity.

SUSTAIN AND OPTIMISE OUR OIL AND GAS ASSETS

PNG LNG workforce and business development

Demobilisation of development personnel took place through 2014, reflecting the progressive transfer of operatorship of the downstream and upstream infrastructure to the operator, as the Project commenced production. Many personnel have successfully transitioned to alternative formal employment while others have returned to more traditional pursuits. At the end of 2014, Project employees and contractors totalled approximately 3,500, of which 83% were PNG citizens, compared to 14,700 at the end of 2013 and a peak of 21,220 at the end of 2012.

By the end of 2014, the Project operator had provided more than 2.1 million hours of training through more than 13,000 training programmes and spent nearly 11 billion Kina (US$4.3 billion) in-country, including more than 2.7 billion Kina (US$1.0 billion) through landowner companies. Practical assistance was also provided to more than 17,000 entrepreneurs to build the capacity of small and medium enterprises in PNG and more than 650 million Kina (US$250 million) had been invested in community and infrastructure programmes in PNG.

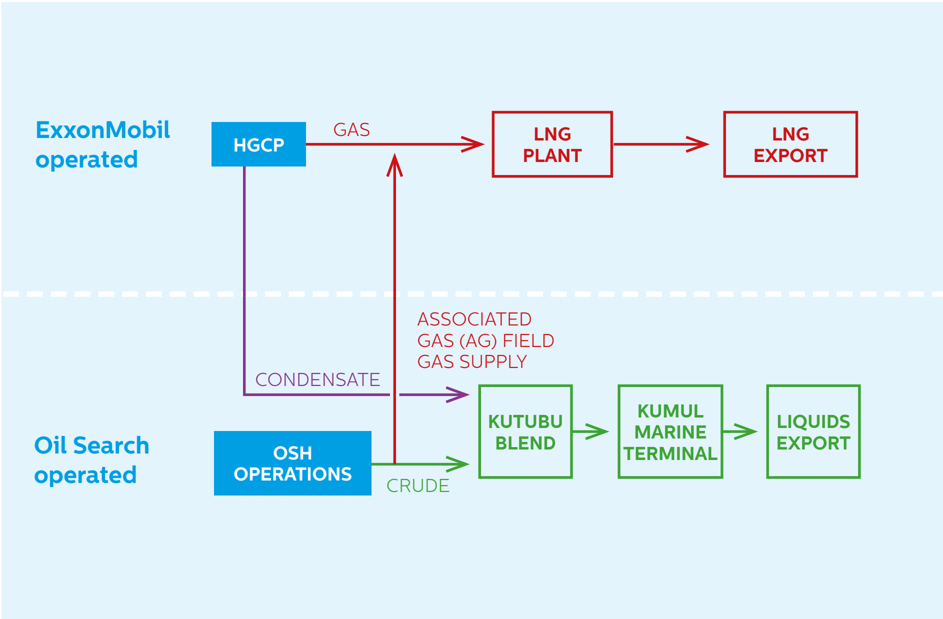
PNG LNG beneficiary identification

During 2014, Oil Search continued to support the PNG Government and the operator in conducting the PNG LNG Clan Vetting Project (CVP). Royalty payments to the Department of Petroleum and Energy have commenced, with the Government to make payments to beneficiaries once the CVP is complete.

Production optimisation

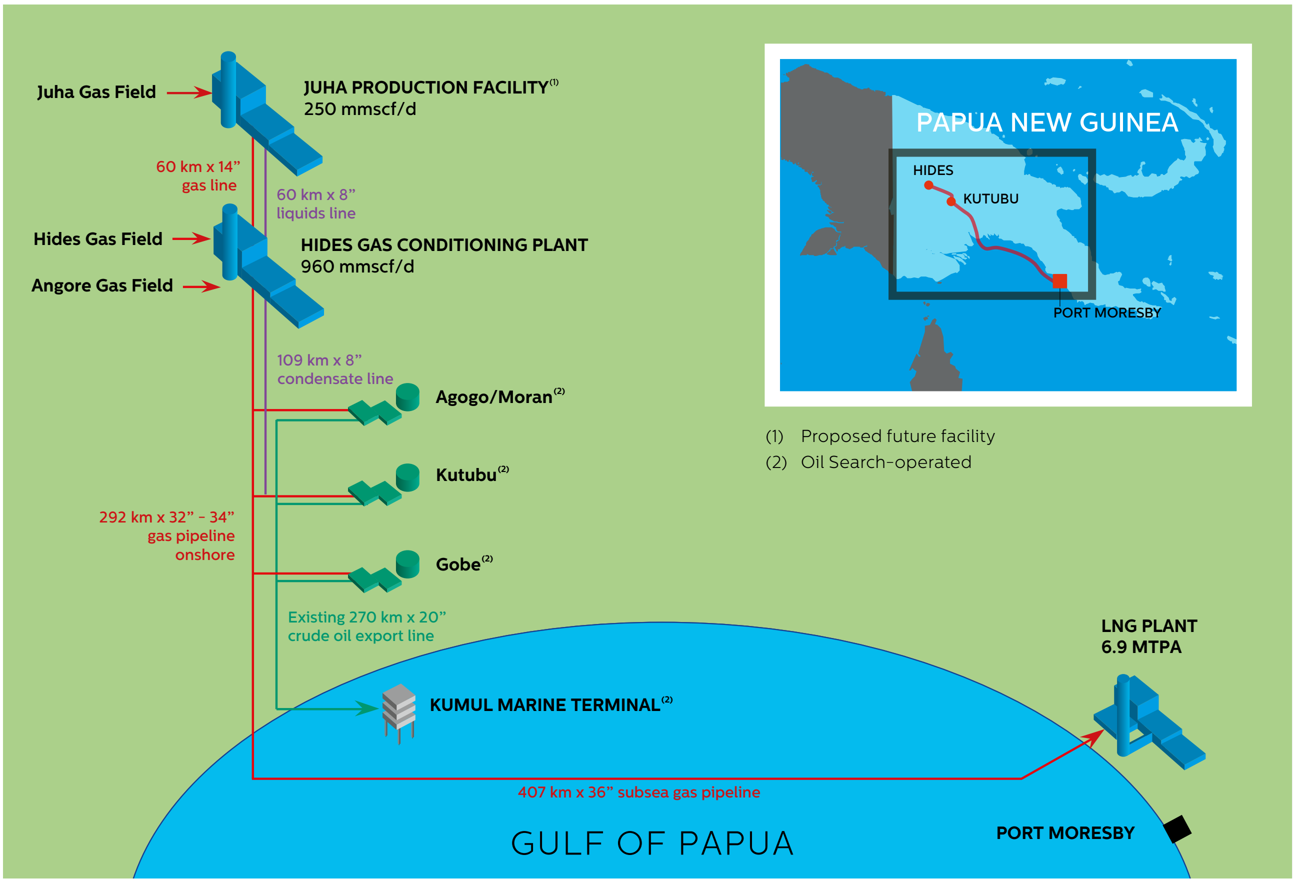
With the achievement of stable operations at the PNG LNG Project, the focus has turned to production optimisation. The operator will continue to assess potential debottlenecking opportunities in 2015. Oil Search believes debottlenecking offers the potential for material incremental value.

Reliability of Oil Search's PNG operations integral to meeting PNG LNG Project obligations



PNG LNG QUICK FACTS

OVERVIEW	
Nameplate capacity	6.9 MTPA, 2 train development
Project budget	US$19 billion
Joint Venture partners	ExxonMobil (33.2%), Oil Search (29.0%), National Petroleum Company of PNG (PNG Govt) (16.8%), Santos (13.5%), Nippon Oil (4.7%), MRDC (PNG Landowners) (2.8%)
Contracts	6.6 MTPA contracted to Asian buyers: – Sinopec (China) 2.0 MTPA – TEPCO (Japan) 1.8 MTPA – Osaka Gas (Japan) 1.5 MTPA – CPC (Taiwan) 1.2 MTPA
PRODUCTION	
Production over Project life	>9 tcf gas and >200 mmbbl condensate
Associated oil fields contribution	Approximately 20%
Cargo loads per year	>90 cargoes
LNG ship size	125,000 – 220,000m^3
DRILLING	
Drilling rigs	2 x 60 metres tall weighing 725 metric tonnes
Wells (field life)	13 production wells (9 Hides + 2 Angore + 2 Juha) + 1 PWD well
Production well depth	Up to 3,000 metres (excluding PWD)

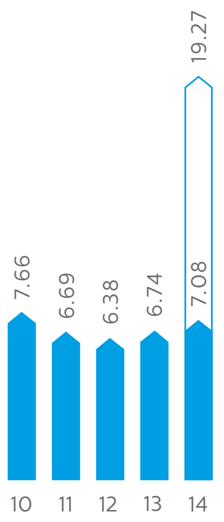


INFRASTRUCTURE	
LNG jetty length	2.4 kilometres
LNG tank capacity	2 x 160,000m^3
HGCP production capacity	960 mmscf/day
Komo Airfield length	3.2 kilometres
Highest altitude of onshore pipeline	2,700 metres above sea level
Onshore pipeline length	292 kilometres
Offshore pipeline length	407 kilometres
WORKFORCE	
Total construction workforce	>55,000
Peak construction workforce	21,220 (4Q 2012), comprising 40% PNG citizens
Construction work hours completed	200 million
SOCIAL ENGAGEMENT DURING CONSTRUCTION	
Landowner company spend	>2.72 billion Kina
In-country spend	Nearly 11 billion Kina
Training provided	>2.17 million hours via >13,000 training programmes
Entrepreneurs assisted	>17,000 via Enterprise Centre to develop business capacity
Community engagements	>4,500 engagements with >165,000 attendees

COMPETITIVE ADVANTAGES

- Conventional LNG project using established technology.
- Substantial certified reserves base with high liquids content, enhancing economics.
- Onshore location.
- Proximity to growing Asian LNG markets.
- Stable fiscal regime with strong government support.
- Aligned joint venture with an operator that is highly respected for its ability to deliver major projects, augmented by Oil Search's 86 years of in-country experience.

SUSTAIN AND OPTIMISE OUR OIL AND GAS ASSETS



TOTAL PRODUCTION
(MMBOE)

PNG LNG Project
PNG oil and Hides GTE

↑186%

ABOVE: Moran 16 development well, PNG Highlands.

OPERATED PNG OIL AND GAS PRODUCTION

In 2014, Oil Search achieved total operated production of 7.08 mmboe, produced at a gross average rate of approximately 33,500 barrels of oil equivalent per day (boepd). This was 5% higher than in 2013 and slightly above initial guidance of 6.4 – 6.9 mmboe, representing the sixth consecutive year in which Oil Search's oil production target has been met or exceeded. It also fulfilled the Company's aim to keep production broadly flat until first production from the PNG LNG Project, an objective that was set in the 2010 Strategic Review.

The strong performance reflected the Company's continued success in optimising production from its mature oil fields in PNG, through new development wells, workovers and reservoir management activities, together with a reduction in facility downtime. Significantly, the production uplift was achieved despite the delivery of gas from the Kutubu and Gobe Main fields to the PNG LNG Project during the year.

The Kutubu and Moran fields remained key producers for Oil Search, contributing more than 90% of the Company's total oil production in 2014.

At Kutubu, recent development wells and increased gas injection in the Usano field resulted in sustained production of more than 5,500 barrels of oil per day (bopd) in 2014 from the field.At Agogo, efforts have focused on optimising production from the multiple reservoirs within the field, augmented by growing production from the Agogo forelimb. In 2014, the third forelimb development well, Agogo 7, successfully encountered oil in the Toro and Digimu reservoirs. Production from this well, and existing Agogo forelimb wells, are expected to continue to contribute strongly to production in 2015.

At Moran, 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.

With limited incremental oil production opportunities remaining at the Gobe Main and SE Gobe fields, efforts in 2014 were focused on optimising oil production from the existing wells, delivering first gas to the PNG LNG Project from Gobe Main in August 2014 and preparing for first gas sales to the Project from SE Gobe, which are expected to commence in the first half of 2015.

The SE Mananda field was shut-in in May 2014, having reached the end of its economic oil field life. Analysis is underway to determine whether the facilities can be preserved for potential future use, should additional development occur in the region.

Gas sales from the Hides Gas-to-Electricity Project to the Porgera Gold Mine remained steady over the year.

PROCESS SAFETY

The Company's process safety goal is to have production facilities that are stable, reliable and available, with the capability to yield higher production, while providing a safe work environment. The Oil Search Process Safety Improvement Plan (PSIP) is designed to help the Company achieve that goal through providing a clearer view of Oil Search's process safety risks and helping ensure appropriate controls are in place.

Implementation of the PSIP is governed by the Process Safety Steering Group (PSSG), which is headed by the Managing Director. The PSSG oversees the work of the Process Safety Operating Committee, a working level group of stakeholder managers who are accountable for PSIP implementation.

86 YEARS OPERATING IN PNG

- Strong stakeholder relationships with government, community and landowners resulting in negligible disruptions to operations since taking over oil field operatorship in 2003.
- Strong corporate reputation. Well developed community benefits processes, key contributor to PNG society and one of the largest health providers in PNG.
- Local content approach and sustainable development embedded throughout operations, with an average of 84% of the PNG workforce comprising PNG nationals over the past five years. Strong business development focus supported by US$341 million paid to local landowner companies over the same period.
- Superior drilling expertise in PNG's geologically complex and challenging terrain. Oil Search has been involved in more than 70% of the wells drilled in PNG since 2003.
- Proven success in optimising production from mature oil fields. 41 development wells drilled since 2003 with a success rate of more than 85%.
- Extensive knowledge and capability of supply chain and infrastructure management in PNG.

FOCUS ITEMS FOR 2015

PNG LNG PROJECT

- Complete drilling the two planned PNG LNG Project development wells on the Angore field.
- Support the Project operator in analysing opportunities for production optimisation and debottlenecking.
- Support the operator and the PNG Government in finalising the Clan Vetting Project.

OPERATED PNG PRODUCTION

- Kutubu – complete ADD 1 workover.
- Moran – complete drilling the Moran 16 development well and NW Moran side track.
- Gobe – commence supply of gas from SE Gobe to the PNG LNG Project.

2015 PRODUCTION OUTLOOK(1)(2)

Oil Search operated (PNG Oil and Gas)(3)	6 – 7 mmboe
PNG LNG Project	
LNG	88 – 91 bcf
Liquids	2.8 – 3.0 mmbbl
Total PNG LNG Project	20 – 21 mmboe
Total Production	**26 – 28 mmboe**

(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 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 and SE Gobe gas sales.

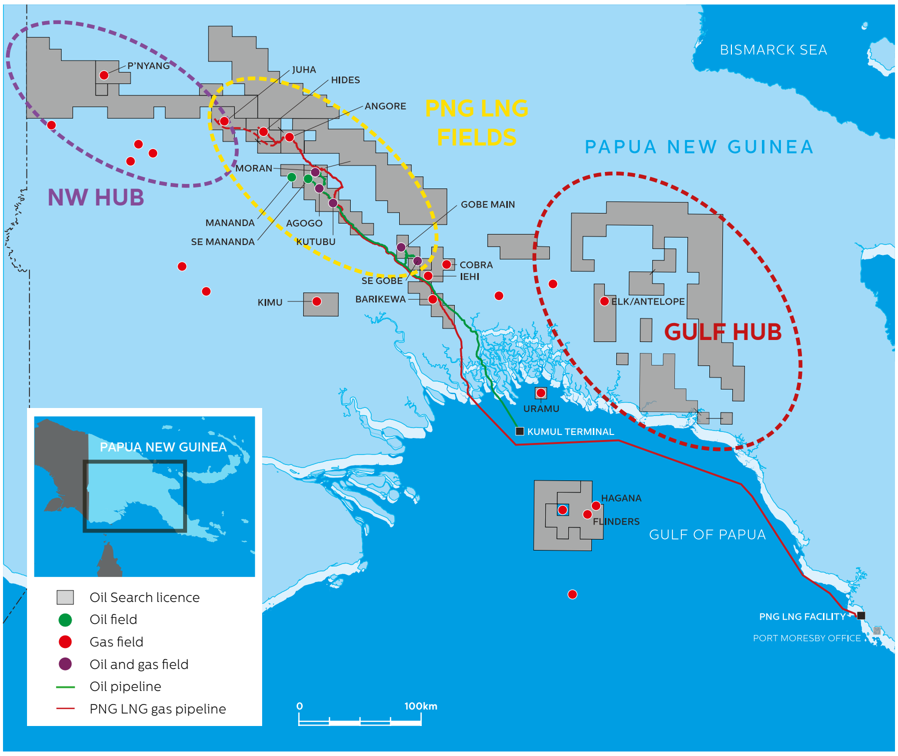
COMMERCIALISE GAS IN PNG

Oil Search believes PNG has sufficient discovered gas resources to underpin at least two, and potentially three, additional LNG trains. With significant interests in the major Highlands and Gulf fields that will supply gas for these trains and in the core PNG LNG infrastructure, Oil Search is in a unique position to help drive this next phase of growth.

SCAN

Photo courtesy of ExxonMobil.

COMMERCIALISE GAS IN PNG



With the successful delivery of the PNG LNG Project in 2014, Oil Search's attention has turned toward the next phase of LNG development in PNG. The 2014 Strategic Review concluded that the Company should focus on high-returning projects from existing assets in PNG over the next five years. This will create significant value for shareholders, the PNG Government and other stakeholders.

ABOVE: Oil Search has interests in all of the key gas hubs in PNG.

STRATEGIC OBJECTIVES

The Company estimates that there is more than 9 tcf of P50 undeveloped gas resources in two key PNG hubs: the North-West Highlands (including the P'nyang field) and the Gulf Province (dominated by the Elk/Antelope fields). This is sufficient to underpin at least two expansion trains and, with modest exploration/appraisal success in the current drilling programme, potentially a third expansion train. In addition, there are many Gulf and Highlands exploration prospects which offer potential resource upside. The development of additional LNG trains in PNG would result in a material increase in production and revenue for Oil Search, its co-venturers and for PNG.

