Results for the year ended 31 December 2016

21 February 2017

Highlights

Year to 31 December	2016	2015	% change
Total production (mmboe)	**30.24**	**29.25**	*+3*
Total sales (mmboe)	**30.59**	**28.76**	*+6*
Average realised oil and condensate price (US$/bbl)	**45.04**	**51.36**	*-12*
Average realised LNG and gas price (US$/mmBtu)	**6.36**	**9.44**	*-33*
Total revenue (US$m)	**1,235.9**	**1,585.7**	*-22*
Net profit/(loss) after tax (US$m)	**89.8**	**(39.4)**	*N.M*
Core profit[1] (US$m)	**106.7**	**359.9**	*-70*
Operating cash flow (US$m)	**555.1**	**952.7**	*-42*
Total dividend (US cents)	**3.5**	**10.0**	*-65*

1. Core profit (net profit after tax before significant items) is a non-IFRS measure that is presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to audit by the Group's auditor. Reconciliation to statutory net profit after tax is shown in the '2016 Performance Summary' on page 12.

- **Total oil and gas production in 2016 reached an all-time record for Oil Search, of 30.24 million barrels of oil equivalent (mmboe), 3% higher than in 2015. The increase was driven by an excellent performance from the PNG LNG Project, which produced at an average rate of 7.9 MTPA during the year, compared to nameplate capacity of 6.9 million tonnes per annum (MTPA). Production from the mature PNG oil fields was also better than expected, due to improvements in facilities uptime and active reservoir management.**

- **A record level of hydrocarbon sales was also achieved, 6% higher than in 2015, reflecting higher production and timing of LNG liftings. The impact of higher production and sales on revenue was offset by lower realised oil and LNG prices, resulting in a 22% decline in revenue from 2015 levels.**

- **The Company continued to be successful in lowering unit production costs, which fell from US$10.08 per barrel of oil equivalent (boe) in 2015 to a very competitive US$8.50 per boe. Unit production costs have declined 30% since 2014, reflecting the successful implementation of a series of cost reduction programmes and a higher proportion of lower cost production from the PNG LNG Project.**

- **Core profit for 2016 was US$106.7 million, a good result given the oil and LNG price environment during the year. Statutory net profit after tax of US$89.8 million included a profit, net of costs, of**

US$18.7 million from the break fee received from ExxonMobil relating to the InterOil transaction, offset by a one-off, non-cash restatement of deferred tax balances of US$35.6 million.

- **A 2016 final unfranked dividend of two and a half US cents per share was announced, taking the total 2016 dividend, including the interim dividend of one US cent per share, to three and a half US cents per share. This represents a full year dividend payout ratio of 50% based on core profit, at the upper end of the Company's payout range.**

- **The Company continued to build on its quality reserves and resources base during the year, providing a platform for further production growth. Following a resource recertification of the PNG LNG Project fields by independent expert Netherland, Sewell and Associates, Inc. (NSAI), Oil Search's PNG LNG Project reserves increased materially, up 50% on a 1P (proved) basis and 12% on a 2P (proved and probable) basis. In addition, 253.9 bcf of gas and 13.1 million barrels (mmbbl) of condensate was added to the Company's 2C contingent gas and liquids resources, respectively, due to the successful appraisal of the Elk-Antelope fields in PRL 15. This was partially offset by the removal of 21.9 mmbbl of 2C contingent oil and 6.3 bcf of 2C contingent gas reflecting the Company's exit from the Middle East. At present production rates, the Company's reserves cover represents a healthy 16 years and 18 years at the 1P and 2P levels, respectively, while the 2P reserves and 2C contingent resources cover is 44 years.**

- **An independent gas certification of the Elk-Antelope fields took place during 2016. The average estimated 2C contingent resource of the two certifiers is consistent with Oil Search's revised internal estimates. Together with existing resources at P'nyang and the upgrade in PNG LNG reserves, this certification supports Oil Search's view that there are sufficient gas resources available to support further expansion of PNG LNG production as well as two new PNG LNG-sized trains in PNG. Exploration success at Muruk towards the end of the year has further increased the options for development, particularly given the proximity of this exciting new gas discovery to existing infrastructure. Oil Search is committed to continuing to promote a cooperative development agenda. We expect formal discussions between key stakeholders, including ExxonMobil and Total, the operators of PNG LNG and PRL 15 respectively, as well as the PNG Government, to commence in 2017, to ensure the most capital efficient approach to developing the next phase of LNG expansion in PNG.**

- **At year end, the Company held total liquidity of US$1.61 billion, comprising US$863 million in cash and US$750 million in available committed funding lines. This liquidity, combined with strong operating cash flows, provides a substantial financial cushion, enabling the Company to pursue its growth initiatives.**

- **Oil Search enters 2017 in a strong operational and financial position. Underwritten by a large, high quality reserves and resource base, together with a good cash flow and strong balance sheet, there is an unprecedented opportunity to create substantial value for the Company, its operating partners and PNG through the timely development of PNG's LNG expansion projects. Delivering on these new developments, as well as optimising the existing producing assets, looking for longer term growth opportunities and maintaining a stable operating environment remain key strategic objectives for the Company.**

Commenting on the 2016 results and the outlook for 2017, Oil Search Managing Director, Peter Botten, said:

Financial results

"Oil Search reported a core profit in 2016 of US$106.7 million. Annual production of 30.24 mmboe and sales of 30.59 mmboe were the highest in the Company's history, up 3% and 6%, respectively, on last year. This record performance reflected an excellent performance from the PNG LNG Project, as well as better than expected production from our mature PNG oil fields. However, the increase in product sales was offset by lower global oil and gas prices, with the average realised oil and condensate price down 12% and the LNG and gas price 33% lower than in 2015.

Oil Search continued to focus on its operational efficiencies and cost structure during the year, in response to the ongoing weakness in oil and gas prices. Unit production costs were reduced to US$8.50 per boe, 16% lower than in 2015. This is the third consecutive year of material reductions in unit production costs, down from US$12.21 per boe in 2014 and US$10.08 per boe in 2015, representing a 30% decrease over three years. This resulted from an increasing proportion of lower cost PNG LNG production, together with a focused and disciplined approach to reducing costs within the Company's operated business. Oil Search's cash operating margin in 2016 was a very healthy 69%, a strong result given the challenging oil and gas price environment. Depreciation and amortisation charges of US$13.68 per boe were towards the bottom of the guidance range.

The statutory reported profit for 2016 was US$89.8 million. Profit was boosted by the break fee received from ExxonMobil due to the termination of Oil Search's bid for InterOil, with Oil Search realising a net profit of US$18.7 million, after costs. This was offset by a one-off, non-cash restatement of deferred tax balances of US$35.6 million, following a reduction in oil field tax rates from 50% to 30%. As a result, the effective tax rate on reported profit for the 2016 full year was 51.5%. Stripping out these items, the effective tax rate was 35.8%.

Despite the weak oil and gas price environment and ongoing expenditure on value-adding exploration and appraisal activities during the year, the Company reduced its net debt position by nearly US$242 million over the year, highlighting the strength of the Company's asset base. At the end of 2016, Oil Search had total liquidity of US$1.61 billion. Together with strong cash flows from our operations, this is more than sufficient to fund all current committed activities, including expenditures on progressing our highly competitive LNG expansion opportunities."

2016 final dividend of 2.5 US cents per share, dividend policy remains unchanged

"The Board has approved the payment of a 2016 final unfranked dividend of two and a half US cents per share. Including the one US cent per share interim dividend, the total dividend payment for the 2016 full year is three and a half US cents per share, compared to ten US cents per share in 2015. The 2016 payments represent a dividend payout ratio of 50% of core profit, at the upper end of the range specified in the Board's dividend policy of distributing between 35% and 50% of core profit.

The Board continues to believe that the Company's proportional dividend policy, where dividend payments are related to the Company's profitability, is the most appropriate given the uncertain future oil price environment.

Following taxation amendments announced in the PNG 2017 Budget released in November 2016, which included the removal of an exemption from withholding taxes on earnings sourced from PNG petroleum operations, the 2016 final dividend will be subject to a 15% withholding tax. Oil Search's dividend reinvestment plan remains suspended."

2016 production a record for the Company and above guidance

"Total production in 2016 was 30.24 mmboe, 3% higher than in the previous year and an all-time record for the Company.

The PNG LNG Project operated at an annualised production rate of approximately 7.9 MTPA during 2016, 14% above nameplate capacity. Facility processing performance improved progressively over the year, reaching an annualised production rate of 8.3 MTPA in the fourth quarter, the highest quarterly rate since production commenced in 2014. These excellent results were achieved despite the plant experiencing an unplanned shut-down during the June quarter, the first full shut-down since operations began, and a small reduction in gas flows and LNG production in the third quarter due to a landowner protest at the Hides Gas Conditioning Plant. Both issues were resolved promptly and safely, with minimal impact to overall production levels.

During the period, strong upstream deliverability and high levels of reliability from all components of the PNG LNG Project infrastructure, including the Hides wells, the Oil Search-operated Associated Gas (AG) fields, the Hides Gas Conditioning Plant and the pipeline network, was maintained. Very pleasingly, the Project recorded zero Lost Time Incidents (LTIs) during the year, continuing its excellent safety record, with no LTIs incurred since the Project came on-stream.

Production from our operated PNG fields was 6.83 mmboe, produced at a gross average rate of 36,112 boepd. The mature oil fields performed better than our expectations, due to improvements in facilities uptime and strong contributions from Kutubu and Moran reservoir management and well interventions. In addition, the result also benefited from higher third party gas sales from the SE Gobe field to the PNG LNG Project, as well as increased sales from the Hides GTE Project to the Porgera Gold Mine."

Strong safety performance in 2016

"During 2016, we instigated new safety improvement initiatives, focused on a number of areas where we identified that a small increase in operational awareness could make a meaningful difference to safety outcomes. This was in response to an increase in our Total Recordable Incident Rate (TRIR) in the first half of the year. Together with a strong leadership presence in the field, we saw a dramatic reduction in recordable incidents. In addition, we worked with our contractor partners to improve their safety processes. With a marked improvement in the second half, the TRIR for 2016 ended at 1.53 per million hours worked, representing a 20% improvement over the 2015 TRIR of 1.91.

Process safety performance continues as a key focus in our production and drilling operational areas. 2016 saw the completion of several engineered projects to reduce process safety exposures and the introduction of more robust process safety reporting systems, which will support continued improvement. Our strong environmental performance was further embedded in 2016, including the continuation of our ISO 14001 certification.

While our safety record places us in the top quartile among our peers, we will continue to evolve our processes and further embed personal and process safety as top priorities into our operating culture."

LNG expansion activities progressing, cooperation a key agreed agenda item

"In May 2016, Oil Search announced an agreed bid to acquire PRL 15 joint venture partner, InterOil Corporation, and a separate Memorandum of Understanding with Total to on-sell certain of the InterOil assets acquired. These transactions were designed to provide a pathway for a coordinated approach to the development of the Elk-Antelope fields in PRL 15 and the potential expansion of the PNG LNG Project, to drive capital efficiency and generate superior returns for Oil Search and its partners, including the PNG Government and landowners. In July 2016, InterOil notified Oil Search that it had received an unsolicited superior offer from ExxonMobil Corporation and subsequently revised its recommendation to InterOil shareholders and entered into an agreement with ExxonMobil. Oil Search decided not to submit a revised offer for InterOil, as we believe that the likelihood of achieving cooperation between PRL 15 and PNG LNG, the key objective of our InterOil bid, is maximised by ExxonMobil being an equity holder in both assets.

Total and ExxonMobil have both expressed their desire to work together to develop optimal outcomes for future LNG development in PNG. Preliminary discussions have already taken place on this and more detailed discussions are expected to commence once there has been a successful conclusion of the ExxonMobil bid for InterOil. Following a challenge to ExxonMobil's initial offer, InterOil shareholders voted overwhelmingly on 14 February 2017 to accept ExxonMobil's revised offer, with the transaction expected to be completed shortly, subject to Canadian Court approvals.

Oil Search estimates that if the next phase of LNG expansion takes place in a coordinated and integrated manner, potential downstream capital cost savings are in the order of US$2-3 billion and operating cost savings may be in excess of US$125 million per annum.

With this in mind, the Company's focus in 2017 will remain on facilitating a cooperative development agenda with our partners and key in-country stakeholders. NSAI has recently completed a recertification of the resources in all PNG LNG fields, which we have used to define reserves using Oil Search's corporate assumptions. This has resulted in a 50% increase in our 1P PNG LNG sales gas reserves compared to the Company's 2015 reserve booking, equivalent to a 2.8 tcf increase of 1P sales gas on a gross basis. This substantial increase provides the flexibility to sustain the higher rates of production, of more than 8 MTPA, currently being achieved by the Project. The increase also allows for the optimal placement of production above existing long term contracts into additional mid or long term contracts or within the spot market.