A range of evaluation activities is being undertaken, designed to provide greater resource certainty and underpin value delivery from the PNG gas resources, including evaluation and appraisal programmes on Elk/Antelope and P'nyang. Definition of the resources available to underpin expansion is expected to be well advanced by the second half of 2015, enabling Oil Search and its co-venturers to move forward with activities, including front end engineering and design, for the next phase of LNG development in PNG.

A key focus for Oil Search is to play a lead role in gas aggregation activities, to ensure that the next phase of LNG expansion is delivered in the most timely and capital efficient manner. This will maximise the value to all stakeholders, including shareholders, co-venturers, the PNG Government, landowners and the people of PNG.

Oil Search considers that the use of pre-existing facilities and the co-location of projects will optimise capital efficient investment, schedule acceleration and maximise returns for all stakeholders.

Oil Search intends to provide leadership in the next phase of LNG development, working closely with Government, its co-venturers and communities.

NORTH-WEST HIGHLANDS ACTIVITIES – A STEP TOWARDS EXPANSION

P'nyang gas field

During 2014, the PRL 3 Joint Venture continued studies on the P'nyang gas field in PRL 3 (Oil Search – 38.51%). This work included environmental and social fieldwork studies, as well as the processing and interpretation of seismic data acquired during 2013. Preliminary interpretation of seismic and core data has identified potential material resource upside. As a result, further appraisal drilling is planned on the field, which will help quantify the potential proved (1C) and proved and probable (2C) contingent resource upside.

Preparations for the submission of a petroleum development licence (PDL) application for the P'nyang field continued through the year. This culminated in January 2015, when Exxon Mobil Corporation, as operator of the PNG LNG Project and PRL 3, signed a Memorandum of Understanding (MoU) with the PNG Government, with respect to the expansion of the PNG LNG Project and the supply of electricity and gas to support the Government's plans to improve the capacity and reliability of the country's power supply. The MoU provides for the award of a PDL and associated pipeline licences for the P'nyang field. P'nyang gas will be used to underpin domestic power generation and the expansion of the PNG LNG Project, including potential debottlenecking of the existing trains and a potential third LNG train. The PRL 3 Joint Venture has submitted the PDL application for the field.

The MoU includes a timeline for the development of P'nyang, which is a key growth asset in Oil Search's portfolio. Oil Search and its co-venturers are seeking to sanction its development in the earliest reasonable timeframe, subject to the successful completion of typical activities including appraisal, marketing, financing and development engineering.

PNG LNG Project fields – Hides reserves being delineated

As part of the PNG LNG development, during 2014, eight development wells (two each at Wellpads B, C, D and G) were drilled and completed as producers in the Toro/Digimu reservoirs while a produced water disposal (PWD) well was also drilled and completed as a water injection well. The results of the development wells on Hides have been largely consistent with expectations, with the wells exhibiting good pressure communication and excellent reservoir productivity. In addition, the Wellpad G and PWD wells have helped constrain the north-western and vertical extent of the hydrocarbon column in the field. Data from all the development wells is being used to further delineate the volume and distribution of Hides gas reserves.

In October 2014, Hides F1 (Hides Deep), a dual development/exploration well, was spudded from Wellpad F. The well successfully intersected the producing Toro reservoir, which has been logged and cased as a future producer for the Project, but the exploration target, the Koi-Iange interval, was unsuccessful.

The gas resource evaluation activities planned at P'nyang and Hides will provide greater certainty around the North-West Highlands resource. Given the opportunity to leverage the existing infrastructure and operational platform, Oil Search believes that PNG LNG Project expansion opportunities will be highly value-accretive.

ABOVE: Hides Wellpad G, Hides field, PNG Highlands. Photo courtesy of ExxonMobil.

COMMERCIALISE GAS IN PNG

GULF PROVINCE ACTIVITIES – ENTRY INTO A SECOND MAJOR GAS HUB IN PNG

Elk/Antelope gas discoveries

In March 2014, Oil Search took a major step forward in its growth strategy, with the US$900 million acquisition of a 22.835% gross interest in PRL 15, containing the Elk/Antelope gas discoveries. The acquisition has provided the Company with a significant interest in the largest undeveloped gas resource in PNG, with material exploration upside. The acquisition of the interest in Elk/Antelope is highly complementary to Oil Search's existing assets and operating platform in PNG.

In late March, InterOil Corporation, the operator of PRL 15, announced the sale of part of its interest in PRL 15 to a subsidiary of the Total SA Group. Oil Search believes that the transfer of this interest to Total was subject to various notifications and pre-emptive rights under the governing joint venture operating agreement (JVOA) and commenced a dispute resolution process. The case was heard by the International Court of Arbitration of the International Chamber of Commerce (ICC) in London in late 2014. Shortly after the end of the year, in a complex, non-unanimous judgement, the ICC declined to issue pre-emptive rights over the sale, but ruled that while Total was a party to the Elk/Antelope JVOA, it did not have rights in PRL 15, as the transfer of interests from InterOil to Total in March 2014 was not effective. Recognising that any further arbitration could potentially slow the development and monetisation of this world-class resouce, Oil Search has subsequently worked closely with InterOil and Total to resolve the outstanding transfer and joint venture management issues.

To expedite the development schedule for the benefit of all stakeholders, Oil Search and InterOil have voted to elect Total E&P PNG Limited as operator of PRL 15. The appointment will take effect in accordance with an operator transition plan and the terms of the JVOA.

Despite the arbitration, evaluation of the Elk/Antelope resource continued uninterrupted during 2014. Two appraisal wells were spudded during the year, with Antelope 4 commencing drilling in September to appraise the southern extent of the Antelope field, followed by Antelope 5 in December to appraise the western part of the field. A third appraisal well, Antelope 6 is expected to spud in 2015 (subject to joint venture approval), to assess resource upside on the eastern flank of the field. These wells will help delineate the size and structural extent of the Elk/Antelope gas resource, allowing the Joint Venture to move forward into the development phase. The PRL 15 Joint Venture also continued planning work on an exploration prospect, Antelope South (formerly known as Antelope Deep), for potential drilling in 2015 (subject to joint venture approval).

MAXIMISING THE VALUE OF ADDITIONAL LNG TRAINS IN PNG

The PNG LNG Project has delivered a strong platform for growth, including:

- Major infrastructure in PNG
- Government and landowner support
- Tier 1 LNG customers
- Financier confidence.

To capitalise on this, delivery of additional LNG, through debottlenecking and possible expansion trains in PNG, is a common objective for all stakeholders, including the PNG Government, Oil Search and its co-venturers, landowners and the local communities. A key focus for Oil Search is to ensure that the next phase of LNG expansion is delivered in the most timely and capital efficient manner, to maximise the value to all stakeholders. The Company believes that the utilisation of existing facilities will add value to any new development,

RIGHT: Antelope 5 well, PRL 15, Gulf Province, PNG.

through capital savings and schedule acceleration. Oil Search anticipates that the PNG LNG Project and Elk/Antelope co-venturers will pursue all practical commercial synergies. This is particularly important given the relatively low oil and gas pricing environment prevailing at present.

OIL SEARCH'S ROLE IN FUTURE DEVELOPMENTS

Oil Search played a key role in the successful delivery of the PNG LNG Project. The Company was responsible for constructing key components of the PNG LNG infrastructure and facilities, including the liquids export system, supporting the Project operator with in-country landowner and Government negotiations and will contribute approximately 20% of total gas feedstock to the Project.

Following its entry into PRL 15, the Company is in a unique position, with equity interests in both the key North-West Highlands and Gulf Province gas hubs. Oil Search intends to leverage its superior local knowledge, its oil field operating expertise and experience gained from the PNG LNG Project to help drive the optimal development of future LNG trains in PNG, by promoting a cooperative agenda between the Government, co-venturers and local communities and taking operating roles, where appropriate.

POWER SOLUTIONS

Oil Search believes delivery of reliable, competitively priced power is a political and social priority in PNG and that key industry players must become involved with the PNG Government, to advance sustainable power solutions.

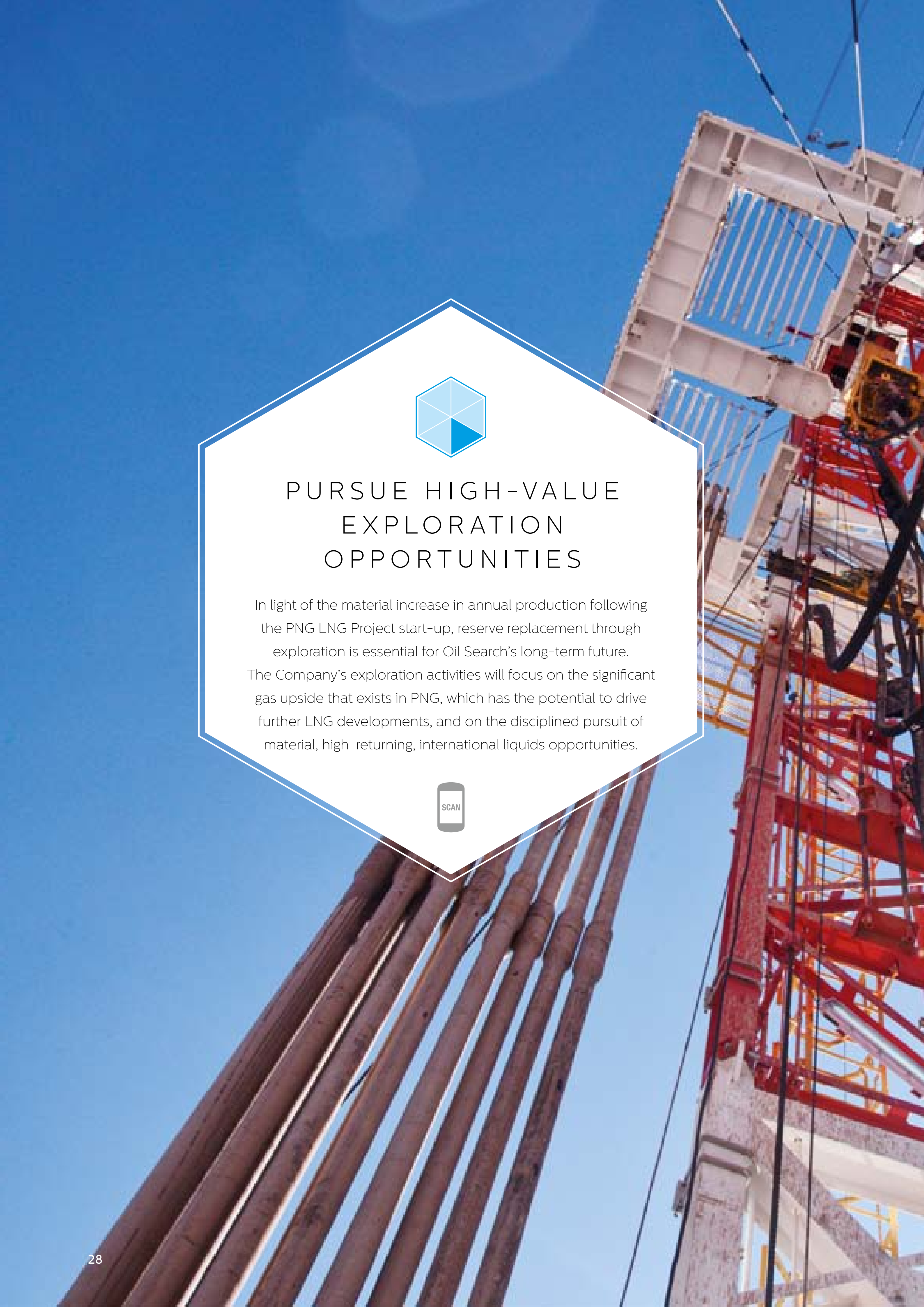
Only 500,000 people in PNG – less than 6% of the population – currently have access to reliable power in their homes and villages. Those who do have power pay among the highest prices in the world.

In January 2015, ExxonMobil PNG Limited, as operator of the PNG LNG Project and PRL 3, signed a Memorandum of Understanding (MoU) with the PNG Government. Underpinned by gas from the P'nyang field, PNG LNG will supply up to 20 mmscf/day of gas for 20 years, to be used for domestic power generation, providing a reliable and clean source of energy to support PNG's urgent power needs. In addition to power generation, the P'nyang field will provide additional gas reserves for PNG LNG Project expansion, including debottlenecking of the existing trains and a potential third LNG train.

Oil Search is working closely with the PNG Government and key power agencies to find further solutions to improve supply and access to power. The Company is presently involved in a long-term, multi-phase power delivery project, the Ramu Power Project, which is aimed at providing reliable, affordable power to homes, businesses, hospitals and schools in the PNG Highlands. In partnership with Government-owned PNG Power Ltd, the Ramu Power Project seeks to bring together the best of public and private enterprise skills, for maximum benefit.

FOCUS ITEMS FOR 2015

- Complete analysis of data from Hides development drilling.
- Obtain a Petroleum Development Licence over the P'nyang field in PRL 3 and commence preparations to drill an appraisal well.
- Complete Elk/Antelope appraisal including drilling and testing of Antelope 4 and 5.
- Subject to joint venture approval, drill and test Antelope 6 and drill the Antelope South exploration prospect.
- Work with co-venturers and the PNG Government to determine the optimal development concept for Elk/Antelope.



PURSUE HIGH-VALUE EXPLORATION OPPORTUNITIES

In light of the material increase in annual production following the PNG LNG Project start-up, reserve replacement through exploration is essential for Oil Search's long-term future. The Company's exploration activities will focus on the significant gas upside that exists in PNG, which has the potential to drive further LNG developments, and on the disciplined pursuit of material, high-returning, international liquids opportunities.

SCAN

PURSUE HIGH-VALUE EXPLORATION OPPORTUNITIES

The start-up of the PNG LNG Project in 2014 has resulted in a material step-up in Oil Search's annual production. The 2014 Strategic Review has established that an active exploration programme will be a key component in reserves replacement and ensuring long-term production sustainability.

STRATEGIC OBJECTIVES

Oil Search has a good exploration track record. Between 2003 and 2013, the Company drilled 59 wells, with a technical success rate of 21% for wildcat drilling and 75% for near-field exploration. The Board has set a target for the Company's exploration activities of 150% resource replacement on a five-year rolling average basis.

The delivery of the PNG LNG Project has provided an extensive gas infrastructure platform in PNG, making gas exploration and appraisal materially more attractive in areas close to this infrastructure. With this backdrop, Oil Search's exploration activities over the next five years will be largely focused on supporting the ongoing commercialisation of gas in PNG, by actively exploring in areas near the Company's existing gas assets, and by refreshing the PNG exploration inventory with high-impact gas opportunities in proven and emerging fairways. The Company believes PNG has material gas upside, with only half of the nation's estimated full resource potential of 10 billion barrels of oil equivalent discovered so far. In the north-west foldbelt, exploration targets in the Company's current leads and prospects inventory contain approximately 11 tcf of unrisked gas (1.5 tcf on a risked basis). Significant data acquisition is required to mature this portfolio.

The large range of potentially high-returning, gas exploration opportunities in Oil Search's existing portfolio in PNG mitigates the immediate need to expand internationally. However, given PNG is primarily a gas province and there are long lead times associated with LNG development, the Company is also seeking to build, in a measured way, a high-value, oil-focused exploration portfolio of material international opportunities, where Oil Search can leverage relationships developed over a decade operating in the Middle East and North African region. The pace of international exploration will depend on the timing and priority of capital commitments in PNG, particularly given the present lower oil price environment.

ABOVE: A team of contractors conduct seismic drilling in the North-West Highlands, PNG.

PNG GAS EXPLORATION

North-West Highlands

As part of the PNG LNG Project drilling programme, the Hides F1 (Hides Deep) well was spudded in October 2014. This well, designed as a dual production/exploration well, reached total depth in March 2015. The well successfully encountered the Toro producing reservoir, but the deeper exploration target, the Koi-lange reservoir, was unsuccessful. Analysis of the well results is underway.

As highlighted on page 25, during 2014, processing and interpretation of seismic over the P'nyang field in PRL 3 took place. Potential for material resource upside has been identified and consequently further appraisal, including drilling, is planned for the field in 2015/2016.

In line with Oil Search's focus on seeking new gas-prospective acreage in close proximity to existing infrastructure, the Company expanded its acreage position in areas adjacent to the P'nyang, Hides and Juha gas fields during the year. A 50% interest was acquired in PPL 464, in co-venture with an ExxonMobil affiliate, and in March 2015, the Company completed the acquisition of a 10% interest in PPL 269 and a 100% interest in PPL 402. A programme of accelerated 2D seismic data acquisition is underway across existing and recently acquired licences, with additional 2D seismic data acquired around the Juha and Hides fields in 2014/15. This data will be used to de-risk gas leads and prospects for potential drilling in 2016/2017.

Gulf Province

In March 2014, Oil Search acquired a 22.835% interest in PRL 15, containing the Elk/Antelope gas fields. In addition to spudding the Antelope 4 and 5 appraisal wells on the Antelope field, as outlined on page 26, planning work took place on a further appraisal well, Antelope 6, and on maturing Antelope South, an exploration prospect south of the Antelope structure. Subject to joint venture approval, wells at both Antelope 6 and Antelope South will be drilled in 2015.

PNG oil exploration

In the PNG Highlands, the Mananda 7 appraisal well was drilled to a total depth of 2,540 metres. Data from the well, which was designed to better delineate the hydrocarbon pool discovered by Mananda 6 in 2013, has suggested the Mananda structure is more complex than originally mapped. Studies on development options for the Mananda discoveries continued during 2014 and remain ongoing.

The Company also drilled two near-field exploration wells in the Usano field during the year. Usano 4, targeting a forelimb structure similar to that seen in Hedinia and Agogo, proved to be water-wet and was subsequently plugged and abandoned. The Usano 5 well, targeting a separate fault block to the main Usano field, encountered the targeted reservoir down-dip from the likely crest and has been suspended for a possible future sidetrack.