In addition to this substantial uplift in PNG LNG reserves, there is approximately 10 tcf of discovered undeveloped 2C gas resources in the Elk-Antelope and P'nyang fields, which we believe is sufficient to support two additional 4 MTPA LNG trains. The recent exciting gas discovery at Muruk, which is located along trend from the Hides field, has the potential to further increase the resources available for expansion and has upgraded several exploration prospects nearby. Given Muruk's proximity to infrastructure, unit technical costs are likely to be low, which, with appropriate field phasing, could potentially improve expansion economics.

New LNG trains in PNG are expected to be among the most competitive new LNG developments globally. Since it commenced operation in 2014, the PNG LNG Project has consistently demonstrated excellent reliability and uptime, providing customers with high heating value gas and geographic diversity of supply. With a stable fiscal regime, strong Government support, world class operators and Oil Search's 87 years of in-country experience, we believe that LNG expansion in PNG is a compelling proposition. Oil Search remains committed to driving forward its high value, cost competitive LNG developments in a timeframe to capitalise on the expected opening in LNG markets in the early 2020s."

Elk-Antelope appraisal and licence extension

"Appraisal of the Antelope field in PRL 15 continued during 2016. This included an extended well test on Antelope 5, which confirmed the excellent reservoir quality and connectivity seen in the 2015 initial production test, and the Antelope 6 well, which encountered three dolomite intervals with good reservoir quality on the eastern flanks of the field and demonstrated connectivity with both Antelope 1 and Antelope 5.

The Antelope 7 appraisal well was spudded in early November with the objective of providing structural control and reservoir definition in the poorly defined western flank of the field. Following drilling difficulties, a mechanical sidetrack was kicked-off. The sidetrack drilled through the target depth for the appraisal section of 2,300 metres without penetrating carbonate, which is consistent with our base case interpretation.

Antelope 7ST1 is now being deepened to test the Antelope Deep prospect, a separate feature below the primary target.

Following a full technical assessment of the results to date, our estimate of 2C gross contingent resources in the Elk-Antelope fields has increased from 5.3 tcf of raw gas to 6.45 tcf of dry gas and 57.4 mmbbl of condensate (equivalent to 6.53 tcf of raw gas). This has resulted in the addition of 253.9 bcf of gas and 13.1 mmbbl of condensate to our net 2C contingent resource estimate for the fields.

During 2016, in accordance with the Sale and Purchase Agreement between Oil Search and the sellers of the PAC LNG Group of Companies (PAC sellers), an independent certification of the Elk-Antelope fields was completed by two world-class certifiers, Gaffney Cline & Associates (GCA) and NSAI. GCA and NSAI utilised a full set of available data, up to and including the results from the Antelope 5 long term test and the Antelope 6 appraisal well (but excluding Antelope 7). NSAI's estimate of 2C contingent resources is 6.06 tcf of raw gas and GCA's estimate is 6.88 tcf. The average 1C (proven contingent) and 2C (proven and probable contingent) resource of the two certifiers is 5.17 tcf and 6.43 tcf of raw gas, respectively, similar to Oil Search's estimates. As the average certified 2C resource is less than 7.0 tcf, Oil Search was not required to make an additional payment to the PAC sellers at this stage.

In December 2016, a five-year extension of the Petroleum Retention Licence was granted by the Government. The licence conditions, agreed between the PRL 15 Joint Venture and the Government, stipulate that pre-FEED and FEED studies should be completed within a two year timeframe, providing a clear line of sight to project milestones. Agreeing these terms highlights the Joint Venture's commitment to progressing with the timely development of the world class Elk-Antelope gas resource."

PRL 3 (P'nyang) activities

"During 2016, the PRL 3 Joint Venture continued to work closely with the Department of Petroleum and Energy and other Government agencies to progress the offer of a PDL and negotiate the terms of a Gas Agreement.

Preparatory works for drilling the P'nyang South 2 well are currently underway. Oil Search will operate the pad construction and will work closely with ExxonMobil to deliver the well. This will enable us to take advantage of synergies with our other operations, reducing overall costs. The constructive working arrangement at P'nyang is a good example of the excellent partnership between Oil Search and ExxonMobil and the willingness to leverage each other's respective strengths.

Main civil construction of the well pad is expected to commence in the second quarter of 2017, with spudding of the well targeted for the second half of 2017, after the wet season. The primary objective of the well is to migrate 2C resource into the 1C category, with recertification of the field planned to take place following completion of drilling.

Pre-FEED studies and field work are planned for 2017, to improve execution planning for field development. Regular meetings are planned with the Department of Petroleum and Energy, to progress the issue of a PDL and development of the field."

Exciting new gas discovery at Muruk

"Towards the end of 2016, the Muruk 1 exploration well in PPL 402 in the North West Highlands was drilled. Muruk, located between the PNG LNG Hides and Juha gas fields and approximately 21 kilometres from the nearest producing PNG LNG infrastructure, discovered gas in the primary objective, the Toro. Subject to appraisal, Muruk could be a major source of highly cost-competitive gas. The PPL 402 Joint Venture, comprising Oil Search, ExxonMobil and Santos, has agreed to fast track appraisal activities. We are currently drilling a northeast oriented geological sidetrack with a step out of approximately one kilometre, to evaluate the structure and investigate the extent of hydrocarbons. Subject to the results of Muruk 1ST1, a second, and possibly a third, sidetrack may be drilled, to further appraise the extent of the discovery. Preliminary discussions have also taken place within the Joint Venture on drilling a potential step-out appraisal well in 2018.

The Muruk discovery has significantly reduced the uncertainty of a number of leads and prospects on-trend with Muruk, which will be matured further during 2017 and beyond."

Exploration portfolio strengthened

"Oil Search expanded and high graded its exploration portfolio during the year. This included farming in, together with ExxonMobil, to two offshore deep-water, frontier blocks, PPL 374 and PPL 375, in the eastern Gulf of Papua. The blocks cover a combined area of almost 25,000 square kilometres, in water depths ranging from 1,000 metres to 2,500 metres and are highly prospective for gas.

Oil Search was also granted an interest in PPL 487 and was offered interests in APPL 504 and APPL 507, respectively, by the PNG Minister for Petroleum and Energy. A range of other new licence applications, currently with the Government, were also progressed.

Together with planned exploration activity on existing licences, the new licence positions provide a substantial opportunity set for further high impact exploration, capable of driving future growth."

Material increase in gas reserves

"As highlighted in the following table, there were a number of significant movements in our reserves and resources over 2016, including a 50% increase in PNG LNG Project 1P gas reserves following the NSAI recertification of resources in the PNG LNG Project fields and a 23% increase in 2C contingent gas resources in the Elk-Antelope fields, post the extensive appraisal drilling activity in 2016.

2016 Reserves and Resources

	2016	2015	% change	Key drivers
1P reserves:				
Gas (bcf)	**2,151**	1,442	+49	50% increase in PNG LNG Project reserves, partially offset by record gas production
Oil and condensate (mmbbl)	**62.3**	57.5	+8	13 mmbbl increase in PNG LNG Project liquids, offset by production of 8.5 mmbbl
2P reserves				
Gas (bcf)	**2,425**	2,178	+11	12% increase in PNG LNG Project reserves, partially offset by record gas production
Oil and condensate (mmbbl)	**75.7**	87.2	-13	3 mmbbl downward revision of PNG LNG liquids and production of 8.5 mmbbl
2C resources				
Gas (bcf)	**3,709**	3,610	+3	Addition of 254 bcf at Elk-Antelope, offset by 148 bcf relating to PNG LNG moved to 2P and removal of 6.3 bcf relating to Taza
Oil and condensate (mmbbl)	**48.3**	57.1	-15	Removal of 21.9 mmbbl relating to Kurdistan and Yemen, offset by 13 mmbbl addition at Elk-Antelope
Total 2P reserves and 2C resources				
Gas (bcf)	**6,134**	5,788	+6	
Oil and condensate (mmbbl)	**124.0**	144.3	-14	

The Company has not included any 2C contingent resources for Muruk, as it is too early to ascribe any material resources to the discovery, with drilling still underway. The Company's pre-drill estimates, of between 1 and 3 tcf potential, are unchanged

Based on 2016 production of 30.24 mmboe, Oil Search has a 1P reserves life of 16 years and a 2P reserves life of 18 years. A large proportion of the Company's substantial 2C resource base has a high probability of development."

See the 2016 Reserves and Resources Statement for full details.

Other activities in PNG in 2016

"In partnership with the PNG Government and key PNG energy companies, Oil Search continued to look for opportunities to deliver alternative energy supplies and lower carbon power solutions for PNG. During the year, we established a subsidiary, Oil Search Power Holdings Ltd, to manage our power projects in PNG.

In September 2016, the Company announced that it had entered into Front End Engineering and Design (FEED) on the Markham Valley Biomass Project. This followed the execution of a 25-year Power Purchase Agreement with PNG Power Limited (PPL) in December 2015. FEED activities will focus on refining the technical and commercial aspects of the Project to support a Final Investment Decision, which is expected to be made before the end of 2017.

Work in conjunction with PPL in Tari continued, including a power hook-up trial, while a study agreement with Kumul Petroleum Holdings, to explore the collaboration of Oil Search with Kumul across a range of potential PNG power projects, was signed. These projects include small scale LNG, with Oil Search undertaking studies during the year on the potential to monetise our smaller discovered gas fields through small scale LNG. Development of these stranded fields has historically focused on providing backfill gas to

PNG LNG or other LNG projects, which is a viable but long-dated option. Small scale LNG, with the gas sold to both regional markets in PNG and other countries in the Pacific region, utilising strategic partnerships and multiple small-scale LNG hub locations, would provide the opportunity for near-term development. Initial work has been encouraging, highlighting market demand for regionally based gas supply to major population centres and resource projects.

As part of a comprehensive strategy of community engagement, during 2016, Oil Search committed K185 million (US$56 million) to the Oil Search Foundation over five years, from 2016 to 2020. The Oil Search Foundation works in partnership with Government, communities and both public and private organisations to help PNG achieve its own development goals. The Foundation is focused on building the capacity of our partners to deliver services that are most beneficial to communities and are in line with the Government's national development priorities. Along with the Foundation's health programmes, two new development streams, Leadership and Education and Woman's Protection and Empowerment, were added to its mandate in 2016. These activities, together with the Company's extensive social programmes, undertaken both independently and through the Oil Search Foundation, are an important part of maintaining a stable operating environment in PNG."

Strategy Refresh

"A focused refresh of Oil Search's strategy was undertaken in 2016, taking into account both internal and external developments during 2015 and 2016. The review confirmed Oil Search's commitment to the strategic objectives identified by the 2014 Strategic Review, which include:

- Optimising the value of existing Oil Search oil and gas assets through safe, reliable and sustainable operations.
- Commercialising additional LNG trains, with gas sourced from the NW Highlands and Gulf Hubs, and ensuring optimal commercial integration between projects.
- Exploring for high value oil and gas accumulations in PNG with a clear monetisation pathway.
- Seeking monetisation opportunities for existing stranded gas fields in PNG.
- Developing options for material growth beyond the next phase of LNG expansion.
- Maintaining Oil Search as a leading corporate citizen in PNG 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.

The core outworking of this strategy refresh describes the various options of how the existing significant resource base available in PNG for LNG expansion and new development can be optimally commercialised and how cooperation between stakeholders can lead to material capital and operating cost savings.

This work provides the platform for stakeholder discussions on development following the entry of ExxonMobil into the Elk-Antelope Joint Venture, due in the first quarter of 2017. Licence terms and renewals have highlighted the need to progress towards FEED and project sanction prior to the end of 2018.

In line with the Company's strategy to maintain focus on its high-returning business in PNG, where it has the majority of its resources and a competitive advantage, Oil Search relinquished its interest in the Taza PSC in the Kurdistan Region of Iraq and is progressing the sale of the Company's interest in Yemen. This marks Oil Search's exit from the Middle East - North Africa region at the current time."

On the outlook for 2017, Mr Botten said:

"Over the past few months, global oil markets have rallied in response to OPEC's decision in late 2016 to cut production and appear to have stabilised in the US$50 - 60 per barrel range. Spot LNG prices have also increased sharply, driven by short term supply and seasonal issues. While we expect spot LNG prices to soften from current levels through 2017, the long term LNG market fundamentals remain strong, with major Asian buyers expected to have substantial new LNG requirements early next decade.

With this backdrop and given the Company's low cost asset base, Oil Search is in a good position to continue to generate strong cash flows from operations, the majority of which will be reinvested in our high-returning LNG growth opportunities in PNG. Key activities in 2017 will include the following:

- Continuing to focus on personal and process safety as the highest priority, including putting in place a number of initiatives to improve performance.
- Engagement with key stakeholders, including ExxonMobil, Total and the PNG Government, on how to deliver cost-effective, coordinated LNG expansion synergies within PNG.
- Maximising production from the oil fields, by optimising facility availability and reliability, well intervention strategies and assessing nearfield exploration drilling opportunities.
- Ensuring the ongoing reliable delivery of gas from Oil Search's operated fields to the PNG LNG Project and operation of the liquids export system.
- In conjunction with ExxonMobil, continuing to assess PNG LNG production acceleration opportunities from the Associated Gas fields or by boosting compression at Hides.
- Completing the Muruk 1 appraisal sidetracks and associated data collection, optimising the Muruk appraisal plan and undertaking early assessment of commercialisation pathways.
- Appraising the Forelands/Gulf region to assess the potential gas resource upside across the PRL 8 and PRL 9 licence areas.
- Continuing to grow the exploration portfolio through targeted licence acquisitions.
- Continuing to assess and develop power opportunities in PNG, including progressing the Biomass project to a Final Investment Decision and optimising options available for commercialising Highlands IPP. Work will also continue on defining development opportunities for non-PNG LNG related fields, including feasibility work on small scale LNG commercialisation.
- Continuing our comprehensive community programmes, supporting government initiatives for the provision of rural infrastructure and services, while working with all stakeholders to ensure benefits from our projects are efficiently delivered to relevant landowners.
- Identifying further opportunities to streamline the Company's work practices, processes and procedures.

2017 Guidance[1]:

Year to December	2016 Actual	2017 Guidance
Production		
Oil Search operated (PNG oil and gas)[2, 3] (mmboe)	6.83	5.5 – 6.5
PNG LNG Project		
LNG (bcf)	101.8	101 – 104
Power (mmscf)	-	600 – 650
Liquids (mmbbl)	3.45	3 – 3.5
Total PNG LNG Project (mmboe)	23.42	23.0 – 24.0
Total production (mmboe)	**30.24**	**28.5 – 30.5**
Operating costs		
Production costs (US$/boe)	8.50	8.50 – 10.50
Other operating costs (US$ million)[4]	161.0	135 – 145
Depreciation and amortisation (US$/boe)	13.68	12 – 13
Capital costs		
Production (US$ million)	38.3	45 – 65
Development – oil and gas (US$ million)	9.6	35 – 45
Exploration and evaluation (US$ million)	151.8	250 – 300
Other plant and equipment (US$ million)[5, 6]	17.9	30 – 50
Total (US$ million)	**217.6**	**360 – 460**

1. Numbers may not add due to rounding.
2. 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.
3. Includes 2.8 – 3.1 bcf (net) of SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development) and inventory movements. 2016 Actual includes the proposed IOC acquisition-related costs.
5. Includes power development costs.
6. Excludes finance leased assets.

As well as the removal of an exemption from withholding taxes on earnings sourced from PNG petroleum operations, referred to earlier, other taxation changes announced in the PNG 2017 Budget include a reduction in the tax rate on oil projects from 45-50% to 30% and the proposed extension of an additional profits tax to resource projects currently not subject to it, with these amendments intended to come into effect from 1 January 2017. The income tax arrangements for projects protected by fiscal stability agreements, such as the PNG LNG Project, remain unchanged. Discussions are being held with the Government to clarify the scope of the some of the legislative amendments.

As a result of the reduction in the oil field tax rate, the near term effective tax rate for the Company is expected to trend towards the 30% level now applying to both oil and gas fields."

PETER BOTTEN, CBE

Managing Director

21 February 2017

2016 PERFORMANCE SUMMARY[1]

Year to 31 December	2016	2015	% change
Sales data			
PNG LNG Project			
LNG (Billion Btu)	**118,574**	109,570	*+8*
Condensate ('000 bbls)	**3,371**	3,038	*+11*
Naphtha ('000 bbls)	**302**	237	*+27*
PNG oil ('000 bbls)	**5,097**	5,298	*-4*
Hides GTE			
Gas (Billion Btu)	**6,012**	5,700	*+5*
Condensate & refined products ('000 bbls)	**106**	106	-
Total barrels of oil equivalent sold ('000 boe) [2]	**30,593**	28,758	*+6*
Average realised oil and condensate price (US$/bbl) [3]	**45.04**	51.36	*-12*
Average realised LNG and gas price (US$/mmBtu)	**6.36**	9.44	*-33*
Financial data (US$ million)			
Revenue from operations	**1,235.9**	1,585.7	*-22*
Production costs	**(257.1)**	(294.8)	*-13*
Other operating costs[5]	**(131.7)**	(148.9)	*-12*
Loss on disposal of non-current assets	**-**	(5.5)	*N.M*
Other income[6]	**5.1**	14.8	*-66*
EBITDAX[4]	**852.2**	1,151.3	*-26*
Depreciation and amortisation	**(436.7)**	(407.8)	*+7*
Exploration costs expensed	**(53.2)**	(50.9)	*+5*
InterOil break-fee (net of costs)	**18.7**	-	*N.M*
EBIT[4]	**381.0**	692.6	*-45*
Net finance costs	**(196.0)**	(185.1)	*+6*
Impairment	**-**	(399.3)	*-100*
Profit before tax	**185.0**	108.3	*+71*
Taxation expense	**(95.2)**	(147.6)	*-36*
Net profit/(loss) after tax	**89.8**	(39.4)	*N.M*
Impairment (net of tax)	**-**	399.3	*N.M*
InterOil break-fee (net of costs and tax)	**(18.7)**	-	*N.M*
PNG tax law changes	**35.6**	-	*N.M*
Core profit[4]	**106.7**	359.9	*-70*
Net operating cash flow	**555.1**	952.7	-42
Per share data (US cents)			
Basic EPS before significant items	**7.0**	23.6	*-70*
Basic EPS after significant items	**5.9**	(2.6)	*N.M*
Diluted EPS before significant items	**7.0**	23.6	*-70*
Diluted EPS after significant items	**5.9**	(2.6)	*N.M.*
Net operating cash flow per share	**36.5**	62.6	*-42*
Interim dividend	**1.0**	6.0	*-83*
Final dividend	**2.5**	4.0	*-38*
Total dividend for the year	**3.5**	10.0	*-65*

1. Numbers and percentage moves may not add due to rounding.
2. Gas and LNG 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. Minor variations to the conversion factors may occur over time.
3. Average realised price for Kutubu Blend, including PNG LNG condensate.
4. EBITDAX (earnings before interest, tax, depreciation/amortisation, non-core activities, impairment and exploration), EBIT (earnings before interest, impairment and tax) and Core Profit are non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is unaudited but is derived from the financial statements which have been subject to audit by the Group's auditor.
5. Other operating costs exclude InterOil acquisition related costs of US$29.3 million.
6. Other income excludes US$48.0 million received from the break-fee relating to the InterOil transaction.

Financial position (US$ million)[1]

As at	31 Dec 2016	30 Jun 2016	31 Dec 2015
Cash and short-term deposits[2]	862.7	779.7	910.5
Debt (PNG LNG financing) [3]	(3,939.4)	(4,084.1)	(4,228.6)
Net debt	**(3,076.6)**	**(3,304.4)**	**(3,318.2)**
Total liquidity[4]	**1,612.7**	**1,527.7**	**1,658.5**

1. Numbers may not add due to rounding.
2. As at 31 December 2016, US$261.7 million was escrowed in PNG LNG Project accounts.
3. Excludes finance leases presented as ‘Borrowings’ in the Statement of Financial Position.
4. At the end of December 2016, the Company’s corporate facilities were undrawn for debt.

A full analysis of the financial results can be found in the Operating and Financial Review commencing on page 5 of the Directors’ Report for the year ended 31 December 2016.

2016 PRODUCTION SUMMARY[1]

Year to 31 December	2016		2015		% change	
	Gross daily production	Net to OSH	Gross daily production	Net to OSH	*Gross daily production*	*Net to OSH*
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project LNG[2]	959.2	101,827	912.9	96,646	*+5*	*+5*
Hides GTE gas production[3]	15.2	5,573	14.6	5,312	*+5*	*+5*
SE Gobe gas to PNG LNG[4]	37.0	3,060	20.2	1,886	*+83*	*+62*
Total gas	**1,011.5**	**110,460**	**947.7**	**103,844**	***+7***	***+6***
Oil and liquids production	**bopd**	**mmbbl**	**bopd**	**mmbbl**		
Kutubu	14,918	3.279	17,325	3.797	*-14*	*-14*
Moran	9,068	1.643	8,635	1.560	*+5*	*+5*
Gobe Main	658	0.024	827	0.030	*-20*	*-20*
SE Gobe	915	0.076	1,255	0.117	*-27*	*-35*
Total PNG oil	**25,559**	**5.022**	**28,041**	**5.505**	***-9***	***-9***
Hides GTE liquids[3]	308	0.113	306	0.112	*+1*	*+1*
PNG LNG Project liquids	32,514	3.451	30,921	3.273	*+5*	*+5*
Total liquids	**58,381**	**8.586**	**59,268**	**8.890**	***-1***	***-3***
Total production[5]	**256,715**	**30.245**	**245,094**	**29.251**	***+5%***	***+3%***

1. Numbers may not add due to rounding.
2. Production net of fuel, flare and shrinkage and SE Gobe wet gas.
3. 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.
4. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
5. Gas and LNG 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. Minor variations to the conversion factors may occur over time.

Glossary and Conversion Factors Used

mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
boe	Barrel of oil equivalent
1 mmscf LNG	Between 1.10 – 1.14 billion Btu*
1 tonne LNG	Approximately 52 mmBtu
1 boe	Approximately 5,100 standard cubic feet

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

*** Conversion factors used for forecasting purposes only.**

For more information regarding this report, please contact:

Ann Diamant

General Manager, Investor Relations and Communications

Tel: +612 8207 8440

Mob: +61 407 483 128

Presentation and Webcast

Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 23 February 2016. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call: +61 2 8280 6000.

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

Dial-in details for web cast:

Participant: +61 2 8038 5221
Toll free: 1800 123 296

Conference ID: 6455 5332

Tech support no: +61 2 8280 6000

DISCLAIMER

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

Oil Search

Appendix 4E

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

This information should be read in conjunction with the consolidated Financial Report for the year ended 31 December 2016

Results for announcement to the market

		Year ended 31 December			
		2016		2015	
	% Change[1]	US$'000	A$'000 [2]	US$'000	A$'000 [2]
Revenue from ordinary activities	*down* 22%	**1,235,908**	**1,661,390**	1,585,728	2,105,880
Profit/(loss) from ordinary activities after tax attributable to members	*up* N.M[3]	**89,795**	**120,708**	(39,382)	(52,299)
Net profit/(loss) for the year attributable to members	*up* N.M[3]	**89,795**	**120,708**	(39,382)	(52,299)

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

Dividends

	Year ended 31 December			
	2016		2015	
	US cents	A cents	US cents	A cents
Final dividend paid per security [4]	**2.50**	**TBA** [5]	4.00	5.39
Interim dividend paid per security [4]	**1.00**	**1.30**	6.00	8.63

Net tangible assets

	Year ended 31 December			
	2016		2015	
	US$	A$[6]	US$	A$[6]
Net tangible asset backing per ordinary security	**2.41**	**3.33**	2.39	3.27

Details of entities over which control was gained or lost

There were no acquisitions or disposals of controlled entities during the year ended 31 December 2016.

(1) % change calculations are based on the US$ figures.
(2) Amounts have been converted from US$ to A$ at the average exchange rate of 0.7439 (2015: 0.7530).
(3) Not meaningful.
(4) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea. No part of the dividends represent conduit foreign income.
(5) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final dividend, being 8 March 2017.
(6) Amounts have been converted from US$ to A$ at the 31 December 2016 exchange rate of 0.7236 (31 December 2015: 0.7306).

Consolidated Financial Report for the year ended 31 December 2016

Contents

Directors' report.. 1
Remuneration Report.. 15
Auditor's Independence Declaration 37
Financial Statements.. 38
Statements of comprehensive income.. 38
Statements of financial position 39
Statements of cash flows 40
Statements of changes in equity... 41
Notes to the financial statements... 43
Directors' Declaration... 68
Independent Auditor's Report 69

Directors' report

The directors submit their report for the financial year ended 31 December 2016.