LEFT: Southern Highlands Province, PNG.

PURSUE HIGH-VALUE EXPLORATION OPPORTUNITIES

INTERNATIONAL EXPLORATION

Kurdistan Region of Iraq (Taza PSC)

Following the discovery of oil by the Taza 1 exploration well in 2013, the Company has embarked on an appraisal programme to better define the size of the Taza structure, potential oil volumes, quality of the reservoirs and their production flow potential.

During the year, the Taza 2 appraisal well, located 10 kilometres north-west of Taza 1, reached a total depth of 4,200 metres. Logs confirmed the presence of hydrocarbons in the Dhiban, Jeribe, Euphrates and Kirkuk intervals, as seen in Taza 1, and in the deeper Tertiary Jaddala/Aalije and Cretaceous Shiranish Formations. The open-hole section across the Jeribe Formation through to total depth in the Shiranish Formation was enlarged and cased, in preparation for a comprehensive testing programme, which commenced in the first quarter of 2015.

The Taza 3 appraisal well, located six kilometres south-east of Taza 1, was spudded in October. The well has been designed as a deviated well to help better define the structural configuration, fluid contacts, reservoir quality and distribution and nature of fracturing of the carbonate reservoirs in the southern part of the field. Taza 3 is expected to reach total depth in the second quarter of 2015.

In 2014, Oil Search also completed the acquisition of 630 square kilometres of 3D seismic over most of the Taza Production Sharing Contract (PSC). The survey was successfully completed using a wireless recording system with a world-record number of live seismic channels.

The data from this survey will assist in delineating the location of small-scale faults and fracture networks, as well as help to determine the location of potential future wells.

Regional tensions in Iraq increased significantly during 2014. While there were some supply chain-related disruptions to activities during the year, in general the security situation in the Taza area remained stable. Positive discussions were held with the Kurdistan Regional Government regarding a 12-month extension to the Exploration Period of the Taza PSC until early November 2015.

During the year, social and environmental assessments and baseline investigations were performed at the Company's well sites, to better understand and manage potential threats to communities and the environment from Oil Search's operations and to enhance its monitoring programmes. In addition, the Company's appraisal programme was supported by ongoing community development activities focused on sanitation and water supply, power supply and sports and school facility improvements, as well as supporting the Kurdish Government's humanitarian efforts directed to those affected by conflict.

Tunisia (Tajerouine PSC)

During the year, a 399 kilometre 2D seismic survey over the Tajerouine PSC was completed. This seismic is now being interpreted and the results will be used to determine the forward programme for the licence.

Regrettably, in October, an employee of the seismic contractor in Tunisia was fatally injured. Oil Search conducted an

RIGHT: Taza 2 well, Kurdistan.

independent review of the incident which led to immediate changes to how safety and security is managed during the acquisition of seismic.

Yemen (Block 7)

Block 7 in Yemen remained in a state of force majeure throughout 2014. During the year, the Yemeni Government granted a further licence extension until June 2015. Feasibility work was undertaken to assess a possible flow test on one of the wells on the Al Meashar oil discovery. Timing of any operation is dependent on an improvement in the security situation in-country.

New ventures activities

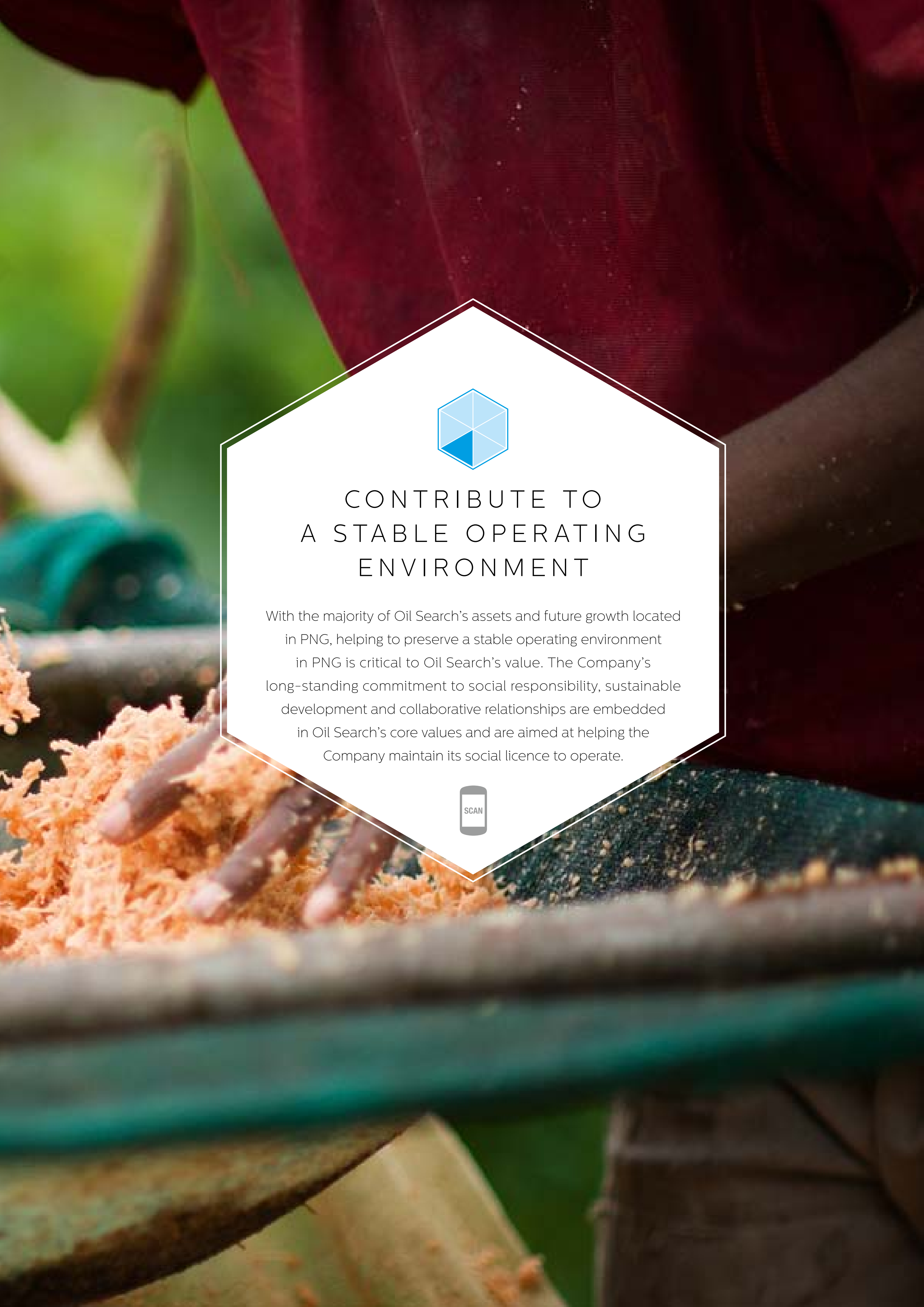
In line with the 2014 Strategic Review recommendations, Oil Search's new ventures focus will be on refreshing its portfolio in PNG, through entry into new licences which are believed to have material gas potential in proximity to existing infrastructure. The recent fall in oil price may result in additional acquisition opportunities becoming available. This will be complemented by the continued evaluation of international expansion opportunities. Any new entries will be disciplined and benchmarked against the Company's high-returning PNG assets and other strict investment screening criteria.

SKILLS TRANSFER FROM PNG TO OTHER COUNTRIES

Oil Search's below and above ground experience in PNG is highly transferable to other regions. This includes the Company's superior fold belt geology expertise and experience working in PNG's challenging mountainous and remote terrain. The Company also has significant experience in operating in developing countries, with expertise in building relationships and working closely with governments and with local communities. Social responsibility and sustainable development are part of Oil Search's DNA and critical to maintaining its social licence to operate, both in PNG and offshore.

FOCUS ITEMS FOR 2015

- Complete seismic and field work in the Company's North-West Highlands exploration licences and mature prospects for potential drilling in 2016/17.
- Complete drilling and testing of the Antelope 6 appraisal well and Antelope South exploration well, subject to PRL 15 joint venture approval.
- Complete drilling and testing of the Taza 2 and Taza 3 appraisal wells in Kurdistan.
- Commence drilling Taza 4, which will be located on the south-west flank of the structure where better developed fracturing is expected.
- Complete interpretation of the 2014 Tunisian seismic and define a forward plan.
- Continue to build new ventures capabilities and evaluate opportunities.
- Maintain positive community relationships through ongoing engagement, community development activities and maximising local employment.



CONTRIBUTE TO A STABLE OPERATING ENVIRONMENT

With the majority of Oil Search's assets and future growth located in PNG, helping to preserve a stable operating environment in PNG is critical to Oil Search's value. The Company's long-standing commitment to social responsibility, sustainable development and collaborative relationships are embedded in Oil Search's core values and are aimed at helping the Company maintain its social licence to operate.

SCAN

CONTRIBUTE TO A STABLE OPERATING ENVIRONMENT

Oil Search is committed to working collaboratively with the PNG Government and local communities to promote sustainable development and ensure that benefits flowing from PNG's oil and gas sector are delivered to the people of PNG. The importance of social responsibility for the Company's ongoing generation of top quartile returns for shareholders has been formally recognised in Oil Search's renewed vision.

ABOVE: The Oil Search Health Foundation is a non-profit organisation that builds the PNG Government's capacity to deliver safe and effective healthcare in PNG.

STRATEGIC SUSTAINABLE DEVELOPMENT IN PNG

The 2014 Strategic Review has highlighted that the majority of the Company's growth over the next five to seven years will come from PNG and therefore managing in-country issues is crucial.

The Company's sustainable development approach in PNG involves a variety of activities, targeted towards Oil Search's key development priorities, including public health, food security and agriculture, women's empowerment, education, access to clean water and sanitation. In particular, Oil Search has made a significant contribution to the health outcomes of staff and communities over the past decade and is the major provider of healthcare across its areas of operation in PNG.

During 2014, the Oil Search Health Foundation (OSHF) continued to work with national and provincial authorities to deliver public health interventions in the fields of HIV, malaria and maternal and child health. Good progress was also made on various collaborative projects organised by the OSHF, such as the Reproductive Health Training Unit and the PNG Industry Malaria Initiative. Other Oil Search sustainable development priorities in 2014 included strengthening agricultural capability, particularly among women, and investigating agricultural enterprise opportunities. A pig farming project was successfully completed in partnership with Business for Millennium Development, which aims to provide income-earning opportunities for people in rural areas.

Collaboration, particularly through public-private partnerships (PPPs), is key to Oil Search's ability to meet its sustainable development objectives successfully. Oil Search and the OSHF recognise the value of PPPs and have partnered with PNG's national and provincial governments, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Australian Government, various non-governmental organisations and other corporates to deliver core services that will raise the living standards in PNG.

In 2015, Oil Search will work towards a more holistic approach to sustainable development in PNG. As part of this process, the OSHF will develop a refined strategic direction, a new leadership framework and revised performance metrics.

Although on a much smaller scale, Oil Search's sustainable development approach in the Kurdistan Region of Iraq, Yemen and Tunisia is managed using a similar approach to PNG, tailored to the local context.

2014 HIGHLIGHTS

↓20%

TOTAL RECORDABLE INJURY RATE (TRIR) DOWN FROM 2.47 IN 2013 TO 1.97 IN 2014

US$42m

SPENT ON INFRASTRUCTURE PROJECTS AS PART OF THE PNG GOVERNMENT'S INFRASTRUCTURE TAX CREDIT SCHEME

3 TIER 1
4 TIER 2

PROCESS SAFETY INCIDENTS IN 2014

2014 EITI CANDIDATE

PNG BECAME AN EITI CANDIDATE COUNTRY IN 2014

US$246m

ROYALTIES, TAXES, DIVIDENDS AND LEVIES PAID BY OIL SEARCH TO THE PNG, KURDISH, YEMENI AND TUNISIAN GOVERNMENTS IN 2014

2ND YEAR RUNNING

OIL SEARCH INCLUDED IN THE DOW JONES SUSTAINABILITY INDEX AUSTRALIA

US$8m

SPENT ON SUSTAINABLE DEVELOPMENT INITIATIVES

830 kTCO_2-e

GREENHOUSE GAS TARGET ON TRACK – TOTAL GREENHOUSE GAS (GHG) EMISSIONS REDUCED

INFRASTRUCTURE DELIVERY

Oil Search manages more than US$200 million of infrastructure projects on behalf of the PNG Government, largely through the Infrastructure Tax Credit Scheme. This provides a model whereby Government-nominated projects are funded by the Government and project-managed by Oil Search with the goal of ensuring projects are delivered in a transparent and timely manner.

In 2014, three projects were completed in the Southern Highlands Province, supporting the delivery of education and judicial services. In Port Moresby, work continued on the Lloyd Robson Oval and Marea Haus. The stadium is expected to be operational before the 2016 Rugby League season, while Marea Haus should be completed by late 2015 and ready for occupancy by the Department of the Prime Minister and National Executive Council in 2016.

CONTRIBUTE TO A STABLE OPERATING ENVIRONMENT

WORKING WITH THE PNG GOVERNMENT

Oil Search proactively seeks opportunities to facilitate and play a lead role in augmenting Government capacity to deliver services critical to maintaining a stable operating environment.

During 2014, the Company provided input into the potential structure and governance framework of two new regulators, the Conservation and Environment Protection Authority (CEPA) and the National Petroleum Authority. An Act to transform the Department of Environment and Conservation into CEPA was passed in 2014.

Oil Search proactively contributed to the PNG Government's current taxation review, lodging a number of detailed submissions on various papers to the Taxation Review Committee during the year. The Review, which covers all aspects of PNG's tax regime, is scheduled for completion in 2015.

The Company also worked with seven local level governments to draft area development plans, to help improve the planning, transparency and delivery of local government development activities. This work is aimed at encouraging the delivery of oil and gas revenues for tangible development opportunities accessible by local communities. In March 2014, the Extractive Industries Transparency Initiative (EITI) Board admitted PNG as an EITI Candidate Country. Oil Search continued to support the PNG Government's efforts to make PNG an EITI Compliant Country, including hosting a workshop for the PNG multi-stakeholder group members, coordinated by the National Secretariat.

OPERATING WITH INTEGRITY

In 2014, a comprehensive review of Oil Search's exposure to human rights risks and impacts was conducted. The review identified community relations, labour rights, security and land access/resettlement as the four key areas of human rights risks in countries where the Company operates. Planning is now underway to identify further ways to mitigate these risks.

During the year, two reports were made to Oil Search's confidential Whistleblower Hotline, both of which are still under investigation. The Company also dealt with 16 breaches of the Oil Search Code of Conduct. These included completion of an ongoing investigation into an instance of corruption in 2012, seven potential breaches of Oil Search's Share Trading Policy and eight minor breaches of the Code of Conduct. Disciplinary action for seven of these minor breaches was handled internally, while one is still under investigation.

Compulsory training on the Company's Corruption Prevention Framework was rolled out to all Oil Search employees and contractors during 2014, with targeted completion in 2015. The Framework clearly sets out Oil Search's anti-corruption regulations and compliance requirements in jurisdictions where Oil Search operates. Importantly, it supports the Company's commitment to operating with integrity, conducting business ethically at all times and combatting corruption. Employees will be required to complete the training every two years.

ABOVE: A member of Oil Search's environmental team taking a water sample, Usano.

As part of the Company's ongoing commitment to good governance and increasing transparency, Oil Search also worked with local landowner companies (Lancos) to improve their compliance with regulatory and Oil Search requirements. This included: meeting with Lancos to discuss non-compliance points and instigating a management plan, holding progress meetings to assess and track changes, running a training programme focused on good governance practice and organising a team from PNG's Internal Revenue Commission to meet Lancos and conduct a training session on tax governance and regulatory compliance. This resulted in performance improving in 2014 and will remain a focus in 2015.

CONTINUAL IMPROVEMENTS TO HEALTH, SAFETY, ENVIRONMENT AND SECURITY (HSES) MANAGEMENT

Implementation of the multi-year Process Safety Improvement Plan (PSIP) progressed in 2014. The PSIP is the first phase in a longer-term programme designed to create sustainable changes within the Company's PNG operating environment and increased awareness and focus on the prevention of major accidents. A thorough inspection of the Central Processing Facility and Gobe Processing Facility, as well as analysis of the hazards that exist in these facilities, was performed and a number of prevention and mitigation barriers put in place. This work will be repeated at Oil Search's other facilities in 2015.

Regrettably, in October, an employee of a seismic contractor working in Tunisia was fatally injured. Oil Search conducted an investigation into the incident which was completed in December. A number of procedural and engineering control changes have been implemented and lessons learnt broadcast to the international seismic community.

In 2014, Oil Search reported a Total Recordable Injury Rate of 1.97 per million hours worked, down from 2.47 per million hours in 2013. The Company's Lost Time Injury Rate also declined from 0.59 per million hours in 2013 to 0.49 in 2014. The improvement was largely due to a continued focus on high-risk exposures and effective implementation of corrective actions in our core PNG operations.

During the year, a baseline study into transport practices in PNG and Kurdistan was conducted, which will inform improvements in motor vehicle safety in 2015.

Oil Search's Environmental Management System was audited in 2014 under the ISO14001 recertification process. In 2014, only one new minor non-conformance was issued.