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, AM, BEng (Chem) (Hons), MA (Oxon), FAICD, (Chairman - Non-Executive Director), *66 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 Chairman of Ruralco Holdings Limited. He is the former Chairman of the Australian Institute of Company Directors. *Ordinary shares, fully paid: 96,829*

Mr PR Botten, CBE, BSc, ARSM, (Managing Director), *62 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 a former 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 Chairman of Business for Development, the Hela Provincial Health Authority and the National Football Stadium Trust in Port Moresby. Mr Botten is also a Director of AGL Energy. *Ordinary shares, fully paid: 2,594,082; Performance Rights: 785,500; Restricted shares: 228,875*

Mr G Aopi, CBE, BEc, BAC, MBA, (Executive Director), *62 years*

Mr Aopi joined the Board as an Executive Director on 18 May 2006 and presently holds the position of Executive General Manager Stakeholder Engagement. Mr Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. Mr Aopi is a Director of Steamships Trading, Bank of South Pacific, Marsh Limited and a number of other private sector and charitable organisations in Papua New Guinea. He was previously the Chairman of Telikom PNG Ltd and Independent Public Business Corporation (IPBC). *Ordinary shares, fully paid: 497,223; Performance Rights: 164,000; Restricted shares: 37,766*

Sir KG Constantinou, OBE, (Non-Executive Director), *59 years*

Sir Kostas joined the Board on 16 April 2002. He is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Sir Kostas is Chairman of various companies, including Airways Hotel and Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Alotau International Hotel and Bank of South Pacific Limited. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Loloata Island Resort Limited in Papua New Guinea. Sir Kostas 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*

Dr EJ Doyle, BMath (Hons), MMath, PhD, FAICD, (Non-Executive Director), *62 years* (Appointed 18 February 2016)

Dr Doyle joined the Board on 18 February 2016. Dr Doyle's career spans the building materials, water and industrials sectors, including senior operational roles at BHP Limited and CSR Limited and culminating in her appointment as CEO of CSR's Panels Division. She is a Director of GPT Group Limited, Boral Limited, Hunter Research Foundation and Knights Rugby League Pty Ltd. Dr Doyle is a member of the NSW Council of the Australian Institute of Company Directors. She has previously served on a number of other boards, including Deputy Chairman CSIRO and Chairman, Port Waratah Coal Services. *Ordinary shares, fully paid: 30,800*

Ms FE Harris, BCom, FCA (Aust), FAICD, (Non-Executive Director), *56 years* (Appointed 1 January 2017)

Ms Harris re-joined the Board on 1 January 2017, after previously serving as a director from March 2013 to December 2015. Ms Harris has over twenty years of experience as a non-executive director, including on a number of internationally-focused listed energy and natural resources companies, and is a former WA State President and National Board Member of the Australian Institute of Company Directors. Ms Harris is currently a non-executive director of listed entities BWP Trust and Infigen Energy Limited. In the past three years she was also Chairman of Toro Energy Limited. Prior to commencing her career as a non-executive director, Ms Harris was a partner at chartered accountants KPMG, working in Perth, San Francisco and Sydney. *Ordinary shares, fully paid: 31,961*

Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, (Non-Executive Director), *66 years*

Dr Kantsler joined the Board on 19 July 2010. Dr Kantsler worked with Woodside Petroleum for 15 years, where he was Executive Vice President Exploration and New Ventures from 1995 to 2009 and Executive Vice President Health, Safety and Security. 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 and Savcor Group 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. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations from 2003 to 2009. He is Managing Director of Transform Exploration Pty Ltd and President of the Chamber of Commerce and Industry, WA. *Ordinary shares, fully paid: 45,736*

Mr B Philemon, (Non-Executive Director), *71 years* (Resigned 30 September 2016)

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 Director), *63 years*

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over thirty years of oil and gas experience to the Board, having served in senior executive positions with Woodside Petroleum Limited, including Chief Operating Officer and Acting Chief Executive. Mr Spence was with Shell for 18 years prior to Woodside. Mr Spence is Chairman of Base Resources Limited. He also chairs a number of other bodies, including the National Offshore Petroleum Safety and Environmental Management Authority Board. Mr Spence is a director of Independence Group NL and Murray and Roberts Holdings Limited. *Ordinary shares, fully paid: 25,000*

Dr ZE Switkowski, AO, BSc (Hons), PhD, FAA, FAICD, FTSE, (Non-Executive Director), *68 years* (Resigned 31 December 2016)

Dr Switkowski joined the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia). Dr Switkowski currently serves as a Director of Tabcorp Limited and Healthscope Limited. He is Chairman of Suncorp Group and NBN Co. 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*

Mr MP Togolo, CBE, BEcon (Hons), MA (Econ), MA (Geography), (Non-Executive Director), *70 years* (Appointed 1 October 2016)

Mr Togolo joined the Board on 1 October 2016. He has more than 24 years experience in the mining industry. He is currently the PNG Country Manager for Nautilus Minerals and prior to that was the Head of Corporate Affairs at Placer Dome Niugini Limited. Mr Togolo is a non-executive director of NASFUND and serves on other boards both in PNG and overseas countries, including the Board of Panamex Singapore Holdings Limited, Heritage Park Hotel, Grand Pacific Hotel and Loloata Island Resort. He has previously served on the boards of a number of leading PNG companies. He was a founding member of the Business Council of Papua New Guinea and was the President of that Council for more than six years. *Ordinary shares, fully paid: nil*

GROUP SECRETARY

Mr SW Gardiner, BEc (Hons), FCPA, *58 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: 431,081; Performance Rights: 169,697; Restricted shares: 39,178*

RESULTS AND REVIEW OF OPERATIONS

The Oil Search Limited Group ('the Group') delivered a consolidated net profit of US$89.8 million (2015: net loss of US$39.4 million) for the year, after providing for income tax of US$95.2 million (2015: US$147.6 million).

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

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2.5 cents per ordinary share (2015: US 4 cents final dividend) to ordinary shareholders in respect of the financial year ended 31 December 2016. The due date for payment is 30 March 2017 to all holders of ordinary shares on the Register of Members on 8 March 2017. The Company's dividend reinvestment plan will remain suspended for the final dividend. Dividends paid and declared during the year are recorded in note 9 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 the exploration, development and production of hydrocarbons.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY FUTURE DEVELOPMENTS

Refer to the 'Operating and Financial Review' on page 5 for details on likely developments and future prospects of the Group.

ENVIRONMENTAL DISCLOSURE

The Group complies with all environmental laws and regulations and aims to operate at a high industry standard for environmental compliance. The Group has instituted appropriate environmental management systems and processes in support of this aim.

The Group has provided for costs associated with the restoration of sites in which it holds a participating interest.

The Group did not experience any incidents in 2016 that were reportable to the regulatory authorities, nor did it incur any fines for environmental infringements.

CORPORATE INFORMATION

Oil Search Limited is a Company limited by shares and is incorporated and domiciled in Papua New Guinea. The Group had 1,208 employees as at 31 December 2016 (2015: 1,342). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 677,623 share rights (2015: 682,736) granted under the Employee Share Rights Plan. There were 1,154,612 performance rights (2015: 1,052,876) granted under the Performance Rights Plan and 606,231 restricted shares (2015: 681,241) granted under the Restricted Share Plan during the year.

As at 31 December 2016, there were 1,497,709 share rights (2015: 1,018,608), nil share appreciation rights (2015: 1,225,800), 2,857,354 performance rights (2015: 3,422,243) and 1,201,233 restricted shares (2015: 976,157) 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 20 for further details).

COMMITTEES OF THE BOARD

During the year ended 31 December 2016, 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), Dr EJ Doyle[1], Mr B Philemon[2], Dr ZE Switkowski[3] and Mr MP Togolo[4]. Mr RJ Lee is an ex-officio attendee of this Committee;

Corporate Actions Committee: Mr RJ Lee (Committee Chairman), Mr PR Botten, Dr EJ Doyle, Dr AJ Kantsler, Mr KW Spence[5] and Dr ZE Switkowski;

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

People and Nominations Committee: Dr ZE Switkowski (Committee Chairman), Sir KG Constantinou, Mr B Philemon, Mr KW Spence and Mr MP Togolo. Mr RJ Lee is an ex-officio attendee of this Committee.

Ms FE Harris was appointed to the Board effective 1 January 2017. She will be a Member of the Audit and Financial Risk Committee, Corporate Actions Committee and People and Nominations Committee from the date of her appointment.

Independent Committee Members

The following Independent Members were appointed to Board Committee positions effective 1 October 2016:

Mr RL Kuna, BBus, CPA, Audit Partner, KTK Accountants and Advisors. Mr Kuna resides as an Independent Member of the Audit and Financial Risk Committee.

Ms ME Johns, LL.B, Company Secretary, Bank of South Pacific Ltd. Ms Johns resides as an Independent Member of the People and Nominations Committee.

Ms S Sasingian Sumanop, LL.B., MBus, Principal Legal Officer, PNG Department of Justice and Attorney General. Ms Sumanop resides as an Independent Member of the Health, Safety and Sustainability Committee.

The Independent Members do not reside as Members of the Oil Search Board.

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	**14**	**4**	**4**	**4**	**4**
Number of meetings attended					
Mr G Aopi	13/14	-	-	3/4	-
Mr PR Botten	14/14	-	4/4	-	-
Sir KG Constantinou	13/14	-	-	4/4	4/4
Dr EJ Doyle	14/14	3/3	1/2	3/4	-
Dr AJ Kantsler	12/14	4/4	4/4	4/4	-
Mr RJ Lee	14/14	4/4	4/4	4/4	4/4
Mr B Philemon	11/12	3/3	-	-	2/2
Mr KW Spence	14/14	-	4/4	4/4	4/4
Dr ZE Switkowski	13/14	4/4	2/4	-	4/4
Mr MP Togolo	3/3	1/1	-	-	2/2

Note: The Managing Director and Chief Financial Officer attend Committee 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.

1 Dr EJ Doyle was appointed to the Board effective 18 February 2016. She became a Member of the Audit and Financial Risk Committee and the Health, Safety and Sustainability Committee effective 4 April 2016. Dr Doyle became a Member of the Corporate Actions Committee effective 17 May 2016. She became the Chair of the Health, Safety and Sustainability Committee effective 1 January 2017.

2 Mr B Philemon was a Member of the Audit and Financial Risk Committee and the People and Nominations Committee until his resignation from the Board effective 30 September 2016.

3 Dr ZE Switkowski was the Chairman of the People and Nominations Committee and a Member of the Audit and Financial Risk Committee until his resignation from the Board effective 31 December 2016. Dr Switkowski was a Member of the Corporate Actions Committee for the meetings of that Committee held on 9 February and 18 February 2016.

4 Mr MP Togolo was appointed to the Board effective 1 October 2016. He became a Member of the Audit and Financial Risk Committee and People and Nominations Committee effective 18 October 2016.

5 Mr KW Spence was a Member of the People and Nominations Committee during the year ended 31 December 2016 and became the Chairman of this committee effective 1 January 2017. He was the Chairman of the Health, Safety and Sustainability Committee during the year ended 31 December 2016.

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 Group'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 21 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 financial services for the Group. These services are outlined in note 24 to the financial statements. Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 37.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to balance date, the Directors declared an unfranked final dividend of US 2.5 cents per share, to be paid on 30 March 2017. The proposed final dividend for 2016 is payable to all holders of ordinary shares on the Register of Members on 8 March 2017.

There were no other significant events after balance date.

Operating and financial review

Financial information presented herein is stated in United States ("US") Dollars, unless stated otherwise.

1. Financial Overview

1.1 Summary of Financial Performance

Year ended 31 December	2016	2015	% change
Production and Sales Data			
Production (mmboe[1])	30.24	29.25	+3
Sales (mmboe)	30.59	28.76	+6
Average realised oil and condensate price (US$/bbl[2])	45.04	51.36	-12
Average realised LNG and gas price (US$/mmBtu[3])	6.36	9.44	-33
Financial Data ($US million)			
Revenue	1,235.9	1,585.7	-22
Production costs	(257.1)	(294.8)	-13
Other operating costs[4]	(131.7)	(148.9)	-12
Loss on disposal of non-current assets	-	(5.5)	N.M
Other income[5]	5.1	14.8	-66
EBITDAX[6]	**852.2**	**1,151.3**	**-26**
Depreciation and amortisation	(436.7)	(407.8)	+7
Exploration costs expensed	(53.2)	(50.9)	+5
Proposed InterOil acquisition	18.7	-	N.M
Impairment	-	(399.3)	N.M
Net finance costs	(196.0)	(185.1)	+6
Profit before tax	**185.0**	**108.3**	**+71**
Taxation	(95.2)	(147.6)	-36
Net profit/(loss) after tax	**89.8**	**(39.4)**	**N.M**
Impairment (net of tax)	-	399.3	N.M
Proposed InterOil acquisition (net of tax)	(18.7)	-	N.M
PNG tax law changes	35.6	-	N.M
Core profit[6]	**106.7**	**359.9**	**-70**
Net debt	**3,076.7**	**3,318.2**	**-7**

Note: Numbers may not add due to rounding.

Production and Revenue

Oil Search's total net production in 2016 was 30.24 million barrels of oil equivalent (mmboe), 3% higher than in 2015 (29.25 mmboe), supported by strong performance from the PNG LNG Project and the operated PNG oil and gas fields. Further details on performance by operating segment and field are included in Section 2 'Overview of operations'.

Total revenue of $1,235.9 million was 22% lower than the prior year. LNG and gas delivered volumes for 2016 were 124,586 billion Btu, 8% higher than in the prior year and included the delivery of 108 cargoes of LNG (2015: 101 cargoes). The increase in sales volumes was offset by lower average realised LNG and gas prices.

Oil and condensate delivered volumes for 2016 totalled 8.52 million barrels (mmbbl), 1% higher than the 8.36 mmbbl for 2015, predominantly due to an 11% increase in PNG LNG condensate sales, partially offset by lower oil sales.

Other revenue, which consisted mainly of rig revenue, electricity sales, naptha sales and facility tariffs, decreased to $59.9 million in 2016 from $67.9 million in 2015, predominantly due to a reduction in rig revenue.

The average oil and condensate price realised during the year was $45.04 per barrel, 12% lower than in the prior year, reflecting the global decline in spot oil prices during 2016. The average price realised for LNG and gas sales decreased 33% to $6.36 per mmBtu, with the larger drop reflecting the lag between the spot oil price and realised prices for contracted LNG. The Group did not establish any oil hedges during the period and remains unhedged to oil price movements.

Production and other operating costs

Production costs decreased from $294.8 million in 2015 to $257.1 million in 2016, primarily due to a reduction in well work across the oil assets in 2016 and the impact of cost reduction initiatives undertaken in 2015. Production costs on a per barrel of oil equivalent (boe) basis declined 15.6% from $10.08 per boe in 2015 to $8.50 per boe, reflecting lower costs across PNG LNG and PNG oil and gas and higher production from PNG LNG.

	Production costs	
US$ million	**2016**	**2015**
PNG LNG	150.6	149.9
PNG oil and gas	106.5	144.9
	257.1	**294.8**

[1] mmboe = million barrels of oil equivalent. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
[2] bbl = barrel of oil.
[3] mmBtu = million (10^6) British thermal units.
[4] Other operating costs exclude InterOil acquisition related costs of $29.3 million.
[5] Other income excludes $48.0 million received from the break-fee relating to the InterOil transaction.
[6] EBITDAX (earnings before interest, tax, depreciation/amortisation, non-core activities, 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.

PNG LNG production unit costs on a per boe basis were $6.43, or 5% lower than 2015 unit costs, with the PNG LNG Project producing well above nameplate capacity. PNG oil and gas unit production costs per boe for 2016 were $15.60, 24% lower than in the prior year, primarily due to well workover activity in 2015.

Other operating costs increased from $148.9 million in 2015 to $161.0 million in 2016 primarily due to costs incurred for the InterOil transaction, inventory movements and the establishment of the Oil Search Power business. These cost increases have been partially offset by lower selling and distribution costs, royalties and levies, gas purchase costs and corporate expenses.

Depreciation and amortisation

Depreciation and amortisation increased from $407.8 million in 2015 to $436.7 million in 2016.

Amortisation costs increased by $25.4 million to $413.8 million in 2016, due largely to higher PNG LNG Project production and slightly higher unit rates in 2016 of $13.68 per boe, compared to $13.28 per boe in 2015.

Depreciation increased by $3.5 million to $22.9 million in 2016 mainly driven by a new finance lease for a PNG LNG marine vessel.

Exploration costs expensed

In line with the Group's 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 $53.2 million. This included $16.5 million attributable to Strickland 1 and Strickland 2 wells in PPL 269.

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 finance costs

Net finance costs of $196.0 million in 2016 were $10.9 million higher than the prior year, predominantly due to higher borrowing costs in relation to the PNG LNG Project and the higher interest component of finance leases due to the new PNG LNG marine vessel brought into service during 2016, partially offset by higher interest income on cash balances.

Taxation

Tax expense on statutory profit in 2016 was $95.2 million, compared to $147.6 million in 2015. This resulted in an effective tax rate of 51.5%. This is substantially higher than the core effective tax rate for the 2015 full year of 29.1%, due to a one-off, non-cash restatement of deferred tax balances as a consequence of legislative changes in PNG tax that reduce oil field tax rates from 50% to 30% from 1 January 2017.

1.2 Summary of Financial Position

Net debt

As at 31 December 2016, Oil Search had net debt (total borrowings less cash) of $3,076.6 million, which is $241.6 million lower than the prior year net debt position of $3,318.2 million. A reconciliation of the movement in net debt during the year is as follows:

	US$ million
Net debt at 31 December 2015	**3,318.2**
Net repayment – PNG LNG Project finance facility	(289.3)
Decrease in cash balances	47.7
Net movement in 2016	**(241.6)**
Net debt at 31 December 2016	**3,076.6**

At 31 December 2016, the Group had $3,939.4 million outstanding under the PNG LNG Project finance facility and the Company's US$500 million corporate revolving facility and US$250 million bilateral revolving facilities were undrawn.

Oil Search remained in a strong liquidity position at 31 December 2016, with cash of $862.7 million, including $261.7 million in PNG LNG escrow accounts, and $750 million available under the Group's corporate facilities.

Investment expenditure

Total investment expenditure for 2016 was $217.6 million, which was 60% lower than the prior year expenditure of $539.1 million. The components of investment expenditure for the year were:

US$ million	**2016**	**2015**
Exploration and evaluation [(1)]	151.8	275.6
Development		
PNG LNG Project	9.6	135.2
Biomass	14.8	-
Producing assets	38.3	111.8
Other plant and equipment [(2)]	3.1	16.5
Total capital expenditure	**217.6**	**539.1**

[(1)] Includes $53.2 million (2015: $50.9 million) of exploration costs expensed during the year.
[(2)] Excludes finance leased assets that are recognised as other plant and equipment.

Exploration and evaluation expenditure for 2016 was $151.8 million (2015: $275.6 million). Key areas of spend in PNG in 2016 included $60.6 million on PRL 15 (Elk-Antelope), $27.8 million (net of farm-out receipts) on PPL 402 (Muruk 1 well) and $16.5 million on PPL 269 (Strickland 1 and 2 wells), while $9.5 million was spent in MENA, primarily for the closing of operations on the Taza PSC in Kurdistan.

Development expenditure for 2016 was $24.4 million (2015: $135.2 million). This comprised $9.6 million (2015: $135.2 million) related to the PNG LNG Project and $14.8 million (2015: $nil) on FEED activities for the PNG Biomass power project.

Expenditure on producing assets totalled $38.3 million for 2016 (2015: $111.8 million) and mainly related to ongoing sustaining capital.

1.3 Operating cash flows

Year to 31 December (US$ million)	2016	2015	% change
Net receipts	783.4	1,204.3	-35
Net interest paid	(187.0)	(166.2)	+13
Tax paid	(41.3)	(85.4)	-52
Operating cash flow	**555.1**	**952.7**	**-42**
Net investing cash flow	(232.3)	(535.6)	-57
Net financing cash flow	(370.6)	(466.8)	-21
Net cash outflow	**(47.7)**	**(49.7)**	**-4**

Operating cash flow decreased by 42% to $555.1 million, due to lower average realised hydrocarbon prices in 2016, partially offset by higher sales volumes.

During 2016, Oil Search's net investing cash flow included expenditures of:

- $142.9 million on exploration and evaluation ($248.3 million in 2015);
- $34.8 million on PNG LNG Project development activities ($141.6 million in 2015);
- $35.7 million on production activities ($119.6 million in 2015); and
- $12.0 million on other plant and equipment ($16.0 million in 2015).

The Group distributed $76.1 million to shareholders by way of the 2015 final dividend and the 2016 interim dividend during the year. During 2016, borrowings of $289.3 million (2015: $103.0 million) were repaid under the PNG LNG Project finance facility, as per schedule.

1.4 Reserves and Resources

At 31 December 2016, the Company's proved reserves (1P) were 62.3 million barrels (mmbbl) oil and condensate, up from 57.5 mmbbl in 2015, and 2,150.7 billion cubic feet (bcf) gas, up from 1,441.8 bcf in 2015. The substantial increases in gas reserves at the 1P level reflect the 2016 recertification of PNG LNG resources by Netherland, Sewell & Associates, Inc. (NSAI).

The Company's total proved and probable reserves (2P) and contingent resources (2C) for oil and condensate were 124 mmbbl, down 14% compared to 2015. The addition of 13.1 mmbbl of condensate in the 2C category at Elk-Antelope following drilling and updated technical studies was offset by production of 8.5 mmbbl, a small downward revision of 3 mmbbl in the 2P category for PNG LNG following the NSAI recertification, the removal of 20.3 mmbbl in the 2C category at Taza following relinquishment of the licence, and the removal of 1.6 mmbbl in the 2C category at Yemen Block 7 following surrender of the Al Measher-1 licence.

Total proven and probable reserves (2P) and contingent resources (2C) for gas were 6,134.1 bcf, up 6% from 2015. The addition of 352.8 bcf in the 2P category for PNG LNG following NSAI recertification and the addition of 253.9 bcf in the 2C category at Elk-Antelope following drilling and updated technical studies, were offset by record gas production of 105.8 bcf, the downward revision of 148.4 bcf in the 2C category for PNG LNG following movement of 2C resources into 2P, and the removal of 6.3 bcf in the 2C category at Taza following relinquishment of the licence.

Further details are included in the 2016 Reserves and Resources Statement.

2. Overview of operations

Established in 1929, Oil Search is a Papua New Guinea (PNG) based oil and gas exploration and production Company.

The Company operates all of PNG's currently producing oil fields and the Hides Gas-to-Electricity Project. It also has a 29% interest in the PNG LNG Project, a world scale liquefied natural gas (LNG) development, operated by ExxonMobil PNG Limited. Since commencement of production in 2014, the PNG LNG Project has delivered more than 250 LNG cargoes to markets in Asia. During 2016, the Project produced at an average rate of 7.9 MTPA of LNG, well above its 6.9 MTPA nameplate capacity.

Oil Search is pursuing opportunities to develop additional LNG trains in PNG, underpinned by existing discovered gas resources in the NW Highlands, including the P'nyang gas field, and the Elk-Antelope gas fields in the onshore Gulf Province. Oil Search believes that there is presently sufficient gas to support at least two PNG LNG-sized expansion trains and possibly three trains, contingent on additional appraisal drilling. The Company is also undertaking a range of exploration and appraisal activities in PNG to support further LNG expansion, with these expansion plans expected to be in the lowest quartile for costs globally.

2.1 Activities in PNG

2.1.1 PNG LNG Project

The PNG LNG Project produced 23.4 mmboe net to Oil Search in 2016, comprising 101.8 bcf of LNG and 3.45 mmbbl of liquids. Gross annualised production from the Project was 7.9 MTPA, well above the nameplate capacity of 6.9 MTPA, reflecting excellent gas deliverability from the upstream facilities combined with a high level of uptime for the LNG trains.

In 2016, 108 PNG LNG cargoes were exported, with 89 sold under long-term contracts and 19 cargoes sold on the spot market. 32 cargoes of Kutubu Blend and 10 cargoes of naphtha were also sold.

FEED activity on the Angore gas field tie-in (Pipeline and Surface Facilities Project) was completed during 2016, with two wells, Angore A1 and A2, on schedule to be tied in to existing infrastructure in mid-2019. In addition, activities to tie in the Hides F1 well progressed during the year, with completion expected during the first quarter of 2017.

2.1.2 Operated oil and gas production

Kutubu (PDL 2 – 60.0%, operator)

Production at Kutubu fell 14% during the year, with gross production averaging 14,900 barrels of oil per day (bopd). This was primarily due to natural decline from this mature field, combined with a number of production outages.

During the year, successful interventions in a number of the Hedinia Digimu wells helped production, primarily due to sustained gas injection to optimise reservoir voidage. A successful zone change at the Agogo 7 well in the forelimb reservoir boosted production rates to more than 5,000 bopd. In addition, several zone changes at Usano resulted in improved rates and lower Gas:Oil Ratios (GOR), helping to boost production from both the Usano Main and Usano East fields. Production rates from Agogo remained strong, supported by sustained, low GOR production from the forelimb wells and a successful zone change in the ADD 2 well.

This was offset by planned and unplanned downtime at the Agogo Processing Facility (APF), planned flowline repairs and an unscheduled outage for repairs to the high pressure compression system impacted production. In addition, a three-day partial shut-in in August, when bad weather at Kumul terminal prevented oil being offloaded for six days, resulted in storage tanks at the Kutubu and Gobe facilities approaching their maximum safe operating levels, with production partially shut-in during the period.

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

Gross production from Moran in 2016 averaged 9,068 bopd, up 5% from 2015 levels.