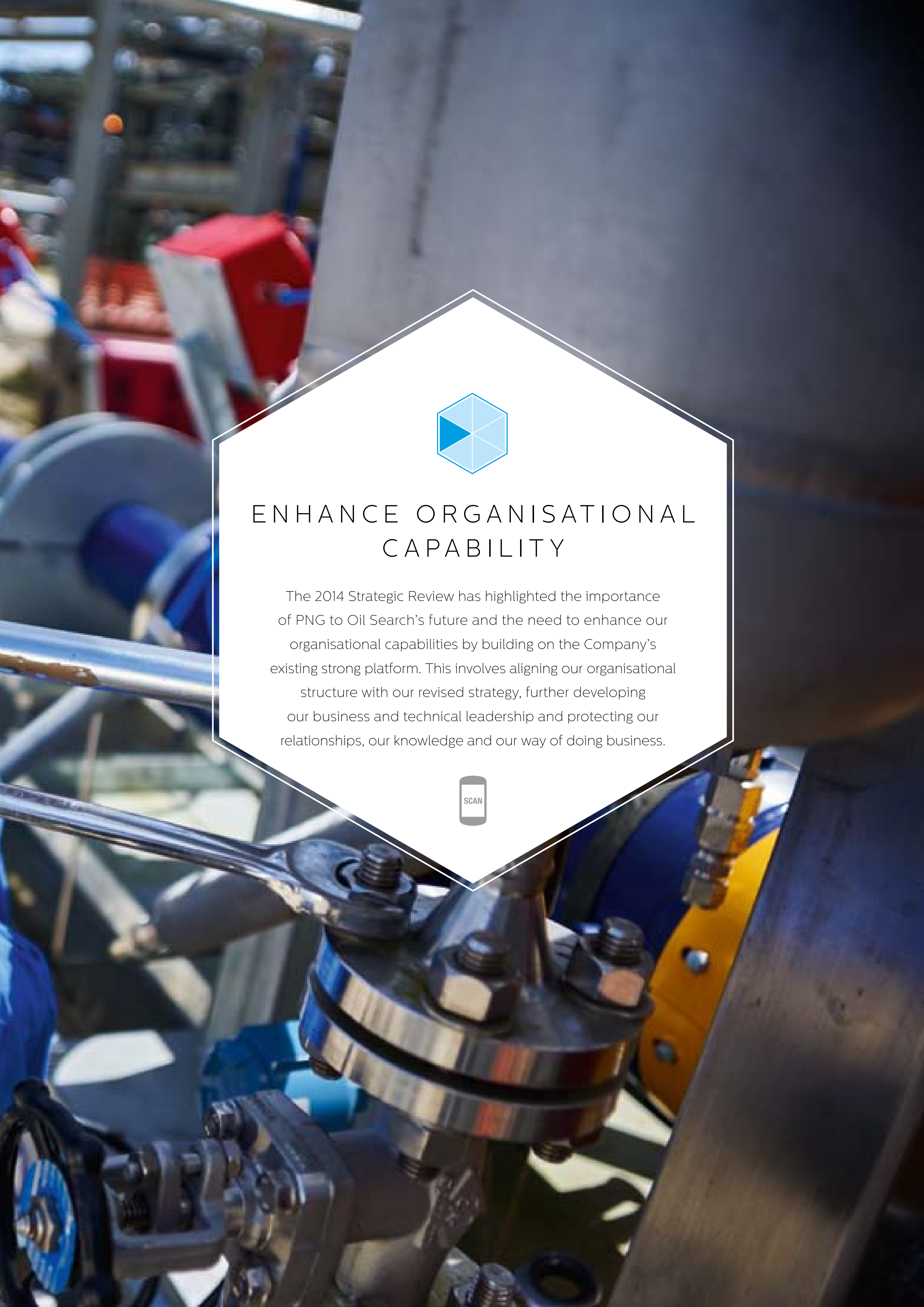
Following the delivery of waste improvement projects last year, in 2014 the Company focused on raising waste management awareness and embedding good waste management practices into day-to-day activities. Oil Search also continued to build local environmental monitoring capabilities with the introduction of a new database, reporting tool and wet lab as well as updated quality assurance processes, all supported by a comprehensive training programme. In 2014, total greenhouse gas (GHG) emissions decreased by 8% to 830 $kTCO_2$-e, primarily due to a reduction in flaring. The Company remains on track to meet its target of reducing its emissions intensity across existing operations by 12% by 2016, against a 2009 baseline.

FOCUS ITEMS FOR 2015

- Develop post-2015 Social Responsibility Strategy.
- Strengthen key PNG oil and gas industry sector relationships and capability.
- Deliver targeted PNG power and infrastructure projects.
- Develop PNG sustainable development strategy.
- Develop post-2016 greenhouse emissions abatement strategy.
- Finalise sustainable supply chain strategy.
- Implement remediation activities for human rights risks identified in 2014.

For more information on Oil Search's social responsibility approach and 2014 performance, see the Social Responsibility section of Oil Search's website.


Oil Search



ENHANCE ORGANISATIONAL CAPABILITY

The 2014 Strategic Review has highlighted the importance of PNG to Oil Search's future and the need to enhance our organisational capabilities by building on the Company's existing strong platform. This involves aligning our organisational structure with our revised strategy, further developing our business and technical leadership and protecting our relationships, our knowledge and our way of doing business.

SCAN

ENHANCE ORGANISATIONAL CAPABILITY

The Strategic Review has set the roadmap for the next phase of growth for Oil Search. It is now timely to reassess and enhance the Company's organisational capabilities to ensure that we can deliver on our strategic commitments.

ABOVE: Regular performance management meetings ensure employees' work remains in line with Company objectives.

STRATEGIC OBJECTIVES

A key outcome of the Strategic Review has been a renewed and greater commitment to PNG. This is where Oil Search has a significant competitive advantage, unrivalled expertise and an unprecedented platform for future growth. A number of organisational changes to support this aim have started to be implemented. These include expanding the Company's management team in Port Moresby to help broaden Oil Search's relationships with key PNG stakeholders, build management depth and leadership in-country and enhance the Company's capacity to address key challenges and issues that arise locally.

Changes to the leadership team include the creation of two additional executive roles. The Executive General Manager (EGM), PNG Business Unit will be based in our head office in Port Moresby and will be responsible for managing the Company's operated and non-operated producing assets in PNG and for broadening the PNG relationship base. The EGM will work closely with our existing PNG-based EGM, External and Government Affairs and Sustainability.

The new EGM, Technical Services role, based in Sydney, will have responsibility for developing and implementing excellence in core technical functions, health, safety, environment and security practices and business systems.

In addition to the EGM, PNG Business Unit, a number of senior executives with experience in gas, commercial, operations and development activities will progressively be based in the Port Moresby head office. This move is aimed at strengthening the ability of Oil Search to deliver the Company's long-term strategy, while enhancing skill development and succession planning.

To further augment executive succession planning, the Board has appointed an external consultant to help define the competencies required for future executive and Company leadership roles and to undertake a thorough review of the EGM team, including a skills gap analysis, to assist in their development. This long-term programme commenced in early 2015.

Our Way

'Our Way' addresses key aspects of Oil Search's leadership, governance, operating model and capabilities.

BELOW: Participants in the 2014 Oil Search Graduate Programme.

New operating model and management system

During 2014, the Company commenced the adoption of a new operating model, consisting of four key Business Units – PNG, Gas Development, Exploration and Corporate – with Functions such as Finance, Production, Drilling and Human Resources, supplying specialist resources to support the Business Units.

The Strategic Review has also highlighted that, as Oil Search grows, the Company needs to enhance its management system infrastructure to ensure business excellence and consistency. In 2015, the Company will progressively upgrade and deploy a management system, 'Our Way', to ensure key aspects of Oil Search's leadership, governance, operating model, standards, key processes and capabilities are managed in a transparent and consistent manner.

Key achievements in 2014

During 2014, the following key organisational and people activities took place:

- The Oil Search operating model and Business Unit/Functional Structure was defined.
- The Company's Vision and Values were refreshed.
- Key elements and standards within the Enterprise Management System were designed.
- The Oil Search leadership framework was launched and the required behaviours were integrated into our people processes, including recruitment and performance management.
- The Accelerated Development Programme for emerging and established leaders was launched.
- The three-year Oil Search Graduate Programme, building capability from the ground up, re-commenced in PNG.
- A Diversity and Inclusion Strategy, with a focus on driving the representation of women and PNG citizens in leadership, other critical roles and succession plans, was implemented.
- A Company-wide fundraising campaign to end violence against women raised money for a safe house in PNG.

Building capability

The Strategic Review highlighted the importance of building and institutionalising organisation capability to deliver future growth. This involves building on our strengths and leveraging our skills and experience, our relationships and processes and our technology and information in areas like government relations, community affairs, project delivery and gas commercialisation. Capability in these areas will be further strengthened in 2015 through the acquisition and development of key skills, a Project Delivery Framework, further development of the Enterprise Management System and a knowledge management system.

A key Oil Search strategy is to build capability through the recruitment, development and retention of PNG citizen employees. This includes entry-level apprentice and graduate roles, vacation employment and internships.

A revised Graduate Programme was launched in 2014 offering new graduates a blend of on-the-job and workshop-based development in personal leadership and technical disciplines. Oil Search has been employing graduates for over a decade and has a retention rate, including re-hires, of more than 70%. In 2014, 15 graduates were hired across six areas – Exploration, Engineering, Chemistry, Finance, Community Affairs and Business Development and Safety and Risk.

For more experienced employees, an Accelerated Development Programme was implemented in 2014. 11 emerging and established leaders were identified for intensive development. This programme, which includes experience-based learning, formal workshops and executive mentoring, is a catalyst for developing leadership capability.

ENHANCE ORGANISATIONAL CAPABILITY

Diversity and Inclusion Strategy

The Oil Search Diversity and Inclusion Strategy is our plan to improve the representation, development and retention of diverse groups of employees who represent the communities in which we operate.

The strategy includes:

- Ensuring Oil Search has a diverse and skilled workforce.
- Creating a workplace culture that displays fair practices and behaviours.
- Improving equal employment access and participation.

To ensure the strategy has traction throughout the business, targets and plans were developed at Business Unit level to ensure line management had input into the diversity and inclusion initiatives. A diversity council, which meets quarterly, was also formed, to report and discuss progress against diversity and inclusion targets.

Progress during 2014 against the Diversity targets is summarised below:

DIVERSITY AND INCLUSION GOAL	PROGRESS IN 2014
GOAL 1: Increase the percentage of females in leadership roles by 2017.	The percentage of females in senior management, management and technical specialist roles increased slightly during 2014.
GOAL 2: Increase the percentage of PNG citizens in leadership roles by 2017.	There was a small decline in the percentage of leadership roles held by PNG citizens during 2014 due to organisational growth outside PNG as well as turnover in PNG following the successful completion of the construction phase of the PNG LNG Project. The alignment of staffing levels to revised work programmes is anticipated to provide an opportunity to increase the percentage of PNG citizens in leadership roles during 2015, subject to the availability of suitably qualified people.
GOAL 3: Increase percentage of female graduates and apprentices by 2017.	The percentage of female graduates and apprentices remained constant in 2014. The recruitment of 10 female apprentices and graduates for the 2015 intake will result in progress towards our targets.
GOAL 4: Increase representation of females and PNG citizens in succession plans for leadership and management roles.	A significant succession planning process was undertaken during 2014. This will form the benchmark against which future progress will be measured.
GOAL 5: Implement diversity and inclusiveness training as part of the Oil Search leadership development programmes.	The Oil Search Accelerated Development Programme includes formal assessment and training to develop insight and active commitment around cultural awareness at Oil Search. Similarly, the Graduate Programme provides introductory awareness training, translating into graduate action plans that build lasting behaviours.

BUILDING PNG'S FUTURE

Ruth Hape is a Production apprentice at the Central Processing Facility (CPF) in PNG. She joined Oil Search in 2014. Along with her work as an apprentice, Ruth is an experienced guide, regularly sharing her knowledge of the CPF and insight with visitors to the facility.

A number of milestone objectives have been developed for 2015 which originate from the Oil Search Diversity and Inclusion Strategy and which support the achievement of the longer-term goals noted in the table above. These are:

1. Implement mechanisms to track progression of diversity in candidates through recruitment and selection processes and include the results in management reports.
2. Implement an Accelerated Development Programme incorporating the assessment and development of female and PNG citizen leaders.
3. Develop a tailored leadership curriculum for supervisors and middle managers to enable development of staff in the leadership pipeline, with an emphasis on capacity-building in operational areas.
4. Build targeted relationships with secondary and tertiary institutions in the countries in which we operate to encourage participation of diverse candidates in our apprentice, trainee and graduate programmes.
5. Implement initiatives that promote ending violence against women.

Remuneration

A major review of the Company's remuneration strategy was undertaken in 2013/2014, to align remuneration and pay mix at all levels of the organisation with appropriate market benchmarks, consistent with the Company's remuneration philosophy. During 2014, a Board sub-committee worked with management to assess the effectiveness of the incentive scorecard in aligning corporate objectives with shareholder interests. A new incentive scorecard, which appropriately reflects the priorities and objectives of the revised Strategy, has been designed for application across the business.

Business improvement review

In response to the substantial fall in oil prices, Oil Search has re-prioritised its 2015 work programmes, to largely focus on the Company's high-returning core LNG growth projects in PNG. A Business Improvement project will be implemented in 2015, focused on improving efficiencies and optimising the Company's organisation and staffing levels to align with these revised work programmes. This will ensure the organisation is correctly sized and structured, with an optimal cost structure and the right systems and processes to deliver the Company's strategy and sustain these efficiency improvements in the long-term.

FOCUS ITEMS FOR 2015

- Undertake a business improvement review which will be a measured approach to recalibrating cost and organisation structures, improving productivity.
- Finalise and complete changes to the composition and roles of members of the leadership team.
- Relocate senior management positions to Oil Search's head office in Port Moresby.
- Develop and broaden relationships across Oil Search's management team with key stakeholders in PNG.
- External consultant to progress the review of the leadership team, including completion of a skills gap analysis.
- Complete the restructure of the organisation into key Business Units supported by Functions.
- Complete the integration of the 'Our Way' management system into the organisation.
- Continue to invest in the development of our leadership pipeline.
- Refresh and improve our leadership programmes.
- Continue to pursue our diversity and inclusion goals, to ensure that our workforce is capable and that our culture remains strong and resilient.
- Strengthen and sustain key capabilities through a knowledge management system.

OPTIMISE CAPITAL MANAGEMENT

Strong investment and financial management discipline is essential to ensure the Company's priority LNG growth projects can be fully funded, financial flexibility is maintained and profits can be shared with shareholders by way of dividends. Long-term cash flows from the PNG LNG Project will continue to strengthen the Company's financial position in the coming years.

SCAN

OPTIMISE CAPITAL MANAGEMENT

2014 represented a landmark year for Oil Search, with a record financial performance reflecting the successful delivery of the transformational PNG LNG Project. The Strategic Review has reaffirmed an ongoing focus on prudent management of the Company's financial position and liquidity to ensure current commitments and future growth opportunities can be funded, while accommodating dividend distributions in accordance with the Company's new dividend policy.

FINANCIAL PERFORMANCE

Oil Search reported a statutory net profit of US$353.2 million in 2014, 72% higher than in 2013. Excluding impairments, core profit was US$482.8 million, up 135% compared to the previous year. Revenue more than doubled, from US$766.3 million to US$1,610.4 million, driven by a near tripling of production to 19.27 mmboe, following the start-up of the PNG LNG Project, partly offset by a lower average realised oil and condensate price of US$97.79/bbl, compared to US$110.57/bbl in 2013, reflecting the global downturn in oil prices. The average realised price for LNG and gas was US$13.94/mmBtu.

Production costs on a per barrel basis declined from US$18.77/boe in 2013 to US$12.21/boe in 2014, reflecting lower PNG LNG Project unit production costs relative to average oil field production costs. Depreciation and amortisation unit costs increased from US$7.45/boe in 2013 to US$13.11/boe in 2014, due to the commencement of depreciation of the PNG LNG Project assets.

US$109.1 million of exploration and evaluation costs were expensed in 2014, similar to the previous year. Approximately 80% related to PNG activities while the remainder was associated with exploration activities in the Middle East and North Africa.

Following a comprehensive review of asset carrying values, a pre-tax impairment charge of US$180.6 million (US$129.6 million after tax) was recognised in 2014, largely related to the impact of lower oil prices on the value of exploration and evaluation assets.

The 2014 effective tax rate on statutory profit was 39.6%, compared to the 2013 rate of 46%. The lower tax rate reflected the commencement of LNG earnings, which are taxed at 30%, compared to 50% for oil income, 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 on core profit was 36.9%.

CASH FLOWS

Net operating cash flow increased materially, from US$366.8 million in 2013 to US$992.3 million in 2014. Net investing cash outflow totalled US$1,740.4 million, of which US$1,189.7 million was spent on exploration and evaluation activities (including US$918.3 million on the acquisition of an interest in PRL 15 in PNG), US$422.7 million on the PNG LNG Project and US$101.9 million on PNG production activities.

CAPITAL MANAGEMENT AND LIQUIDITY

At year end, Oil Search had cash of US$960.2 million and debt of US$4,412.2 million, comprising US$4,262.2 million drawn down from the PNG LNG Project finance facility and US$150 million from the Company's corporate facilities. The Company held total liquidity of US$1.56 billion. US$803.8 million of the cash balance as at 31 December 2014 was escrowed in PNG LNG Project accounts. This was released in February 2015, following the achievement of PNG LNG Project financial completion.

DIVIDENDS

As part of the 2014 Strategic Review, Oil Search's dividend policy was reassessed. The review process included extensive scenario analysis to ensure that, while the Company is committed to sharing profits with its shareholders, the payment of dividends will not impact on Oil Search's ability to fund its high-returning LNG growth opportunities, even in a low oil price environment. The Board approved the adoption of a proportional dividend policy, commencing with the 2014 final dividend, where Oil Search will distribute between 35% and 50% of core profit by way of dividends. The Board believes this policy, where dividend payments are aligned with the Company's ongoing profitability, is appropriate in the current volatile oil price environment and provides the right balance between capital return and reinvestment.

In line with this new policy, a 2014 final unfranked dividend of eight US cents per share and an unfranked four US cents per share special dividend were declared, taking the total unfranked dividend for 2014, including the two cent interim dividend, to 14 US cents per share. This was more than three times the 2013 dividend of four US cents per share and represented a dividend payout ratio of 44% of core profit. Given the Company's strong balance sheet, the dividend reinvestment plan was suspended for the 2014 final dividend.

CASH FLOW PRIORITIES

The Strategic Review has established a new hierarchy of cash flow priorities:

AVAILABLE CASH FLOWS
After scheduled debt servicing, expenditure required to sustain business operations and commitments

DIVIDENDS
Payment in accordance with new dividend policy

GROWTH CAPITAL INVESTMENT I
LNG development and expansion in PNG

GROWTH CAPITAL INVESTMENT II
Expansion, New Ventures, M&A

SURPLUS CAPITAL
Return to shareholders via share buy-backs, special dividends

RESPONSE TO OIL PRICE ENVIRONMENT AND OUTLOOK FOR 2015

In response to the rapid and steep fall in oil prices in the second half of 2014, Oil Search has reassessed its 2015 planned capital and operating expenditures. The Company's key priority activities, which will be fully supported, are its high-returning LNG growth opportunities and programmes that promote a stable operating environment in PNG. In addition, value-accretive production optimisation activities and work on reliability, integrity and process surface initiatives will continue. Discretionary activities in areas where there is no strong business case in a low oil price environment have been deferred or delayed and the Company is actively engaging with its contractors to further reduce costs. The recalibration of Oil Search's cost base and discretionary capital spend, in addition to the long-term cash flows from the PNG LNG Project, will ensure Oil Search has sufficient financial capacity to pursue its growth opportunities.

	2015 SPENDING CUTS
PNG oil and gas production costs	~20%
Exploration and evaluation spend	~25%
Production capital	~20%
Corporate capital	~40%

2014 RESERVES AND RESOURCES

At the end of 2014, Oil Search's total proved and probable oil and condensate reserves and contingent resources were 173.6 million barrels and total proved and probable gas reserves and contingent gas resources were 5.8 tcf. Key changes during 2014 included the booking of 1.2 tcf of contingent gas resources following the acquisition of an interest in the Elk/Antelope fields in PRL 15 and a 10.7 mmbbl upgrade in Kutubu and Moran proved and probable reserves.

The increase in oil and condensate reserves was pleasing, given the maturity of the Company's PNG oil fields. Over the past three years, nearly 50 mmbbl gross have been added to 1P Expected Ultimate Recoveries (EUR) from the key PNG producing oil fields, reflecting the ongoing success of development drilling combined with active field management and extension of field life as a consequence of the PNG LNG Project.

Based on 2014 production of 19.3 million barrels of oil equivalent (mmboe), Oil Search has a proved (1P) reserves life of 19 years and a proved and probable (2P) reserves life of 28 years.

OIL AND GAS RESERVES

At 31 December 2014, the Company's 1P reserves were 66 mmbbl of oil and condensate and 1,543.3 bcf of gas. 2P reserves were 95.9 mmbbl of oil and condensate and 2,282.0 bcf of gas.

The key changes in 1P and 2P reserves since 31 December 2013, which are summarised in Tables 1 and 2, are as follows:

- Reserves at 31 December 2014 have been adjusted for 2014 net production of 7.8 mmbbl of oil and condensate and 53.2 bcf of gas.
- An independent audit by Netherland, Sewell & Associates, Inc. (NSAI) of the Kutubu, Agogo and Moran fields resulted in additions to EUR of 23.2 mmbbl (13.3 mmbbl net) in the 1P category and 18.5 mmbbl (10.7 mmbbl net) in the 2P category. This result reflects the ongoing success of development drilling in the key PNG producing oil fields, combined with a strong focus on maximising production from existing wells through comprehensive reservoir surveillance and well intervention activities, as well as field life extensions due to the PNG LNG Project.
- At SE Mananda, continued oil production is no longer economic and the final oil reserves position reflects total production volumes to the end of 2014. Studies are underway to assess how the facilities can be preserved for potential future developments in the region.
- Reserves at the Hides GTE Project have been adjusted to reflect the Company's PDL 1 entitlement of 16.7%, as per the revised Hides Gas Sales Agreement. This compares to an entitlement of 100% under the previous agreement. Estimates are reported as wet gas volumes, in recognition of the custody transfer point at the Hides 1 and Hides 2 wells. Note that production volumes will continue to be reported on a 100% basis to reflect volumes purchased by the Hides (GTE) Project Participant (Oil Search 100%) and processed for sale to the Porgera power station.
- SE Gobe third party gas sales to the PNG LNG Project are included in the 2P category and, for the first time, the 1P category, due to the imminent execution of a gas sales and purchase agreement between the SE Gobe and PNG LNG Project joint ventures.

Developed and undeveloped reserves categories are shown in Table 3. Undeveloped oil and gas reserves are largely related to field life extensions resulting from the PNG LNG Project, where the construction of additional infrastructure is required prior to the commencement of gas export. At SE Gobe, third party gas sales to the PNG LNG Project, plus associated liquids, have been moved to the developed category, due to the commencement of PNG LNG operations in 2014 and the imminent execution of a gas sales and purchase agreement between the SE Gobe and PNG LNG Project joint ventures.

CONTINGENT RESOURCES

At the end of 2014, the Company's (2C) contingent oil and condensate resources were 77.7 mmbbl, down from 84.7 mmbbl in 2013, and 2C contingent gas resources were 3,529.5 bcf, up from 2,296.8 bcf in 2013.

The key changes in contingent resources since 31 December 2013, which are summarised in Tables 1 and 2, are as follows:

- 1,219.4 bcf of 2C contingent gas has been added, relating to the Company's purchase of an interest in the Elk/Antelope fields in PRL 15. This 2C resource estimate is consistent with the Company's announcement at the time of the acquisition.
- The latest analysis of data from the Flinders 1 well in the Gulf of Papua, drilled in 2013, has resulted in the addition of 79 bcf of 2C contingent gas at Flinders.
- Mananda 2C contingent oil resources have been reduced by 6.9 mmbbl and 2C contingent gas resources by 65.7 bcf, to reflect the latest analysis of data from the Mananda 5, 6 and 7 wells.

RESERVES AND RESOURCES

As highlighted in Table 4, at the end of 2014, Oil Search's total 2P oil and condensate reserves and 2C contingent resources were 173.6 mmbbl and the Company's total 2P gas reserves and 2C contingent resources were 5,811.6 bcf.

ELK/ANTELOPE, PRL 15 – INITIAL BOOKING OF CONTINGENT RESOURCE

1,219.4 bcf raw gas has been booked for the first time in the 2C contingent resource category relating to Oil Search's 22.835% economic interest in PRL 15 in the Gulf Province of PNG, which contains the Elk/Antelope gas field. The licence was granted on 30 November 2010 for a five year term.

The presence of significant quantities of moveable hydrocarbons in the Elk/Antelope field has been confirmed from the following:

- Data acquired from six Elk/Antelope exploration and appraisal wells commencing in 2006 with the Elk 1 discovery well.

TABLE 1: 2014 OIL AND CONDENSATE RESERVES AND RESOURCES RECONCILIATION WITH 2013

Proved oil and condensate reserves (million barrels)

LICENCE/FIELD	END 2013 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 RESERVES
PDL 2 – Kutubu	12.4	3.7	10.4	–	19.2
PDL 2 – SE Mananda	0.1	–	(0.1)	–	–
PDL 2/5/6 – Moran Unit	9.3	2.0	2.9	–	10.2
PDL 4 – Gobe Main	0.1	–	–	–	0.1
PDL 3/4 – SE Gobe	0.3	0.1	–	–	0.2
PDL 1 – Hides	1.0	–	(1.0)	–	–
PNG LNG Project	38.4	2.0	–	–	36.5
Total	**61.6**	**7.8**	**12.2**	**–**	**66.0**

Proved and probable oil and condensate reserves (million barrels)

LICENCE/FIELD	END 2013 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 RESERVES
PDL 2 – Kutubu	18.7	3.7	8.8	–	23.8
PDL 2 – SE Mananda	0.3	–	(0.3)	–	–
PDL 2/5/6 – Moran Unit	13.9	2.0	1.9	–	13.8
PDL 4 – Gobe Main	0.2	–	–	–	0.1
PDL 3/4 – SE Gobe	0.6	0.1	–	–	0.5
PDL 1 – Hides	1.0	–	(1.0)	–	–
PNG LNG Project	59.7	2.0	–	–	57.8
Total	**94.3**	**7.8**	**9.4**	**–**	**95.9**

2C contingent oil and condensate resources (million barrels)

LICENCE/FIELD	END 2013 2C RESOURCES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 2C RESOURCES
PNG LNG Project oil and condensate	1.7	–	–	–	1.7
PNG other oil and condensate	29.9	–	(6.9)	–	22.9
Middle East oil and condensate	53.1	–	–	–	53.1
Total oil and condensate	**84.7**	**–**	**(6.9)**	**–**	**77.7**

- The interpretation of data acquired during the drill stem testing of multiple intervals, including the analysis of reservoir hydrocarbon samples recovered to surface.

Oil Search has conducted a detailed assessment of all available data to reach a position on the contingent resource potential of the field. Contingent resource volumes have been estimated by combining in-place volume estimates from geological modelling with recovery factor estimates from both simulation modelling and a consideration of analogue fields. A deterministic approach was used to estimate the reported volumes for the Elk/Antelope fields and they have been aggregated arithmetically by the addition of individual field volumes.

These resources are considered to be contingent on the confirmation of a commercially viable development project and the negotiation of, and commitment to, future LNG contracts. Additional appraisal drilling has commenced and continued evaluation of all data will be required to further assess the potential for commercial recovery. This may also include the reprocessing of existing seismic lines, the acquisition of additional seismic lines and further well testing.

FLINDERS, PPL 244 – INITIAL BOOKING OF CONTINGENT RESOURCE

79 bcf raw gas has been booked for the first time in the 2C contingent resource category relating to Oil Search's 40% economic interest in PPL 244 in the Gulf of Papua in PNG, which contains the Flinders gas field. The licence was granted on 25 February 2005 for an initial six-year term and a licence extension was granted on 25 February 2011 for an additional five-year term.

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

TABLE 2: 2014 GAS RESERVES AND RESOURCES RECONCILIATION WITH 2013

Proved Gas Reserves (billion standard cubic feet)

LICENCE/FIELD	END 2013 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 RESERVES
PDL 2 – Kutubu	–	–	–	–	–
PDL 2 – SE Mananda	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	–	–	17.7	–	17.7
PDL 1 – Hides	43.3	1.0	(37.3)	–	5.0
PNG LNG Project	1,572.8	52.2	–	–	1,520.6
Total	**1,616.1**	**53.2**	**(19.6)**	**–**	**1,543.3**

Proved and Probable Gas Reserves (billion standard cubic feet)

LICENCE/FIELD	END 2013 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 RESERVES
PDL 2 – Kutubu	–	–	–	–	–
PDL 2 – SE Mananda	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	23.8	–	–	–	23.8
PDL 1 – Hides	43.3	1.0	(35.5)	–	6.9
PNG LNG Project	2,303.6	52.2	–	–	2,251.4
Total	**2,370.7**	**53.2**	**(35.5)**	**–**	**2,282.0**

2C Contingent Gas Resources (billion standard cubic feet)

LICENCE/FIELD	END 2013 2C RESOURCES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2014 2C RESOURCES
PNG LNG Project gas	208.3	–	–	–	208.3
PNG other gas	1,953.6	–	13.3	1,219.4	3,186.3
Middle East gas	134.9	–	–	–	134.9
Total gas	**2,296.8**	**–**	**13.3**	**1,219.4**	**3,529.5**

- Data acquired from the Flinders 1 exploration well drilled in 2013. Data acquired from well logging during and after drilling has been used to determine the most likely fluid content of the sandstone reservoir. This includes the analysis of reservoir pressure data and samples of hydrocarbons brought to surface during wireline logging.
- The interpretation of 3D seismic data and data from offset wells in the Gulf of Papua, including the Hagana 1 and Kidukidu 1 wells also drilled in 2013.

Oil Search has conducted a detailed assessment of all available data to reach a position on the contingent resource potential of the field. Contingent resource volumes have been estimated by combining in-place volume estimates from geological modelling with recovery factor estimates from simulation modelling using the deterministic method.

These resources are considered to be contingent on the confirmation of a commercially viable development project and the negotiation of, and commitment to, future LNG contracts. Additional appraisal drilling and evaluation of data will be required to further

TABLE 3: DEVELOPED AND UNDEVELOPED RESERVES

Developed Reserves

NET TO OIL SEARCH LICENCE/FIELD	OIL SEARCH INTEREST %	PROVED (1P) OIL AND CONDENSATE DEVELOPED[3] MMBBL	PROVED (1P) GAS DEVELOPED[4][5] BSCF	PROVED AND PROBABLE (2P) OIL AND CONDENSATE DEVELOPED[3]	PROVED AND PROBABLE (2P) GAS DEVELOPED[4][5] BSCF
PDL 2 – Kutubu	60.0%	16.3	–	20.6	–
PDL 2 – SE Mananda	72.3%	–	–	–	–
PDL 2/5/6 – Moran Unit	49.5%	6.9	–	9.8	–
PDL 4 – Gobe	10.0%	0.1	–	0.1	–
PDL 3/4 – SE Gobe	25.6%	0.2	17.7	0.5	23.8
PDL 1 – Hides	16.7%	–	5.0	–	6.9
Oil Fields and Hides GTE Reserves		**23.5**	**22.7**	**30.9**	**30.7**
PNG LNG Project Reserves	**29.0%**	**26.4**	**1,129.4**	**42.9**	**1,690.7**
Subtotal Developed Reserves		**49.8**	**1,152.1**	**73.8**	**1,721.4**

Undeveloped Reserves

NET TO OIL SEARCH LICENCE/FIELD	OIL SEARCH INTEREST %	PROVED (1P) OIL AND CONDENSATE UNDEVELOPED[3] MMBBL	PROVED (1P) GAS UNDEVELOPED[4][5] BSCF	PROVED AND PROBABLE (2P) OIL AND CONDENSATE UNDEVELOPED[3]	PROVED AND PROBABLE (2P) GAS UNDEVELOPED[4][5] BSCF
PDL 2 – Kutubu	60.0%	2.9	–	3.2	–
PDL 2 – SE Mananda	72.3%	–	–	–	–
PDL 2/5/6 – Moran Unit	49.5%	3.3	–	4.0	–
PDL 4 – Gobe	10.0%	–	–	–	–
PDL 3/4 – SE Gobe	25.6%	–	–	–	–
PDL 1 – Hides	16.7%	–	–	–	–
Oil Fields and Hides GTE Reserves		**6.1**	**–**	**7.3**	**–**
PNG LNG Project Reserves	**29.0%**	**10.1**	**391.2**	**14.9**	**560.7**
Subtotal Undeveloped Reserves		**16.2**	**391.2**	**22.2**	**560.7**

TABLE 4: TOTAL RESERVES AND RESOURCES SUMMARY

Reserves and Resources as at 31 December 2014[1][2]

NET TO OIL SEARCH		PROVED (1P)		PROVED AND PROBABLE (2P)	
LICENCE/FIELD	OIL SEARCH INTEREST	OIL AND CONDENSATE TOTAL[3] MMBBL	GAS TOTAL[4] BSCF	OIL AND CONDENSATE TOTAL[3] MMBBL	GAS TOTAL[4] BSCF
RESERVES					
PDL 2 – Kutubu	60.0%	19.2	–	23.8	–
PDL 2 – SE Mananda	72.3%	–	–	–	–
PDL 2/5/6 – Moran Unit	49.5%	10.2	–	13.8	–
PDL 4 – Gobe	10.0%	0.1	–	0.1	–
PDL 3/4 – SE Gobe[5]	25.6%	0.2	17.7	0.5	23.8
PDL 1 – Hides[6]	16.7%	–	5.0	–	6.9
Oil Fields and Hides GTE Reserves		**29.6**	**22.7**	**38.2**	**30.7**
PNG LNG Project Reserves[5]	**29.0%**	**36.5**	**1,520.6**	**57.8**	**2,251.4**
Subtotal Reserves		**66.0**	**1,543.3**	**95.9**	**2,282.0**
CONTINGENT RESOURCES		1C		2C	
PNG LNG Project gas and oil and condensate		–	–	1.7	208.3
PNG other gas and oil and condensate[7]		–	–	22.9	3,186.3
Middle East gas and oil and condensate[7]		–	–	53.1	134.9
Subtotal Resources		–	–	77.7	3,529.5
Total Reserves and Resources		**66.0**	**1,543.3**	**173.6**	**5,811.6**

(1) Numbers may not add due to rounding.

(2) Oil fields proved reserves (1P) and proved and probable (2P) reserves are as certified by independent auditors Netherland, Sewell & Associates, Inc. (NSAI) in 2012 and 2014. 1P PNG LNG Project reserves are as certified in 2008 by independent auditors, NSAI. 2P PNG LNG Project reserves and contingent resources (2C) are based on a combination of independent audit, PNG LNG Project operator and internal assessments.

(3) Liquids include crude oil, separator and plant condensates.

(4) For the PNG LNG Project, shrinkage has been applied to raw gas for the field condensate, plant liquids recovery and fuel and flare.

(5) PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. In addition, third party wet gas sales to the Project at the Gobe plant outlet (inclusive of plant condensate) have been included for SE Gobe in 1P and 2P reserves at the post-sales agreement SE Gobe field interest (22.58%). SE Gobe estimates for gas are based on NSAI certification in 2008.

(6) Hides reserves associated with the GTE Project under existing contract; confirmation of future nominations received in January 2015.

(7) Other gas, oil and condensate resources comprise the Company's other fields including SE Mananda, Juha North, P'nyang, Kimu, Uramu, Barikewa, Iehi, Cobra, Al Meashar-1, Mananda, Flinders and Taza. These gas resources may include fuel, flare and shrinkage, depending on the choice of reference point.