The strong production performance at Moran reflected contributions from NW Moran 1 ST7 and Moran 2X ST3, which were brought back on-stream in late 2015, combined with the reinstatement of production from the Moran 1X ST4 B Block well, which occurred six months ahead of schedule following a prolonged period of reservoir re-pressurisation. In addition, a successful zone change to the Toro in Moran 15 ST1 resulted in initial production rates of approximately 2,400 bopd, significantly enhancing production.

Production rates in the J Block wells were impacted by the absence of gas injection at the Moran 4X well, which has been shut-in since the first quarter of 2016 for integrity reasons. Planning is underway to drill a workover well, which is targeted to spud in early 2017, in order to reinstate injection.

Similar to the Kutubu fields, Moran production was also affected by the bad weather event at the Kumul terminal. In addition, cold weather conditions during the quarter contributed to flow restrictions in the field gathering lines, which resulted in reduced production rates.

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

Production from the Gobe Main field declined 20% to 658 bopd, while production from the SE Gobe field was 27% lower, at 914 bopd.

Lower oil rates were largely due to well intervention activities and high ambient temperatures limiting compressor capacity. At Gobe Main, oil production was impacted by a 12 day shut-in of the Gobe Main 2 ST1 well for planned well intervention work. The intervention has resulted in the successful reinstatement of production from the Lower Iagifu reservoir.

On 1 February 2016, Oil Search's economic share of the SE Gobe Unit reduced from 25.55% to 22.34%, in line with previously agreed amendments to the relevant field unitisation and operating agreement. Oil Search's registered interests in PDL 3 and PDL 4 remain unchanged.

The key focus for the year was the continued ramp up in gas exports to the PNG LNG Project. In total, more than 26.9 bcf of gas (gross) was supplied to the PNG LNG Project from the Gobe fields during the year. Sustained stable operation of the Gobe plant and facilities was achieved with 100% uptime in the second half of the year.

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

The Hides Gas to Electricity Project produced 5,573 bcf, 5% higher than in 2015. Volumes in the prior year were negatively impacted by a major drought in PNG that resulted in the temporary closure of the Porgera Mine. The operator of the Porgera Mine has requested that a rate reduction option taken in 2016 be rescinded, with offtake now back to prior levels.

2.1.3 2016 Production Summary [1]

Year to 31 December	2016		2015		% change	
	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production (bopd)	Net to OSH (mmbbl)	Gross daily production	Net to OSH
Oil Production						
Kutubu	14,918	3.279	17,325	3.797	-14%	-14%
Moran	9,068	1.643	8,635	1.560	+5%	+5%
Gobe Main	658	0.024	827	0.030	-20%	-20%
SE Gobe	915	0.076	1,255	0.117	-27%	-35%
SE Mananda	-	-	-	-	N/A	N/A
Total PNG Oil	**25,559**	**5.022**	**28,041**	**5.505**	**-9%**	-9%
PNG LNG Project Liquids	32,514	3.451	30,921	3.273	+5%	+5%
Hides Liquids	308	0.113	306	0.112	+1%	+1%
Total Liquids	**58,381**	**8.586**	**59,268**	**8.890**	**-1%**	-3%
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project LNG	959.25	101,827	912.93	96,646	+5%	+5%
Hides Gas Production[2]	15.23	5,573	14.55	5,312	+5%	+5%
SE Gobe Gas to PNG LNG	37.02	3,060	20.22	1,886	+83%	+62%
Total Gas	**1,011.50**	**110,460**	**947.70**	**103,844**	**+7%**	**+6%**
	boepd	**mmboe**	**Boepd**	**mmboe**		
Total Production[3]	**256,715**	**30.245**	**245,094**	**29.251**	**+5%**	**+3%**

1. Numbers may not add due to rounding.
2. 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 include approximately 2% unrecovered process gas.
3. Gas and LNG volumes for 2016 and 2015 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. This reflects the energy content of the Company's gas reserve portfolio. Minor variations to the conversion factors may occur over time.

2.1.4 Gas expansion activities

P'nyang gas field, PRL 3, PNG

During 2016, the P'nyang Joint Venture (Oil Search – 38.5%) continued to work closely with the Department of Petroleum and Energy and other State agencies, to facilitate the offer of a Petroleum Development Licence and negotiate the terms of a Gas Agreement. The Joint Venture made preparations to commence pre-FEED studies, including a field programme, to advance P'nyang to full development. It is envisaged that P'nyang gas will be used to underpin LNG expansion trains in PNG.

The PRL 3 Joint Venture approved the construction of the P'nyang South 2 well pad and the budget for drilling the well, which is now scheduled to take place in the second half of 2017. Oil Search will oversee the construction of the well pad on behalf of the venture and will provide the drilling team to manage the day to day operations under an agreed arrangement with the licence operator, ExxonMobil. The site preparation is anticipated to be completed around mid-year, with drilling to commence in the second half of 2017. The primary objective of the P'nyang South 2 well is to move 2C resource volumes into the 1C category, with recertification of the field planned after drilling has been completed.

Elk-Antelope gas fields, PRL 15, PNG

During the year, the PRL 15 Joint Venture (Oil Search – 22.835%) continued a comprehensive testing and appraisal programme to further delineate the size and structural extent of the Elk-Antelope gas resource.

The extended well test on Antelope 5 on the western flank was completed in February 2016, with analysis confirming the excellent reservoir quality and connectivity seen in the initial production test undertaken in 2015.

The Antelope 6 well, on the eastern margin of the field, was also flow tested, confirming connectivity with both Antelope 1 and Antelope 5 and indicating good deliverability from the field. Log interpretations from Antelope 6 demonstrated the presence of three dolomite intervals with good reservoir quality on the eastern flanks of the field, which has positive implications for the future efficient drainage of the field.

The Antelope 7 appraisal well was spudded in November 2016 with the well reaching a depth of 2,127 metres before encountering drilling difficulties in the Orubadi Formation. To date, no carbonate reservoir has been encountered, in line with Oil Search's expectations. The well has been side-tracked in order to complete its appraisal objectives.

During 2016, independent gas certifications of the Elk-Antelope fields were conducted by both Gaffney Cline & Associates (GCA) and Netherland, Sewell & Associates, Inc. (NSAI), in accordance with the 2014 agreement between Oil Search and the Pac LNG Group Companies relating to Oil Search's acquisition of its interest in PRL 15. The data set used by GCA and NSAI included the results from both the successful Antelope 5 test and the Antelope 6 appraisal well but excluded the results from Antelope 7.

The average 2C resource from the two certifiers is 6.43 tcf of raw gas. Under the terms of the agreement, this certification meant no additional payments were required to be paid to the vendors of the licence interest.

In December 2016, the PRL 15 Joint Venture received the formal grant of a five-year extension of the Petroleum Retention Licence 15, on terms consistent with those proposed by the licence holders in their extension application. The licence conditions provide the State and the Joint Venture with a clear pathway and timeframe to project development.

During the year, informal discussions took place between the PRL 15 Joint Venture partners, the PNG LNG Project participants and the PNG Government regarding the optimal commercial structure for development of gas resources in PNG, including the Elk-Antelope fields. More formal discussions are expected to take place in 2017, contingent on the successful acquisition of InterOil Corporation by ExxonMobil and ExxonMobil's consequent entry into PRL 15.

NW Highlands

The Muruk 1 exploration well in PPL 402 (OSH – 50%, reducing to 37.5%) spudded in November 2016 and reached a total depth of 3,130 metres in late December. Gas was encountered in the primary reservoir objective (Early Cretaceous sandstone of the Toro Formation). Logs were run and samples recovered which confirmed the discovery of a new gas field 22 kilometres northwest of the nearest PNG LNG Project infrastructure and adjacent to the Hides and Juha gas fields. The entire reservoir sequence was gas saturated and at the end of the year, preparations were underway to drill a sidetrack (Muruk 1 ST1), to constrain the configuration of the northern flank of the structure. Subject to the results of the first sidetrack additional sidetracking may be undertaken from the original Muruk well location to assist in defining the structural configuration near the crest of the structure and to test the deliverability of the Toro reservoir at the Muruk location. Given the potential size of the structure and hydrocarbon column height, it is unlikely that the sidetracks will define the gas / water contact. Additional appraisal drilling is under discussion with the Joint Venture with the plan to drill a new offset well to test the down-dip extent of hydrocarbons within the Toro Formation, which is required to determine the ultimate size of the Muruk field.

In line with the Company's strategy to manage exploration risk and expenditure, Oil Search, together with ExxonMobil, signed an agreement in November 2016 to sell a 20% interest across a number of exploration licenses in the NW Foldbelt area where the Company's interest levels were considered too high. The Oil Search divestment to Barracuda Limited (a subsidiary of Santos Limited) included PPL402 which holds a portion of the Muruk structure. This transaction is aligned with the strategy of working with selected partners to balance exploration risk, facilitate rapid appraisal and integration into any potential expansion of PNG LNG and enable Oil Search to maintain material participation levels in opportunities that have the potential to add material gas resources to the Company's portfolio.

Forelands/Gulf Region

The Barikewa 3 well site in PRL 9 (Oil Search – 45.1%, operator), expected to be the first in the Company's "Smaller Rig" campaign and having been deferred from 2016, is now targeted to spud in the second half of 2017. In PRL 10 (Oil Search – 100%, operator), a shallow-water well site survey was completed in preparation to drill the Uramu 2 well in the late 2017 weather window on the existing Uramu gas field that is strategically located relative to potential LNG developments in the Papuan Gulf area.

In PRL 8 (Oil Search – 60.7%, operator), a 53 kilometre 2D seismic programme over Kimu and potential nearfield exploration prospects was successfully completed and interpreted. This confirmed that the area potentially has a number of closely-spaced, material structures as well as extending the Kimu gas field, discovered in 1999 further to the west. As a result of these encouraging results the Kimu West appraisal well is targeted to be drilled in late 2017.

In PPL 339 (Oil Search – 70%), preparations for the Kalangar 1 well continued. Extensive scouting and logistical planning was undertaken, with plans for a road-supported well further developed. The Kalangar prospect, which is on-trend with the Antelope field, has the potential to open up an important and new prospective trend in the Gulf Province.

2.1.5 New licences in PNG

Oil Search, together with ExxonMobil, entered into agreements with Gini Energy Limited, a subsidiary of CNOOC Limited, to farm in to two offshore deep-water, frontier blocks, PPL 374 and PPL 375, in the eastern Gulf of Papua. Subject to Department of Petroleum and Energy approval, Oil Search and ExxonMobil will each hold 40% in each block and Gini will retain a 20% interest. The blocks cover a combined area of almost 25,000 square kilometres, in water depths ranging from 1,000 metres to 2,500 metres. The licence farm-in is in line with the Company's strategy to increase its exploration exposure in areas that have the potential to support the Company's LNG expansion plans.

Oil Search was also granted a 50% interest in PPL 487 and was offered 100% and 50% interests in APPL 504 and APPL 507, respectively, by the PNG Minister for Petroleum and Energy. In addition, progress was made on concluding a range of other new licence applications.

2.1.6 Power

During 2016, Oil Search established a subsidiary, Oil Search Power Holdings Limited, to manage its power projects in PNG.

In September 2016, the Company announced that it had entered FEED on the Markham Valley Biomass Project. This followed the execution of a 25-year Power Purchase Agreement with PNG Power Limited (PPL) in December 2015. FEED activities will focus on refining the technical and commercial aspects of the Project to support a Final Investment Decision, which is expected to be made before the end of 2017.

Work in conjunction with PPL in Tari, including a hook-up trial in the Tari area of the PNG Highlands, continued, while a study agreement with Kumul Petroleum Holdings (Kumul), to explore the collaboration of Oil Search with Kumul across a range of potential PNG power projects, including domestic LNG, was signed.

2.2 Middle East and North Africa

2.2.1 Kurdistan Region of Iraq

Following a comprehensive review, in 2016 Oil Search relinquished the Taza PSC in the Kurdistan Region of Iraq, given the remaining uncertainties on the resource and the Company's belief that there are better-returning opportunities available to it in PNG. Oil Search is working through the formal relinquishment process with the Ministry of Natural Resources (MNR). All operational sites have been remediated and will be returned to the landowners and Oil Search's Kurdistan office has been closed.

2.2.2 Yemen

Completion of the sale of Oil Search's Yemen entity, which holds a 34% interest in Block 7, to a subsidiary of Petsec Energy Limited, is targeted for early 2017.

2.3 Corporate Activity

In May 2016, Oil Search entered into an agreement with InterOil Corporation (InterOil) to acquire 100% of the company. InterOil is one of Oil Search's joint venture partners in PRL 15, which contains the Elk-Antelope fields. In addition, the Company signed a Memorandum of Understanding (MoU) with Total SA (Total), whereby Oil Search would sell 60% of the interest acquired from InterOil in PRL 15 and 62% of InterOil's exploration assets to Total on the successful completion of the InterOil acquisition.