ADDITIONAL NOTES

- The evaluation date for these estimates is 31 December 2014.
- The following reference points are assumed:
  - Oil field liquids: the inlet to the refinery
  - Hides GTE: the custody transfer point at the wellhead
  - PNG LNG Project: the outlet to the LNG plant
  - SE Gobe gas: the outlet to the Gobe facility
  - Fuel, flare and shrinkage upstream of the reference points have been excluded.
- Reserves and contingent resources are aggregated by arithmetic summation by category and therefore proved reserves may be a conservative estimate due to the portfolio effects of arithmetic summation.
- Reserves and contingent resources have been estimated using both deterministic and probabilistic methods.
- The information in this reserves and resources statement has been prepared by Dr Jon Rowse, Oil Search's General Manager – Subsurface, who is a full-time employee of the Company and a member of the Society of Petroleum Engineers. Dr Rowse is qualified in accordance with ASX Listing Rules 5.41-5.44 and confirms that the statement fairly represents information and documentation which has been prepared under his supervision and approved by him. He has consented to publish this information in the form and context in which it is presented in this statement.

assess the potential for commercial recovery. This may include the reprocessing of existing 3D seismic lines and well testing.

P'NYANG, PRL 3 – POTENTIAL FOR INCREASE IN BOOKING OF CONTINGENT RESOURCE

Oil Search has a 38.5% economic interest in PRL 3 in the Western Province of PNG, which contains the P'nyang gas field. The retention licence was granted on 12 April 2000 for an initial five-year term with subsequent licence extensions granted for five years each on 12 April 2005 and 12 April 2010. In February 2015, a Petroleum Development Licence application was submitted to the PNG Government.

The presence of significant quantities of moveable hydrocarbons in the P'nyang field has been confirmed from the following:

- Data acquired from three exploration/appraisal wells, commencing in 1990 with the P'nyang 1X discovery well.
- The interpretation of data acquired during well logging and the drill stem testing of reservoir intervals, including the analysis of hydrocarbon samples recovered to surface.
- The interpretation of seismic data acquired during 2011 and 2013 and core data acquired from the P'nyang South 1 well drilled in 2012.

Preliminary interpretation of recently acquired seismic and core data has been positive and, subject to further appraisal drilling and technical studies, the 2C contingent resource could increase materially. Contingent resource volumes are being assessed by combining in-place volume estimates from geological modelling with recovery factor estimates from simulation modelling using the deterministic method.

The P'nyang resources are considered to be contingent on additional appraisal drilling and technical studies, the confirmation of a commercially viable development project and the negotiation of, and commitment to, future LNG contracts.

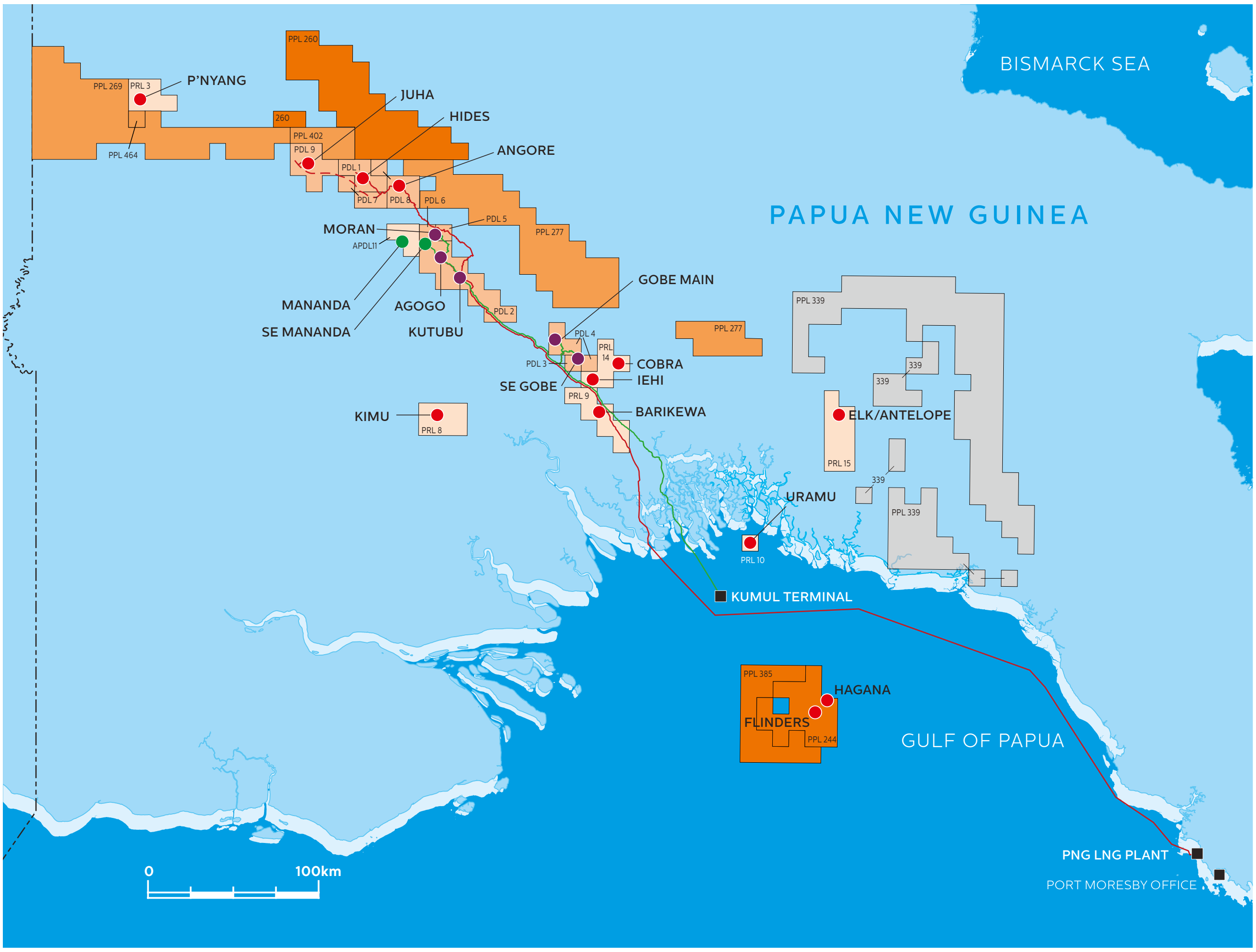
GOVERNANCE AND 2015 AUDIT PLAN

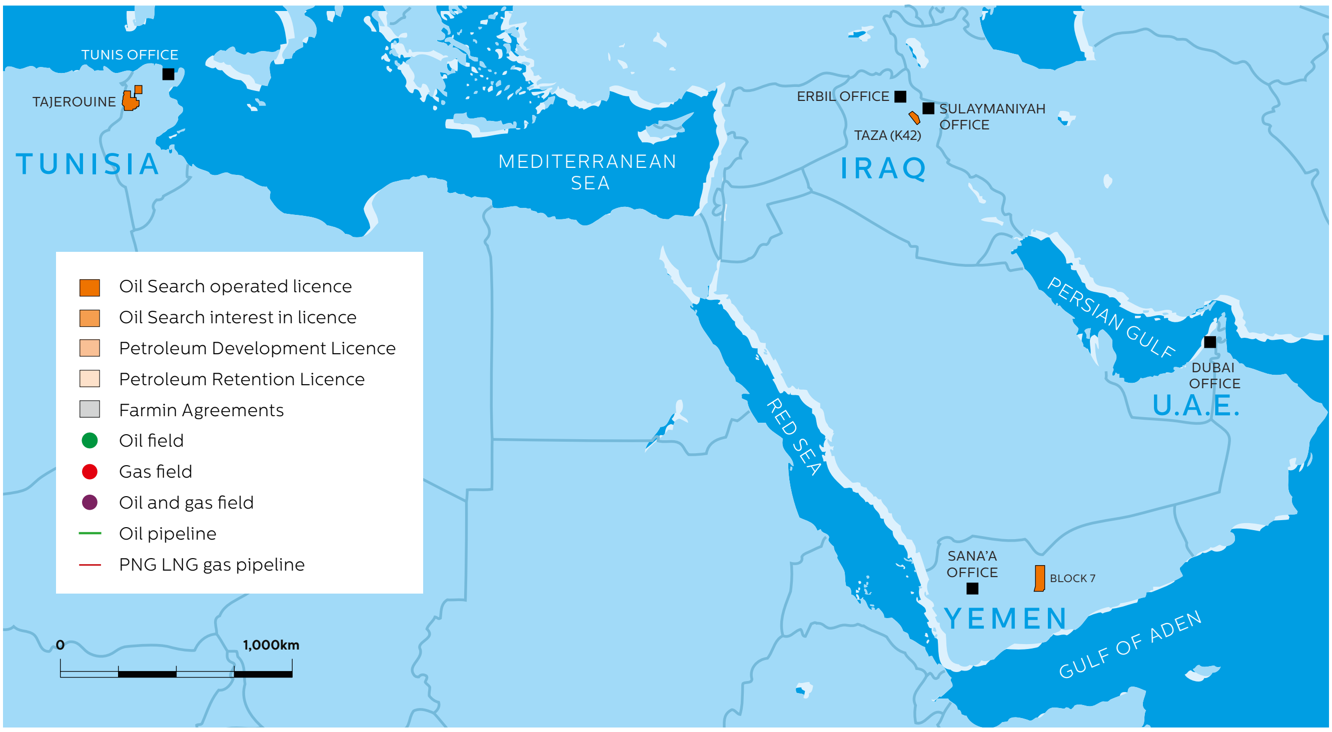
The governance arrangements for the reporting of hydrocarbon reserves and resources are based on the Company's Reserves Management and Audit Process (RMAP) which consists of the following:

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

All oil fields were audited at the end of 2012 by independent auditors, NSAI. Kutubu and Moran were also audited in 2014. Gas reserves are subject to audit under instruction from the PNG LNG Project operator, ExxonMobil PNG Limited.

LICENCE INTERESTS





LICENCE INTERESTS (13 March 2015)

LICENCE	FIELD/PROJECT	OIL SEARCH % INTEREST	OPERATOR
PNG Petroleum Development Licences (PDL)			
PDL 1	Hides	16.66	ExxonMobil
PDL 2	Kutubu, Moran	60.05	Oil Search
PDL 2 – SE Mananda JV	SE Mananda	72.27	Oil Search
PDL 3	SE Gobe	36.36	Santos
PDL 4	Gobe Main	10.00	Oil Search
PDL 5	Moran	40.69	ExxonMobil
PDL 6	Moran	71.07	Oil Search
SE Gobe Unit (PDL 3/PDL 4)		25.55	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas-to-Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
APDL11	Mananda	71.25(1)	Oil Search
PNG LNG Project	PNG LNG Project	29.00	ExxonMobil
PNG Pipeline Licences (PL)			
PL 1	Hides	100.00	Oil Search
PL 2	Kutubu	60.05	Oil Search
PL 3	Gobe	17.78	Oil Search
PL 4	PNG LNG Project	29.00	ExxonMobil
PL 5	PNG LNG Project	29.00	ExxonMobil
PL 6	PNG LNG Project	29.00	ExxonMobil
PL 7	PNG LNG Project	29.00	ExxonMobil
PL 8	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence			
PPFL 2	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 3	P'nyang	38.51	ExxonMobil
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	45.11	Oil Search
PRL 10	Uramu	100.00(2)	Oil Search
PRL 14	Cobra, Iehi	62.56	Oil Search
PRL 15	Elk/Antelope	22.84(3)	InterOil
PNG Petroleum Prospecting Licences (PPL)			
PPL 244		40.00	Oil Search
PPL 260		40.00	Oil Search
PPL 269		10.00	Talisman
PPL 277		50.00	ExxonMobil
PPL 385		100.00	Oil Search
PPL 402		100.00	Oil Search
PPL 464		50.00	ExxonMobil
PNG Farm-in Agreements			
PPL 339		30.00(4)	Kina Petroleum
Yemen			
Block 7		34.00(5)	Oil Search
Iraq			
Taza (K42)		60.00(6)	Oil Search
Tunisia			
Tajerouine		100.00(7)	Oil Search

(1) Pending Ministerial grant.

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

(3) In March 2014, Oil Search acquired five corporate entities which hold an aggregate interest in PRL 15 of 22.84%.

(4) In November 2010, Oil Search entered into a farm-in agreement with Kina Petroleum, under which a 30% interest may be obtained by Oil Search with an option to potentially increase its interest to up to 70%.

(5) 40% paying interest.

(6) 75% paying interest.

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

CORPORATE GOVERNANCE

BOARD OF DIRECTORS


1.


2.


3.


4.


5.


6.


7.


8.


9.

1. RJ LEE (CHAIRMAN)
2. PR BOTTEN
3. G AOPI
4. KG CONSTANTINOU
5. B PHILEMON
6. FE HARRIS
7. AJ KANTSLER
8. KW SPENCE
9. ZE SWITKOWSKI

Oil Search is committed to adopting and implementing rigorous corporate governance practices across all of its activities. The Company supports this commitment by transparent and open reporting of its governance practices so that investors will be able to make informed investment decisions.

Oil Search has reported against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the "CGC Recommendations") each year since their first release in 2003. Oil Search has chosen to early adopt the 3rd Edition of the CGC Recommendations, released in March 2014, and believes it followed all the CGC Recommendations in the 3rd Edition during the 12 months ended 31 December 2014.

Oil Search's Corporate Governance Statement, which provides details of the corporate governance practices adopted by the Company to adhere to the CGC Recommendations, is published on its website, www.oilsearch.com. The Company's charters, policies and Constitution are also available on the website.

The table below provides a brief summary of how the Company complies with each of the CGC Recommendations.

	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
Principle 1 – Lay solid foundations for management and oversight		
1.1	Disclose: • the respective roles and responsibilities of the board and management. • those matters expressly reserved to the board and those delegated to management.	Compliant – see Board and Committee Charters on the Company's website.
1.2	• Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. • Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Compliant – see Corporate Governance Statement for a summary of director selection and appointment processes. See 2014 Notice of Annual Meeting for information on directors standing for election/re-election.
1.3	Have a written agreement with each director and senior executive setting out the terms of their appointment.	Compliant – all agreements in place.
1.4	The Company Secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Compliant – see Board Charter on the Company's website.
1.5	Have and disclose a diversity policy, including measurable objectives for achieving gender diversity, its progress towards achieving those objectives and the respective proportions of men and women on the board, in senior executive positions and across the whole organisation.	Compliant – see Diversity Policy on the Company's website, and the Company's 2014 diversity objectives and progress against achieving those objectives disclosed in the Corporate Governance Statement.
1.6	• Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors. • Disclose whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Compliant – process for annual Board performance reviews disclosed in the Corporate Governance Statement. Board performance review completed in 2014.
1.7	• Have and disclose a process for periodically evaluating the performance of senior executives. • Disclose whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Compliant – process for senior executive performance reviews disclosed in the Corporate Governance Statement. Senior executive performance reviews undertaken in 2014.

	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
Principle 2 – Structure the board to add value		
2.1	Have a nomination committee which: • has at least three members, a majority of whom are independent directors • is chaired by an independent director. Disclose: • the charter of the committee • the members of the committee • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – People and Nominations Committee has four members, all independent, including the Chairman. Committee Charter disclosed on the Company's website. Members, meetings held and attendances disclosed in the Directors' Report, page 66.
2.2	Have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Compliant – skills matrix and preferred Board composition disclosed in the Corporate Governance Statement.
2.3	Disclose: • the names of directors considered independent • nature of any interest, position, association or relationship that each director has and an explanation of why it does not compromise the independence of the director. • the length of service of each director.	Compliant – Director details disclosed in the Directors' Report. Any potential conflicts and related mitigants disclosed in the Corporate Governance Statement.
2.4	A majority of the board should be independent directors.	Compliant – seven of nine directors are assessed as independent.
2.5	• The chair of the board should be an independent director. • The chair should not be the same person as the CEO.	Compliant – Chairman is non-executive, independent and not the Chief Executive Officer.
2.6	Have a programme for inducting new directors and provide appropriate professional development opportunities for directors.	Compliant – detailed director induction programme in place and annual director ongoing education programme provided by the Company.
Principle 3 – Act ethically and responsibly		
3.1	Have and disclose a code of conduct for directors, senior executives and employees.	Compliant – Code of Conduct disclosed on the Company's website.
Principle 4 – Safeguard integrity in corporate reporting		
4.1	Have an audit committee which: • has at least three members • consists only of non-executive directors, majority of whom are independent • is chaired by an independent director, who is not the chair of the board. Disclose: • the charter of the committee • the relevant qualifications and experience of the members • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – Audit and Financial Risk Committee has four members, all independent and non-executive, including the Committee Chairman, who is not the Chairman of the Board. Committee Charter disclosed on the Company's website. Members, qualifications/experience, meetings held and attendances disclosed in the Directors' Report, pages 64-66.
4.2	CEO and CFO certification of financial statements before the board approves the financial statements for the financial period.	Compliant – CEO and CFO certifications issued before the Board approved the 2014 Financial Report.
4.3	Ensure external auditor attendance and availability at the AGM to answer questions from security holders relevant to the audit.	Compliant – Company's auditor, from Deloitte Touche Tohmatsu, attended the 2014 Annual Meeting, with shareholders invited to put questions to the auditor.
Principle 5 – Make timely and balanced disclosure		
5.1	Have and disclose a written policy for complying with continuous disclosure obligations under the Listing Rules.	Compliant – Public Disclosure and External Communications Policy disclosed on the Company's website.

	ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS	HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
Principle 6 – Respect the rights of security holders		
6.1	Provide information about itself and its governance to investors on its website.	Compliant – detailed disclosures contained on the Company's website.
6.2	Design and implement an investor relations programme to facilitate effective two-way communication with investors.	Compliant – 2014 Investor Relations programme implemented, with communications governed by the Public Disclosure and External Communications Policy.
6.3	Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Compliant – disclosed in the Public Disclosure and External Communications Policy.
6.4	Give security holders the option to receive communications from, and send communications to, the entity and the security registry electronically.	Compliant – electronic security registry communication options in place.
Principle 7 – Recognise and manage risk		
7.1	Have a committee or committees to oversee risk, each of which: • has at least three members, a majority of whom are independent directors • is chaired by an independent director Disclose: • the charter of the committee • the members of the committee • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings	Compliant – financial risk overseen by the Audit and Financial Risk Committee – see section 4.1. Health, Safety and Sustainability Committee oversees operational and social responsibility risks. This Committee has five members, four of whom are independent, including the Chairman. Health, Safety and Sustainability Committee Charter disclosed on the Company's website. Members, qualifications/experience, meetings held and attendances disclosed in the Directors' Report, pages 64–66.
7.2	The board or a committee of the board should: • review the entity's risk management framework at least annually to satisfy itself that it continues to be sound. • disclose, in relation to each reporting period, whether such a review has taken place.	Compliant – Board reviews the entity's risk management framework at least annually, with a review undertaken in 2014.
7.3	Disclose the structure and role of its internal audit function.	Compliant – disclosed in the Corporate Governance Statement.
7.4	Disclose any material exposure to economic, environmental and social sustainability risks and how these risks are managed.	Compliant – disclosed in the Operating and Financial Review section of the Directors' Report, pages 75–77.
Principle 8 – Remunerate fairly and responsibly		
8.1	Have a remuneration committee which: • has at least three members, a majority of whom are independent directors • is chaired by an independent director. Disclose: • the charter of the committee • the members of the committee • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – see section 2.1. The People and Nominations Committee provides advice and recommendations to the Board regarding the remuneration of Directors, executives and employees.
8.2	Separately disclose the policies and practices regarding the remuneration of non-executive directors and executive directors and other senior executives.	Compliant – see Remuneration Report contained in the Directors' Report, pages 78–96.
8.3	Have and disclose a policy on whether participants in equity-based remuneration schemes are permitted to enter into transactions which limit the economic risk of participating in the scheme.	Compliant – see Share Trading Policy on the Company's website.

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL REPORT

For the 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), Non-Executive, 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 68.

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US eight cents per ordinary share (2013: US two cents final dividend) and a special dividend of US four 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 68 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 716,328 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 97.

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.

1. FINANCIAL OVERVIEW

1.1 Summary of Financial Performance

YEAR ENDED 31 DECEMBER[1]	2014	2013	% CHANGE
Production and Sales Data			
Production (mmboe[2])	**19.27**	6.74	+186
Sales (mmboe)	**17.76**	6.73	+164
Average realised oil and condensate price (US$/bbl[3])	**97.79**	110.57	-12
Average realised LNG and gas price (US$/mmBtu[4])	**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[5]	**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[5]	**482.8**	**205.7**	**+135**
Net debt	**3,452.0**	**3,814.8**	**-10**

(1) Numbers may not add due to rounding.

(2) 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.

(3) bbl = barrel of oil.

(4) mmBtu = million (106) British thermal units.

(5) 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.

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 5,811.6 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.

1.3 Operating Cash Flow

YEAR TO 31 DECEMBER (US$ MILLION)[1]	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**

(1) 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]

	2014		2013		% CHANGE	
YEAR TO 31 DECEMBER	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.[1]

(1) Oil Search notes that events relating to PRL 15 have occurred subsequent to the signing of the Directors' Report on 23 February 2015. Recognising that any further arbitration could potentially slow the development and monetisation of this world–class resource, Oil Search has worked closely with InterOil and Total to resolve the outstanding transfer and joint venture management issues. To expedite the development schedule for the benefit of all stakeholders, in March 2015, Oil Search and InterOil voted to elect Total E&P PNG Limited as Operator of PRL 15. The appointment will take effect in accordance with an operator transition plan and the terms of the Joint Venture Operating Agreement.

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 PSC (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 programmes and through the effective use of a group-wide risk management system. In addition, the group has insurance programmes in place that are consistent with good industry practice.

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 instability, 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.

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

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

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

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

	CLOSED PERIOD	TRADING WINDOW	ALL OTHER TIMES
Restricted Employees	Not permitted to trade	May trade, but Directors and Executive Management must first notify the Group Secretary	Must receive pre-approval to trade
Prescribed Employees	Not permitted to trade	Not permitted to trade	Not permitted to trade
All Other Employees	Not permitted to trade	May trade	May trade

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

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

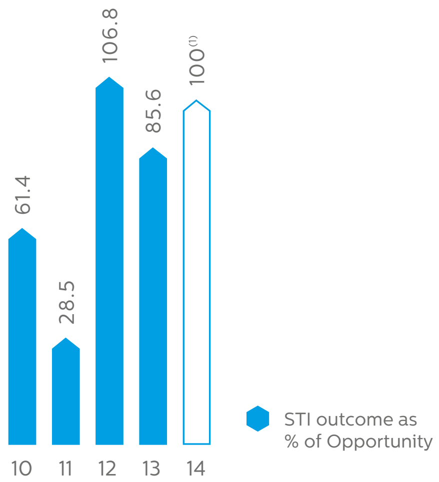
Overall for the 2014 performance year, the Board determined an overall scorecard outcome of 100% of Opportunity. For the Managing Director, Executive General Managers and other relevant employees, the scorecard outcome was reduced to 95.8% of Opportunity as a result of the fatality of a third party contractor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



(1) 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 programme takes the form of a grant of Performance Rights (PRs).

Awards of PRs under the Long-Term Incentive Plan (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 (Three 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 (Three 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 three year vesting period. Accordingly, if the share price does not increase above the Vesting Price, then the SARs will automatically lapse on the vesting date. As a result, the employee only benefits from a grant of SARs if the Oil Search share price increases over the three year vesting period, 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 three year vesting period followed by a two year exercise period. From 2010, all awards that satisfy their respective vesting conditions at the end of the three years vesting period are automatically exercised.

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 programme which is "at risk" remuneration, with any payment dependent on performance. The Board's objective is that the size of these incentives should reflect Oil Search's success in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies 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 the 20 day Volume Weighted Average Price of Oil Search shares for the five 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 programmes within the Company. Gerea plays an important role in the interface between the Company and major shareholders in PNG.

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

Mr Philip Caldwell – Executive General Manager Enterprise Systems Development

Incumbent for the full year

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

Prior 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 programmes to grow Shareholder value through exposure to quality exploration projects on a risked basis. Julian leads teams in the technical and commercial evaluation of new ventures and business development opportunities.

Mr Stephen Gardiner – Chief Financial Officer & 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 and executing material (including corporate) mergers, divestments and acquisitions.

Former Executives

Mr Richard Robinson – Executive General Manager PNG Operations

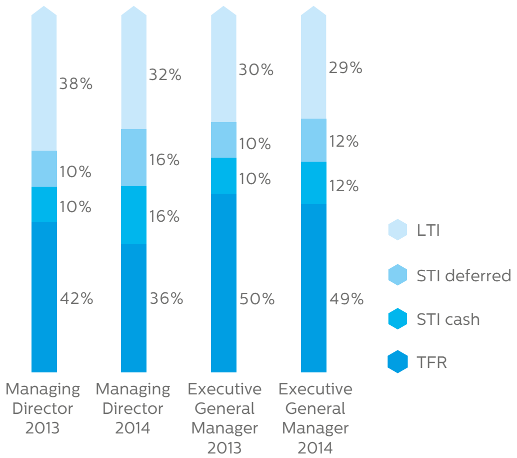
Departed 31 May 2013

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

EXCHANGE RATE	2013	2014
AUD/USD	0.9686	**0.9028**
PGK/USD	0.4545	**0.3994**

Table 10 – Key Management Personnel Remuneration (US$)

		SHORT TERM			POST EMPLOYMENT	LONG TERM	EQUITY[6]		OTHER	
	YEAR	SALARIES FEES AND ALLOWANCES[1]	NON-MONETARY BENEFITS[2]	SHORT TERM INCENTIVE[3]	COMPANY CONTRIBUTION TO SUPER[4]	LONG SERVICE LEAVE ACCRUAL[5]	PERFORM. RIGHTS	RESTRICTED SHARES	SIGN ON / TERMINATION BENEFITS	TOTAL
Directors										
P Botten	**2014**	**2,036,505**	**9,464**	**1,662,634**	**16,502**	**107,653**	**1,057,235**	**842,218**	**–**	**5,732,211**
Managing Director	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	**2014**	**632,950**	**12,434**	**312,647**	**16,502**	**–**	**242,405**	**353,965**	**–**	**1,570,903**
EGM PNG Operations	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
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	**2014**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
EGM PNG Operations	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	–	19 May 2017	**207,087**
G Aopi	**48,500**	19 May 2014	5.59	–	19 May 2017	**43,052**
P Caldwell	**53,100**	19 May 2014	5.59	–	19 May 2017	**49,455**
P Cholakos	**50,000**	19 May 2014	5.59	–	19 May 2017	**46,506**
G Darnley-Stuart	**49,400**	19 May 2014	5.59	–	19 May 2017	**21,652**
J Fowles	**51,000**	19 May 2014	5.59	–	19 May 2017	**–**
S Gardiner	**49,700**	19 May 2014	5.59	–	19 May 2017	**37,239**
M Herrett	**42,500**	19 May 2014	5.59	–	19 May 2017	**–**
I Munro	**18,700**	10 Jan 2014	5.28	–	19 May 2016	**–**
	49,400	19 May 2014	5.59	–	19 May 2017	**–**
M Kay	**22,668**	10 Jan 2014	5.28	–	19 May 2016	**–**
	49,400	19 May 2014	5.59	–	19 May 2017	**–**

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	–	1 January 2016
G Aopi(1)	**25,996**	19 May 2014	9.04	–	1 January 2016
P Caldwell	**28,489**	19 May 2014	9.04	–	1 January 2016
P Cholakos	**26,813**	19 May 2014	9.04	–	1 January 2016
G Darnley-Stuart	**26,471**	19 May 2014	9.04	–	1 January 2016
S Gardiner	**26,033**	19 May 2014	9.04	–	1 January 2016
J Fowles	**27,327**	19 May 2014	9.04	–	1 January 2016
M Herrett	**22,481**	19 May 2014	9.04	–	1 January 2016
I Munro	**9,258**	19 May 2014	9.04	–	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)	**32,400**	10 January 2014	8.11	–	50% on 24 February 2015 and 50% on 24 February 2016
I Munro(2)	**40,000**	7 November 2014	8.69	–	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**	**–**
G Aopi	**75,988**	**–**
P Caldwell	**49,455**	**–**
P Cholakos	**46,506**	**–**
G Darnley-Stuart	**21,652**	**–**
S Gardiner	**62,299**	**–**

EXERCISED IN 2013	NUMBER OF SHARES	AMOUNT PAID PER SHARE (A$)
P Botten	440,317	–
G Aopi	99,441	–
P Caldwell	60,892	–
P Cholakos	30,213	–
G Darnley-Stuart	26,949	–
S Gardiner	68,913	–
Former Executives		
R Robinson	52,033	–

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

	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
			MOVEMENTS DURING THE YEAR						
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

		VALUE OF RIGHTS EXERCISED AND RESTRICTED SHARES VESTED IN THE YEAR[(2)]			VALUE OF RIGHTS LAPSED AND RESTRICTED SHARES FORFEITED IN THE YEAR (US$)[(3)]		
	GRANTED IN THE YEAR (US$)[(1)]	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 EMPLOY-MENT	LONG TERM	EQUITY		OTHER	
		SALARIES FEES AND ALLOW-ANCES	NON-MONETARY BENEFITS	SHORT TERM INCENT-IVE	COMPANY CONTRI-BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFORM RIGHTS	REST-RICTED SHARES	SIGN ON/ TERMIN-ATION BENEFITS	TOTAL
Executive Directors										
P Botten	**2014**	**2,036,505**	**9,464**	**1,662,634**	**16,502**	**107,653**	**1,057,235**	**842,218**	**–**	**5,732,211**
Managing Director	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	**2014**	**394,414**	**222,434**	**291,221**	**68,774**	**23,922**	**228,343**	**264,783**	**–**	**1,493,891**
and sustainability	2013	475,074	213,744	221,475	77,998	48,281	227,438	299,882	–	1,563,892
Non-Executive Directors										
	2014	**469,907**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**469,907**
R Lee[(1)]	2013	463,817	–	–	–	–	–	–	–	463,817
	2014	**211,707**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,707**
KG Constantinou	2013	227,137	–	–	–	–	–	–	–	227,137
	2014	**214,866**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**214,866**
F Harris[(2)]	2013	192,746	–	–	–	–	–	–	–	192,746
	2014	**236,534**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**236,534**
A Kantsler	2013	247,989	–	–	–	–	–	–	–	247,989
	2014	**214,866**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**214,866**
B Philemon	2013	230,527	–	–	–	–	–	–	–	230,527
	2014	**221,911**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**221,911**
KW Spence	2013	250,824	–	–	–	–	–	–	–	250,824
	2014	**198,489**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**198,489**
ZE Switkowski[(3)]	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
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

	NOTE	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000	PARENT 2014 $'000	PARENT 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 FOR FINANCIAL POSITION

For the year ended 31 December 2014

	NOTE	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000	PARENT 2014 $'000	PARENT 2013 $'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	AMALGAMATION 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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 programmes 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 programme which requires an external audit of each material producing field every three years, as well as other assumptions, interpretations and assessments.

These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the 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)

2 SEGMENT REPORTING (CONTINUED)

The difference between capital expenditure and assets disclosed on page 109 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.

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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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).

3 REVENUE

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000	PARENT 2014 $'000	PARENT 2013 $'000
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.

6 NET FINANCE COSTS

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000	PARENT 2014 $'000	PARENT 2013 $'000
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
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	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.

10 DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
At cost				
Materials and supplies	**129,706**	127,625	**–**	–
Petroleum products	**30,483**	4,029	**–**	–
	160,189	131,654	**–**	–

13 OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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.

14 EXPLORATION AND EVALUATION ASSETS (CONTINUED)

(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

	OIL AND GAS			OTHER PLANT AND EQUIPMENT			
CONSOLIDATED	DEVELOPMENT $'000	PRODUCING $'000	TOTAL $'000	MARINE $'000	RIGS $'000	CORPORATE $'000	TOTAL $'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 $'000	2013 $'000	2014 $'000	2013 $'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

	NOTES	CONSOLIDATED		PARENT	
		2014 $'000	2013 $'000	2014 $'000	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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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).

19 SHARE CAPITAL AND RESERVES

	CONSOLIDATED	
	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

	2014 SHARES	2013 SHARES	2014 $'000	2013 $'000
Movements in issued and fully paid shares				
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%.

19 SHARE CAPITAL AND RESERVES (CONTINUED)

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	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

(a) Cash and cash equivalents

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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.

(b) Reconciliation of cash flows from operating activities

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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.

20 STATEMENT OF CASH FLOWS (CONTINUED)

(c) Non-cash transactions

	CONSOLIDATED	
	2014 $'000	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 $'000	2013 $'000	2014 $'000	2013 $'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 Dec 2013	**–**	–	–	–	–	–	–	–
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%

21 EMPLOYEE BENEFITS AND SHARE-BASED PAYMENTS (CONTINUED)

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.

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 Jun 2010	1 Jun 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$7.69	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	2014	2013	2013	2012	2011	2010
Grant date	**7 Nov 2014**	**19 May 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**	**$8.80**	**$7.92**	**$7.92**	**$7.72**	**$7.72**	$7.87	$7.87	A$7.21	A$6.96	A$5.79
Exercise date	**1 Mar 2016**	**1 Jan 2016**	**1 Jan 2016**	**1 Jan 2015**	**24 Feb 2016**	**24 Feb 2015**	31 Oct 2014	1 Jan 2015	1 Jan 2014	1 Jan 2013	27 Apr 2014
Exercise price	**$A nil**	**$A nil**	**$A nil**	**$A nil**	**$A nil**	**$A nil**	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of shares											
Balance at 1 January 2014	–	–	–	–	–	–	40,000	321,230	72,648	–	100,000
Granted during year	**40,000**	**292,398**	**15,150**	**15,150**	**16,200**	**16,200**	–	–	–	–	–
Forfeited during year	–	–	–	–	–	–	–	–	–	–	–
Vested during year	–	–	–	–	–	–	(40,000)	–	(72,648)	–	(100,000)
Balance at 31 December 2014	**40,000**	**292,398**	**15,150**	**15,150**	**16,200**	**16,200**	**–**	**321,230**	**–**	**–**	**–**
Exercisable at 31 December 2014	–	–	–	–	–	–	–	–	–	–	–
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

Director 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]	
	2014	2013	2014	2013	2014	2013
Directors						
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.

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 $'000	2013 $'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.

24 COMMITMENTS

Finance lease commitments

	CONSOLIDATED		PARENT	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
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 $'000	2013 $'000	2014 $'000	2013 $'000
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

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST % 2014	OWNERSHIP INTEREST % 2013
Parent entity			
Oil Search Limited	PNG		
Consolidated entities			
Oil Search (Middle Eastern) Limited	British Virgin Is.	**100**	100
Oil Search (Iraq) Limited	British Virgin Is.	**100**	100
Oil Search (Libya) Limited	British Virgin Is.	**100**	100
Oil Search (Tunisia) Limited	British Virgin Is.	**100**	100
Oil Search (Newco) Limited	British Virgin Is.	**100**	100
Oil Search (ROY) Limited	British Virgin Is.	**100**	100
Oil Search (Gas Holdings) Limited	PNG	**100**	100
Oil Search (Tumbudu) Limited	PNG	**100**	100
Oil Search (P'nyang) Holdings Limited	PNG	**100**	100
Oil Search (P'nyang) Limited	PNG	**100**	100
Oil Search (PNG) Limited	PNG	**100**	100
Oil Search (Drilling) Limited	PNG	**100**	100
Oil Search (Exploration) Inc.	Cayman Is.	**100**	100
Oil Search (LNG) Limited	PNG	**100**	100
Oil Search Finance Limited	British Virgin Is.	**100**	100
New Guinea Investments Limited	PNG	**100**	100
New Guinea (Petroleum) Limited	PNG	**100**	100
Oil Search Health Foundation Limited(1)	PNG	**100**	100
Papuan Oil Search Limited	Australia	**100**	100
Oil Search (Uramu) Pty Limited	Australia	**100**	100
Oil Search Limited Retention Share Plan Trust	Australia	**100**	100
Pac LNG Investments Limited	PNG	**100**	–
Pac LNG Assets Limited	PNG	**100**	–
Pac LNG International Limited	PNG	**100**	–
Pac LNG Overseas Limited	PNG	**100**	–
Pac LNG Holdings Limited	PNG	**100**	–

(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:

	PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(i) Exploration licences			
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.