In July 2016, the Company was advised by InterOil that it had received a superior proposal from ExxonMobil and that the InterOil Board intended to change its recommendation to shareholders and enter into an Arrangement Agreement with ExxonMobil. Oil Search received a $48 million break-fee due to InterOil terminating the Arrangement Agreement with the Company.

Following a detailed review of the ExxonMobil proposal, including an analysis of the Elk-Antelope resource certification, the value of the opportunities offered by cooperation between PRL 15 and PNG LNG and the improved likelihood of realising this value by having ExxonMobil in the PRL 15 Joint Venture, the Oil Search Board decided it was not in the best interest of the shareholders to submit a revised offer for InterOil.

ExxonMobil has recently submitted a revised bid for InterOil, following an adverse ruling from the Court of Appeal of Yukon on the transaction, which has delayed its closure. On the 14 February 2017, InterOil shareholders voted to accept ExxonMobil's revised offer, with the transaction now expected to be completed shortly, subject to Court approvals.

3. Business Strategy and Outlook

3.1 Business Strategy

A focused refresh of Oil Search's strategy was undertaken in 2016, set against a backdrop of global macro-economic factors, including continued low commodity prices, the changing LNG contracting environment, a possible LNG supply overhang and factors specific to PNG.

The refresh confirmed Oil Search's commitment to the pursuit of the key focus areas identified under the 2014 Strategic Review. The Company's key strategies include:

- Optimising the value of existing Oil Search oil and gas assets through safe, reliable and sustainable operations.
- Commercialising additional LNG trains, with gas sourced from the NW Highlands and Gulf Hubs, and ensuring optimal commercial integration between projects.
- Exploring for high value oil and gas accumulations in PNG with a clear monetisation pathway.
- Seeking monetisation opportunities for existing stranded gas fields in PNG.
- Developing options for material growth beyond the next phase of LNG expansion.
- Maintaining Oil Search as a leading corporate citizen in PNG 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.

In addition to the strategic refresh, Oil Search continued to review and optimise the Company's operations, work practices and processes in 2016. A number of the optimisation initiatives identified in the 2015 Business Optimisation Programme were implemented, which resulted in a reduction to the Company's cost base to a level more appropriate for the current lower oil price environment, as well as improvements to productivity, while at the same time improving Oil Search's capacity to deliver the Company's expansion plans.

During the year, Oil Search made significant progress in delivering its power strategy. The Company is considering several power projects which are aimed at providing reliable and competitively-priced power to domestic, commercial and industrial markets in PNG. These projects are being pursued in conjunction with Government-owned and non-Government organisations, with Oil Search's power strategy closely aligned with the PNG Government's policy to materially and rapidly increase access to power in PNG. These activities, together with the Company's extensive social programmes, undertaken both independently and through the Oil Search Foundation, are an important part of maintaining a stable operating environment in PNG.

Oil Search's business strategy also includes focusing the Company's efforts and resources and using its competitive advantages, in PNG and, as a result, the Company has relinquished its interest in the Taza PSC in the Kurdistan Region of Iraq and is progressing the sale of the Company's interest in Yemen. This will mark Oil Search's exit from the Middle East region at the current time, in line with the Company's strategy to focus on its higher-returning business in PNG.

3.2 Outlook

Key activities in 2017 are expected to include the following:

- Ensure the ongoing reliable delivery of gas from Oil Search's operated fields to the PNG LNG Project and reliable operation of the liquids export system.
- Continue to assess, in conjunction with the PNG LNG Project operator, PNG LNG production acceleration opportunities from the Associated Gas fields or by boosting compression at Hides.
- Maximise production from the oil fields by optimising facility availability and reliability, well intervention strategies and assessing nearfield exploration drilling opportunities.
- Complete the Muruk 1 appraisal sidetracks and associated data collection to optimise the Muruk discovery appraisal plan, to maximise the contingent resource base and undertake early assessment of commercialisation pathways.
- Engagement with key stakeholders, including ExxonMobil, Total and the PNG Government, on how to deliver cost-effective, coordinated LNG expansion synergies within PNG.
- Appraise the Forelands/Gulf region to assess potential gas resource upside across the PRL 8 and PRL 9 licence areas.
- Continue to strategically grow the exploration portfolio through targeted licence acquisitions.
- Continue to assess and develop power opportunities in PNG, including progressing the Biomass project to a Final Investment Decision and optimising options available for commercialising Highlands IPP.

3.3 Material business risks

The 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 fell significantly during 2015 and 2016 and conditions are expected to continue to remain challenging for the industry for at least the next 12 months. 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 LNG production, with pricing mechanisms already established under these agreements.

The Group's financial risk management strategy to address commodity price risk is outlined in note 26 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 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 26 in the financial statements. The Group also institutes regular short, medium and long-term forecasts to assess any implications on future liquidity and profitability.

Operational risks

Production

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, natural disasters 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.

Safety and environmental

Oil and gas producing and exploration operations are also exposed to industry operational safety risks including fire, explosions, blow outs, pipe failures, as well as transport and occupational safety incidents. Major environmental risks include 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's Health, Safety, Environment and Security (HSES) Policy details the Company's commitment to achieving incident free operations through the provision of effective HSES management across all of its operations and worksites. The Policy is implemented via a number of underpinning procedures, steering groups and incentive measures to ensure high standards of HSES management. In addition, the Group's drilling, production, processing, refining and export activities in PNG operate under an environmental management system that is certified as ISO 14001 compliant.

The impact of climate change is an emerging risk for the Group which could result in a number of adverse outcomes, including changes in demand for the Group's products, uncertainty regarding emerging policy and regulations, or reputational risks associated with increasing stakeholder activism and changing investor expectations. The Group, through its climate change strategy, actively strives to reduce its greenhouse gas emissions, amongst other initiatives to reduce environmental impacts.

Cyber security

These risks are largely internally focused but there is also a heightened and growing threat from cyber security actors. The industry is seeing the nature and motivations behind this threat continuously evolving at the same time as the sophistication of the actors and attacks increases. This impacts both operational and information security risks.

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

Reserves, resource and development risks

Reserves decline and replacement

Oil Search, like any oil and gas company, is subject to reserves declining and impacting organisational value. Oil Search aims to replace and grow its reserve and resource base via exploration and commercial activities. The longer term health of the business will depend on the quality and size of its current portfolio and the investment decisions it makes over many years.

Oil and gas exploration is a speculative endeavor and each prospect/investment carries a degree of risk associated with the discovery of hydrocarbons in commercial quantities, which is more challenging for smaller fields in a lower commodity price environment. The value of exploration and development assets can be affected by a number of different factors including, amongst other things, macro-economic and socio-political conditions, changes to reserves estimates, the composition of oil and gas reserves, unforeseen project difficulties and other operational issues. Similarly, the economic value of the Group's individual producing assets declines as oil and gas is produced. Oil Search's future production profitability is subject to both subsurface and commodity price uncertainties but is also highly dependent on how Oil Search manage and maximize the value of the production business over this period.

The Group's Board of Directors and Investment Review Board oversee all significant investment decisions, each of which are subject to economic and risk analysis and assurance activities at specific gates, in line with the Group's management system. Further, the Group also includes significant exploration, drilling and development teams who regularly monitor the Group's prospects inventory and exploration plan, and lead activities to identify and develop the Group's reserves. For our producing assets, the Group has a life-of-asset planning process which guides the long term management of operated producing assets.

Reserves 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 will 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 and gas field reserves are periodically certified by independent auditors.

Project development and execution
To achieve continual growth, Oil Search and its partners commit significant capital to the initiation, development and delivery of major projects, such as the successful PNG LNG foundation project. A number of factors influence the successful delivery of projects of this scale and/or complexity in the PNG context, ranging from commercial and political risks in development to operational risks on delivery. Oil Search is undertaking or planning to undertake a number of significant projects in the coming years. The projects include both hydrocarbon development and corporate/PNG capability building, and these projects can be led either by Oil Search or one of its JV partners. Each project has its own set of substantial risks that may affect organisational value.

In line with the Group's Opportunity Delivery Framework, the Group has a defined process by which it develops and executes capital projects under the guidance of its project assurance team and dedicated project managers. Further, a dedicated team is in place to closely monitor Oil Search's major joint venture led projects. The Group's Board of Directors and Investment Review Board oversee all significant investment decisions for these projects, each of which are subject to economic and risk analysis and assurance activities at specific gates within the Opportunity Delivery Framework.

External and Stakeholder

Legislative and regulatory risk
Oil Search has interests in 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, community and other stakeholders
The developing countries in which Oil Search has interests in expose the organisation to different degrees of political and commercial risk. The profitability of our operating assets may be adversely impacted by political stability, land ownership disputes, benefits delivery delays, 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. Further, the media, non-government organisations and other activists may play an increasing role at local, national and international levels influencing political policy and community actions or otherwise impacting the organisation's reputation. Delays in government led 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 Stakeholder Engagement team. The Health, Safety and Sustainability Committee oversight of 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 and with Government, poor performance of joint venture operators or the failure of joint venture partners to meet their commitments and share of costs and liabilities could have a material impact on the Group's business.

The Group manages joint venture risk through careful joint venture partner selection (when applicable), stakeholder engagement and relationship management. Commercial and legal agreements are also in place across all joint associations which bind the joint venture participants to certain responsibilities and obligations.

REMUNERATION REPORT

REMUNERATION REPORT – INTRODUCTORY LETTER FROM KEITH SPENCE, CHAIR OF THE PEOPLE & NOMINATIONS COMMITTEE

Dear Fellow Shareholders,

On behalf of the Board, I am pleased to present Oil Search Limited's Remuneration Report for 2016.

The purpose of this introductory letter is to summarise key remuneration outcomes for 2016, demonstrate the link to company performance, and for long term incentive awards to flag a rebalancing of the peer groups which increases the proportion of awards tested against the industry peer group.

Your Board is confident that Oil Search's remuneration strategy and practices are appropriate and that they continue to:

- ensure alignment between shareholders and executives;
- provide a clear link between performance and remuneration outcomes; and
- ensure remuneration outcomes are consistent with Oil Search's long term strategic objectives and deliver long term shareholder wealth creation.

<u>Changes to fixed remuneration during 2016</u>

Senior Management received modest increases in fixed remuneration during 2016, in line with the salary review budget approved for other Australian based employees.

<u>Short Term Incentive outcome for 2016</u>

To align with business objectives, the Short Term Incentive scheme is structured around a set of operating goals and a set of growth goals, each set consisting of a number of measures.

The company has delivered a very strong performance in 2016 given a challenging environment on a number of fronts.

During the year the focus was on:

- Cost management and driving ongoing cost and other efficiencies from the Business Optimisation Programme implemented in 2015;
- Meeting or exceeding production budget from our operated assets to deliver a good financial outcome and delivering all our PNG LNG obligations;
- Managing the best outcomes for Oil Search from the major PNG LNG recertification process;
- Continued progression of PNG LNG expansion and resource maturation at PRL15; and
- Delivering improved safety performance.

Safety performance was pleasing with improvements in both Total Recordable Injury Rate and the High Potential Incident Rate and a strong focus on process safety. Production for both operated and non-operated sectors, was well above target. Cost performance, both operated and non-operated, was better than budget. Resource measures contributed through volume increases primarily from PRL15 and the PNGLNG recertification result.

Strong performance across all operational and growth elements of the scorecard produced an STI outcome that was capped at 100% of Opportunity. Consistent with the approach in 2016, where the Board clawed back STI due to a substantial downgrade in the 2C resource booked for Taza, the Board again exercised its discretion to claw back STI in 2017 to account for the elimination of the residual Taza resource. Post this claw back, the STI pool was 95% of Opportunity.

<u>Vesting of Long Term Incentive awards from 2014</u>

Performance Rights granted under the 2014 Long Term Incentive awards were tested based on Total Shareholder Return ("TSR") performance over the period 1 January 2014 to 31 December 2016.

Oil Search's TSR was in the lower quartile against the ASX50 peer group reflecting the cyclical challenges facing energy and resource companies over that period. While for most of the performance period Oil Search's TSR against international Oil & Gas and energy companies was above the median, in the last quarter of the period it fell to just below the median.

This meant that none of the 2014 Performance Rights vested. There are no re-testing provisions in the Long Term Incentive scheme and the awards have therefore lapsed.

Changes to the LTI Performance hurdles effective for 2017

The Committee and Board review the performance conditions attaching to the Long Term Incentive Scheme awards on an annual basis.