26 SUBSIDIARIES AND INTERESTS IN JOINT ARRANGEMENTS (CONTINUED)

		PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(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.

	PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(iii) Other projects			
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:

		PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(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.

26 SUBSIDIARIES AND INTERESTS IN JOINT ARRANGEMENTS (CONTINUED)

	PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(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%.

		PRINCIPAL PLACE OF BUSINESS	% INTEREST 2014	% INTEREST 2013
(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,

27 FINANCIAL AND CAPITAL RISK (CONTINUED)

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 (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

27 FINANCIAL AND CAPITAL RISK (CONTINUED)

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

(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.

27 FINANCIAL AND CAPITAL RISK (CONTINUED)

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	**–**	–

(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).

27 FINANCIAL AND CAPITAL RISK (CONTINUED)

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			
NON-DERIVATIVE FINANCIAL LIABILITIES	CARRYING AMOUNT $'000	TOTAL $'000	LESS THAN 1 YEAR $'000	1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000
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 facilities

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.

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.

27 FINANCIAL AND CAPITAL RISK (CONTINUED)

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

31 December 2014

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

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com.pg

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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 98 to 135.

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 78 to 96 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

OIL SEARCH LIMITED

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 9 March 2015 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	20,213	9,814,603	0.64
1,001 – 5,000	21,046	52,302,942	3.43
5,001 – 10,000	5,321	37,895,681	2.49
10,001 – 100,000	3,203	65,681,037	4.31
100,001 – 9,999,999,999	189	1,356,998,324	89.12
Total	**49,972**	**1,522,692,587**	**100.00**

(b) The 20 largest ordinary shareholders representing 84.48% of the ordinary shares as at 9 March 2015 were as follows:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1. J P Morgan Nominees Australia Limited	406,319,484	26.68
2. HSBC Custody Nominees (Australia) Limited	263,578,254	17.31
3. National Nominees Limited <DB A/C>	202,143,638	13.28
4. National Nominees Limited	167,979,528	11.03
5. Citicorp Nominees Pty Limited	102,986,422	6.76
6. BNP Paribas Noms Pty Ltd <DRP>	34,953,711	2.30
7. UBS Nominees Pty Ltd	17,551,606	1.15
8. Australian Foundation Investment Company Limited	16,482,507	1.08
9. AMP Life Limited	12,431,016	0.82
10. RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	11,362,877	0.75
11. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	10,521,128	0.69
12. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	9,816,590	0.64
13. UBS Wealth Management Australia Nominees Pty Ltd	7,469,461	0.49
14. National Superannuation Fund Limited	6,081,472	0.40
15. Djerriwarrh Investments Limited	3,957,213	0.26
16. Mrs Frances Claire Fox <Thomas J Beresford Will A/C>	3,006,829	0.20
17. Warbont Nominees Pty Ltd <Accumulation Entrepot A/C>	2,628,015	0.17
18. RBC Investor Services Australia Nominees Pty Limited <PISELECT>	2,484,162	0.16
19. Mr Kwok Ching Chow + Ms Pik Yun Peggy Chan	2,475,916	0.16
20. Australian United Investment Company Limited	2,200,000	0.14
Total	**1,286,429,829**	**84.48**

(c) Issued capital as at 9 March 2015 was:

- 1,522,692,587 ordinary fully paid shares
- 4,072,168 unlisted performance rights
- 409,668 restricted shares
- 2,992,550 share appreciation rights
- 574,784 share rights

The trustee for the employee share plan holds 406,427 shares that are available to satisfy the exercise of employee rights and options and vesting of restricted shares. The shares in the trust are part of the issued capital.

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 9 March 2015:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
International Petroleum Investment Company	196,604,177	12.91
The Capital Group Companies	191,234,253	12.56
NPCP Investments	149,390,244	9.81

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

(f) At 9 March 2015, 1,676 holders held unmarketable parcels of ordinary shares in the Company.

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

SHAREHOLDER INFORMATION

ANNUAL MEETING

Oil Search's 2015 Annual Meeting will be held at the Crowne Plaza Hotel, Port Moresby, Papua New Guinea on Friday, 15 May 2015, commencing at 9:30am (Port Moresby time).

2014 FINAL DIVIDEND

The 2014 final dividend will be paid on 8 April 2015 to shareholders registered at the close of business on 11 March 2015.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB credit with the Company's share registry, Computershare, and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies are the rates as on the record date, 11 March 2015.

The dividend will be unfranked and no withholding tax will be deducted. The Company's dividend reinvestment plan has been suspended.

SHARE REGISTRY

Enquiries

Oil Search's share register is handled by Computershare. Please contact Computershare for all shareholding and dividend related enquiries.

Change of shareholder details

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

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

Computershare Investor Services Pty Limited

GPO Box 2975
Melbourne VIC 3001,
Australia

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

Facsimile: +61 3 9473 2500

Email: oilsearch@computershare.com.au

Website: www.computershare.com.au

AMERICAN DEPOSITARY RECEIPTS PROGRAMME

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

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

SHARE CODES

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

OIL SEARCH WEBSITE

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

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

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

KEY ANNOUNCEMENTS IN 2014

January	28	Release of 2013 4Q results
February	27	Release of 2013 Full Year results
	27	Acquisition of interest in PRL15
March	07	Ex-dividend date for 2013 final dividend
	13	Record date for 2013 final dividend
April	08	Payment of 2013 final dividend
	11	Release of 2013 Annual Report
	22	Release of 2014 1Q results
	29	PNG LNG Project starts LNG production ahead of schedule
May	16	Annual Meeting
	26	PNG LNG Project ships first LNG cargo
June	4	Full Year 2014 production guidance upgraded to 17-20 mmboe.
July	22	Release of 2014 2Q results
August	19	Release of 2014 Half Year results
September	09	Ex-dividend date for 2014 interim dividend
	11	Record date for 2014 interim dividend
October	07	Payment of 2014 interim dividend
	23	Release of 2014 3Q results
	23	Release of 2014 Strategic Review recommendations
December	31	End of Financial Year

2015 FINANCIAL CALENDAR[1]

January	29	Release of 2014 4Q results
February	24	Release of 2014 Full Year results
March	06	Ex-dividend date for 2014 final dividend
	11	Record date for 2014 final dividend
April	08	Payment of 2014 final dividend
	10	Release of 2014 Annual Report
	21	Release of 2015 1Q results
May	15	Annual Meeting
July	21	Release of 2015 2Q results
August	25	Release of 2015 Half Year results
September	04	Ex-dividend date for 2015 interim dividend
	08	Record date for 2015 interim dividend
	29	Payment of 2015 interim dividend
October	20	Release of 2015 3Q results
December	31	End of Financial Year

(1) Dates are subject to change.

TEN–YEAR SUMMARY[1]

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
INCOME STATEMENT				
Revenue	**1,610,370**	766,265	724,619	732,869
Production costs	**(235,380)**	(126,442)	(112,042)	(93,919)
Other operating costs	**(125,769)**	(87,392)	(88,244)	(53,362)
Other income	**7,762**	216	45,079	138
EBITDAX[2]	**1,256,983**	**552,647**	**569,412**	**585,726**
Depreciation and amortisation	**(252,671)**	(50,201)	(49,457)	(51,307)
Exploration costs expensed	**(109,132)**	(107,424)	(143,970)	(60,633)
EBIT	**895,180**	**395,022**	**375,985**	**473,786**
Net finance (costs)/income	**(129,595)**	(15,152)	(4,557)	(658)
Acquisition accounting adjustment	**–**	–	–	–
Net impairment (losses)/reversals	**(180,593)**	–	(23,793)	(33,227)
Profit before income tax	**584,992**	**379,870**	**347,635**	**439,901**
Income tax expense	**(231,774)**	(174,148)	(171,801)	(237,418)
Net profit after income tax, significant items	**353,218**	**205,722**	**175,834**	**202,483**
Significant items	**129,624**	–	22,796	(33,227)
Net profit after tax, before significant items	**482,842**	**205,722**	**198,630**	**169,256**
Dividends paid – ordinary	**(60,308)**	(53,532)	(53,143)	(52,663)
BALANCE SHEET				
Total assets	**10,727,246**	8,421,537	7,102,721	5,702,034
Total cash	**960,166**	209,661	488,274	1,047,463
Total debt	**4,421,065**	4,024,421	2,866,050	1,747,567
Shareholders' equity	**5,025,476**	3,421,052	3,208,346	3,017,232
OTHER INFORMATION				
Average realised oil and condensate price (US$/bbl)	**99.79**	110.73	113.97	116.09
Average realised LNG and gas price (US$/mmBtu)	**13.94**	–	–	–
Net annual oil and condensate production (mmbbl)	**7.93**	5.82	5.50	5.76
Net annual gas production (bcf)[3]	**57.87**	5.51	5.27	5.56
Total BOE net annual production (mmboe)	**19.27**	6.74	6.38	6.69
Exploration and evaluation expenditure incurred (US$'000)	**1,246,939**	293,985	240,615	144,606
Assets in development expenditure incurred (US$'000)	**502,566**	1,214,615	1,492,529	1,286,542
Producing assets expenditure incurred (US$'000)	**105,677**	152,600	111,498	129,396
Operating cash flow (US$'000)	**992,304**	366,804	196,226	386,193
Operating cash flow per ordinary share (US cents)	**66.96**	27.39	14.75	29.3
Diluted EPS (including significant items) (US cents)	**23.8**	15.3	13.2	15.3
Basic EPS (excluding significant items) (US cents)	**32.6**	15.4	11.5	17.9
Ordinary dividend per share (US cents)	**8.0**	4.0	4.0	4.0
Special dividend per share (US cents)	**4.0**	–	–	–
Gearing (%)[4]	**40.8%**	52.7%	42.6%	18.8%
Return on average shareholders' funds (%)	**8.4%**	6.2%	5.6%	7.0%
Number of issued shares – ordinary (000's)	**1,522,693**	1,343,361	1,334,757	1,325,155
EXCHANGE RATES				
Year end A$: US$	**0.820**	0.895	1.038	1.016
Average A$: US$	**0.903**	0.969	1.036	1.032

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

TEN–YEAR SUMMARY

2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000
583,560	512,154	814,330	718,755	645,070	663,993
(87,770)	(84,104)	(92,870)	(93,650)	(78,655)	(83,696)
(24,078)	(18,663)	(23,399)	(26,209)	(23,825)	(25,998)
3,158	14,914	126,145	1,291	260,488	4,184
474,870	**424,301**	**824,206**	**600,187**	**803,078**	**558,483**
(49,874)	(105,416)	(127,230)	(135,939)	(102,975)	(94,738)
(131,188)	(75,729)	(91,234)	(163,324)	(46,765)	(37,334)
293,808	**243,156**	**605,742**	**300,924**	**653,338**	**426,411**
(826)	(3,326)	6,093	22,791	21,802	(2,035)
–	–	–	–	–	350
(15,808)	–	(91,530)	129	(65,180)	–
277,174	**239,830**	**520,305**	**323,844**	**609,960**	**424,726**
(91,572)	(106,150)	(206,943)	(185,972)	(197,978)	(224,548)
185,602	**133,680**	**313,362**	**137,872**	**411,982**	**200,178**
41,488	34,058	73,396	(3,621)	204,437	–
227,090	**167,738**	**386,758**	**134,251**	**616,419**	**200,178**
(52,087)	(67,359)	(89,415)	(89,587)	(100,739)	(55,896)
4,370,067	3,077,390	2,005,457	1,833,479	1,802,755	1,519,529
1,263,589	1,288,077	534,928	343,578	477,884	212,163
929,720	–	–	–	–	126,000
2,798,467	2,593,181	1,593,227	1,389,132	1,340,980	1,020,713
80.19	65.40	100.10	77.78	67.22	58.06
–	–	–	–	–	–
6.77	7.20	7.71	8.98	9.22	11.15
5.35	5.52	5.35	4.80	5.13	5.40
7.66	8.12	8.58	9.78	10.20	12.18
175,980	438,922	257,286	222,391	120,929	78,624
1,139,058	–	4,214	37,617	294	104,625
41,850	142,325	157,584	57,219	143,367	76,799
346,675	284,099	507,423	326,783	398,978	357,715
26.5	24.5	45.3	29.2	35.6	32.0
14.1	11.5	27.8	12.2	36.6	17.8
11.0	8.6	21.4	12.6	18.5	17.9
4.0	4.0	8.0	8.0	8.0	5.0
–	–	–	–	–	2.0
–	–	–	–	–	–
6.9%	6.4%	21.0%	10.1%	34.9%	21.2%
1,312,888	1,299,562	1,119,841	1,119,841	1,119,841	1,118,895
1.016	0.897	0.693	0.791	0.791	0.734
0.919	0.792	0.868	0.836	0.752	0.762

GLOSSARY

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

1C
Low estimate of contingent resources.

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

1P
Proved reserves.

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

2C
Best estimate of contingent resources.

2P
Proved and probable reserves.

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

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

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

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

bopd
Barrels of oil per day.

Btu
British thermal units, a measure of thermal energy.

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

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

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

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

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

EITI
Extractive Industries Transparency Initiative.

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

FID
Final Investment Decision.

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

GHG
Greenhouse gas.

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

ITCS
Infrastructure Tax Credit Scheme.

JV
Joint venture.

LNG
Liquefied natural gas.

LPG
Liquid petroleum gas.

GLOSSARY

LTI
Long-term incentive.

LTIR
Lost Time Injury Rate.

MENA
Middle East/North Africa.

mmbbl
Million barrels.

mmBtu
Million British thermal units.

mmscf/d
Million standard cubic feet per day.

MoU
Memorandum of Understanding.

MTPA
Million tonnes per annum (LNG).

Net debt
Total debt less cash and cash equivalents.

PDL
Petroleum Development Licence.

PJ
Petajoules – joules are the metric measurement unit for energy – a petajoule is equal to 1 joule x 1015.

PL
Pipeline Licence.

PNG
Papua New Guinea.

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

PPFL
Petroleum Processing Facilities Licence.

PPL
Petroleum Prospecting Licence.

PRL
Petroleum Retention Licence.

PSC
Production Sharing Contract.

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

scf
Standard cubic feet, a measure of gas volume.

STI
Short-term incentive.

tcf
Trillion cubic feet, a measure of gas volume.

TRIR
Total Recordable Injury Rate.

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

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

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

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

CORPORATE DIRECTORY

REGISTERED OFFICE

Oil Search (PNG) Limited
Ground Floor, Credit House
Cuthbertson Street
Port Moresby
Papua New Guinea

PO Box 842
Port Moresby
NCD 121
Papua New Guinea

Telephone: +675 322 5599
Facsimile: +675 322 5566

AUSTRALIAN OFFICES

Papuan Oil Search Limited

Sydney Office

1 Bligh Street
Sydney NSW 2000 Australia

GPO Box 2442
Sydney NSW 2001 Australia

Telephone: +61 2 8207 8400
Facsimile: +61 2 8207 8500

Brisbane Office

Level 11
15 Green Square Close
Fortitude Valley QLD 4006 Australia

GPO Box 160
Fortitude Valley QLD 4006 Australia

Telephone: +61 7 3114 1799
Facsimile: +61 7 3114 1750

YEMEN OFFICE

Oil Search (ROY) Limited

Haddah Street
Haddah Residential Complex
B6 Penthouse
Sana'a
Republic of Yemen

Telephone: +967 1 423 440/441/422
Facsimile: +967 1 410 314

DUBAI OFFICE

Oil Search (Middle Eastern) Limited
Al Attar Business Tower
Level 8, Office 802
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone: +971 4 331 4884
Facsimile: +971 4 331 1610

TUNISIA OFFICE

Oil Search (Tunisia) Limited
Immeuble Regency – Bloc A Appt 401
Rue du Lac Leman
Les Berges du Lac, 1053
Tunis, Tunisia

Telephone: +216 71 860 532
Facsimile: +216 71 960 473

IRAQ OFFICES

Oil Search (Iraq) Limited

Erbil Office

English Village
Villa # 115 Gulan Street
Erbil, Kurdistan
Iraq

Telephone: +964 53 328 2214
Facsimile: +61 2 8103 2037

Sulaymaniyah Office

Grand Millennium Hotel
Bakhtiary
Sulaymaniyah, Kurdistan
Iraq

Telephone: +964 (0) 780 194 6668
Facsimile: +61 2 8103 2037

ABOUT OIL SEARCH

ABOUT OIL SEARCH

Oil Search was established in Papua New Guinea in 1929. More than 95% of the Company's assets are in PNG, where it operates all of the country's producing oil fields, holds an extensive exploration and appraisal portfolio and has a 29% interest in the US$19 billion PNG LNG Project. This world-class liquefied natural gas (LNG) development, which shipped its first LNG cargo in May 2014, has added materially to Oil Search's production base, transforming the Company into a regionally significant oil and gas producer with a long-term revenue stream from LNG.

Oil Search has a comprehensive exploration and appraisal programme to underpin LNG expansion in PNG and also has exploration interests in the Middle East and North Africa.

It is listed on the Australian and Port Moresby stock exchanges (OSH) and its ADRs trade on the US Over The Counter market (OISHY).

www.oilsearch.com

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