The performance conditions were last changed in 2012 when the two comparator groups were adjusted to ensure greater relevance by:

1. Narrowing the Australian peer group from the first 150 companies of the ASX200 to the ASX50, to better reflect Oil Search's increased market capitalisation; and
2. Broadening the international Oil & Gas peer group from a selected group of global Oil & Gas companies to the constituents of the S&P Global 1200 Energy Index, to remove the subjectivity of the inclusion or exclusion of individual companies and to reduce the impact of mergers and acquisitions.

Following a review of the measures in late 2016, it was decided that while not perfect, Total Shareholder Return remains the best way of aligning executive long term incentives with shareholder experience.

However, to strengthen the link between Oil Search's performance relative to industry peers, the portion of awards tested against the Oil & Gas peer group will be increased from one half to two thirds of awards for 2017 onwards.

The Board believes this will strengthen the alignment of executive rewards to Oil Search's performance relative to industry peers. In part this also reflects the changing shareholder base, which has become increasingly international. The remaining one third of awards will continue to be tested against the ASX50, retaining some alignment of executive rewards to Oil Search's performance relative to large Australian listed companies.

To moderate the impact of foreign currency movements, half of awards tested against the international peer group will be measured considering Oil Search's and other companies' TSR in a common currency (USD) and the other half of the award considering Oil Search and other companies' TSR in the local currencies of the country of primary listing. Moderating the impact of foreign currency movements will increase executives' perceived value of the long term incentives by de-emphasising the importance of foreign currency movements on the outcome, as such movements are beyond the control of executives. No changes will be made to the method of calculation of TSR outcomes for prior year awards.

The vesting schedule is unchanged and requires Oil Search's relative TSR to be at the median to achieve 50% vesting, and at the upper quartile to achieve full vesting. No awards vest for below median performance. Allocation of long term incentive awards will continue to be made using the face value methodology.

Thank you for taking time to review our Remuneration Report and we look forward to welcoming you to our 2017 Annual Meeting.

………………………………..
Keith Spence
Chair, People & Nominations Committee

REMUNERATION REPORT

This report has been prepared in accordance with section 300A of the Australian *Corporations Act 2001* and summarises the arrangements in place for the remuneration of directors, Key Management Personnel and other employees of Oil Search for the period from 1 January 2016 to 31 December 2016. 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, retain and motivate 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, business unit/function and individual performance.

Remuneration for non-executive directors was established using data from external independent consultants which is updated from time to time 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 international scale of Oil Search activities;
- Responsibilities of non-executive directors; and
- Work requirements of Board members.

2. SHARE TRADING POLICY

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

- **Restricted Employees** – Directors, Executive General Managers and their direct reports, General Managers and their direct reports and other employees notified by the Group Secretary from time to time that they are a restricted employee;
- **Prescribed Employees** – particular employees, contractors or a member of a class of employees or contractors that are notified from time to time 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.

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

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

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

Table 1 summarises 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 and contractors are not permitted to trade at any time if they are in possession 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) provides advice and recommendations to the Board regarding people matters.

The Committee's responsibilities include:

- Reviewing the ongoing appropriateness, coherence, and market competitiveness of human resource and remuneration policies and practices, and recommending changes to the Board as appropriate;
- Overseeing the implementation of remuneration, retention, talent management and termination policies;
- Overseeing the key processes employed to identify and develop talent across the Group;
- Recommending the remuneration of executive directors, Key Management Personnel and any other direct reports to the Managing Director to the Board;
- Recommending to the Board the budgets for annual remuneration awards for all other employees;
- Recommending to the Board the performance measures underpinning all Incentive Plans;
- Conducting Board Performance Reviews;
- Proposing to the Board the appointment of new non-executive directors;
- Approving the 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.

The members of the Committee during 2016 were:

- Dr ZE Switkowski – independent non-executive (Chair from 12 May 2011, retired 31 December 2016)
- Mr KG Constantinou OBE – independent non-executive (from 16 April 2002)
- Mr B Philemon - independent non-executive (from 5 November 2012, retired 30 September 2016)
- Mr KW Spence - independent non-executive (from 9 May 2012)
- Mr MP Togolo – independent non-executive (from 1 October 2016)

In addition to the above, Ms M Johns was appointed as an Independent Member of the Committee effective from 1 October 2016. While not a member of the Board, Independent Members are expected to contribute fully to the effective functioning and execution of duties and responsibilities of the relevant Board committees. The motivation for these appointments is twofold; to draw on the experiences and capabilities of highly talented PNG citizens as the Company continues to invest for the future in PNG, and as equally important, to provide the appointees with the unique opportunity to experience and participate in governance processes of PNG's largest and most successful listed company. This is aligned with Oil Search's aim of enhancing the pool of capable, well-rounded business leaders in PNG.

Mr Spence was appointed Chair of the Committee effective 1 January 2017, following Dr Switkowski's retirement. Ms Fiona Harris joined the Committee effective upon her reappointment to the Board on 1 January 2017.

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 2016 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. Table 2 summarises work undertaken by external consultants at the Committee's request in 2016 and also notes additional work undertaken by the same consultants on behalf of management. While none of the Committee's engagements were for work which constituted Remuneration Recommendations for the purposes of the Australian *Corporations Act 2001*, findings were reported directly to the Committee or the Board.

Table 2 – External Consultants Engaged by the Committee in 2016

Consultant	Committee and Board Engagements	Management Engagements
Aon Hewitt	Executive remuneration benchmarking.	Various salary surveys for non-executive positions.
Orient Capital	Annual reporting in relation to Total Shareholder Return calculations to determine vesting of Performance Rights.	Quarterly Long Term Incentive Plan vesting updates. Regular analysis of the Company's shareholder registry.

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 is engaged by the Committee from time to time to provide competitive benchmark data for Key Management Personnel roles.

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

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

Short-Term Incentive (STI)

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

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.

The overall STI pool available to all employees is capped at 100% of the STI Opportunity amount (i.e., 2 x the aggregate of STI Target amounts).

The Board has discretion, having regard to recommendations from the People and Nominations Committee, to adjust the final size of the STI pool after due consideration of the Oil Search business performance and scorecard outcomes, including clawing back previous awards where appropriate.

Short Term Incentive award objectives and outcomes

Table 3 summarises the scorecard measures, weightings, targets and outcomes for 2016.

Table 3 – Short Term Incentive scorecard measures and outcomes

SCORECARD ELEMENT	MEASURE	ALIGNMENT OF PERFORMANCE AND REWARD	WEIGHTING	2016 OUTCOME[1]
OPERATIONAL MEASURES (55%)	**Safety**	Rewards a continuous focus on safe and reliable operations measured through a combination of lagging (Total Recordable Injury Rate) and leading (High Potential Incident Rate) indicators.	10%	◕
	Production	Rewards the achievement of the budgeted operated and non-operated production volumes - the largest contributors to short term financial performance	20%	●
	Costs	Rewards achievement of incurring below budget controllable field and corporate costs.	20%	●

	EBITDAX	Rewards achievement of profitability of the business against budget.	5%	●
GROWTH MEASURES (45%)	**2C Gas Resources**	Rewards the discovery or acquisition of new 2C gas resources, providing the resources required to undertake major gas projects or expansions	15%	●
	2C Oil Resources	Rewards the discovery or acquisition of new 2C oil resources, increasing the scale of the company's oil producing activities.	15%	◔
	Strategic and growth initiatives	Rewards the delivery of milestones that ensure the progressive achievement of strategic plan objectives.	15%	◕

(1) Performance Level achieved:

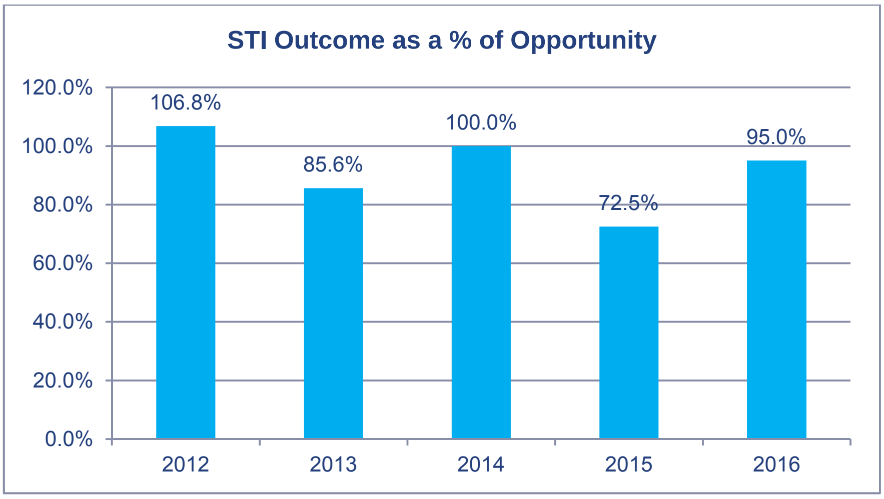
○ No achievement (below threshold) ◔ B/w threshold and target ◑ Close to target ◕ B/w target and stretch ● At or beyond stretch

Strong performance across all operational and growth elements of the scorecard produced an STI outcome that was capped at 100% of Opportunity. Consistent with the approach in 2016, where the Board clawed back STI due to a substantial downgrade in the 2C resource booked for Taza, the Board again exercised its discretion to claw back STI in 2016 to account for the elimination of the residual Taza resource. Post this claw back, the STI pool was 95% of Opportunity.

Table 4 illustrates the STI pool as a percentage of STI Opportunity over the period 2012 to 2016.

Table 4 – STI Awards to Employees

Over the period 2012 to 2016 STI, the STI pool as a percentage of STI Opportunity has been as follows:



Incentives - Executives

Performance Rights

For Key Management Personnel, and other senior managers, the Long Term Incentive Plan (LTIP) is provided in the form of a grant of Performance Rights (PRs).

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

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

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

For 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 1200 Energy Index (S&P Global 1200 Energy Index).

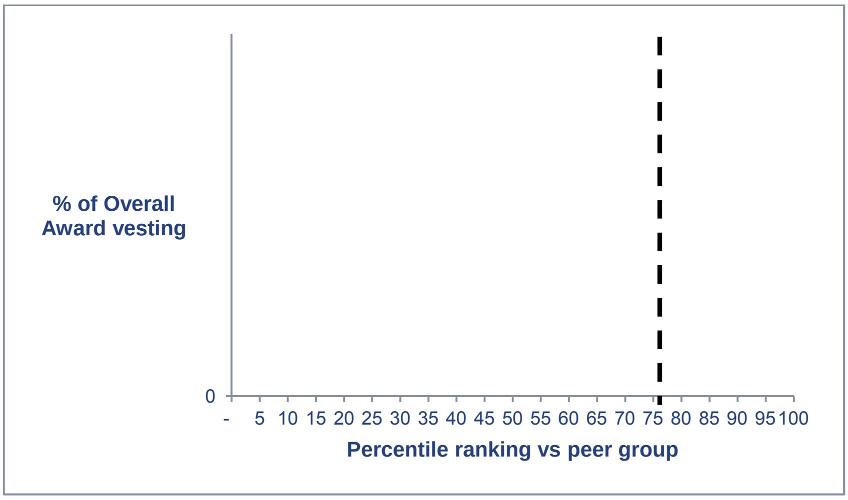
The Board considers that these peer groups are appropriate. Aligning half of LTI awards against the ASX50 peer group rewards executives when Oil Search's TSR outperforms against other large listed Australian companies. The S&P Global 1200 Energy Index group rewards executives when Oil Search's TSR outperforms against domestic and global companies in the Oil & Gas and Energy sector.

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. This is illustrated in Table 5.

Table 5 – Illustration of vesting outcomes vs percentile ranking against each peer group



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

Table 6 details the vesting of Performance Rights issued between 2012 and 2016:

Table 6 – Details of Awards of Performance Rights

	2012	**2013**	**2014[3]**	**2015**	**2016**
Measurement Period	1 Jan 12 to 31 Dec 14	1 Jan 13 to 31 Dec 15	1 Jan 14 to 31 Dec 16	1 Jan 2015 to 31 Dec 17	1 Jan 2016 to 31 Dec 18
Total Rights Granted	1,899,900	1,635,200	948,000	1,052,876	1,154,612
ASX50 Peer Group					
Oil Search TSR (3 year - AUD)[1]	34.7%	6.1%	(12.7%)		
Percentile Rank (ASX50 peer group)	41.1	30.8	21.0		
Vesting (maximum 50%)	*0%*	*0%*	*0%*	*18 May 2018*	*17 May 2019*
S&P Global 1200 Energy Index Peer Group					
Oil Search TSR (3 year - USD)[2]	14.0%	(26.4%)	(29.6%)		
Percentile Rank (S&P Global 1200 Energy Index)	61.9	51.1	47.1		
Vesting (maximum 50%)	*36.9%*	*26.1%*	*0%*	*18 May 2018*	*17 May 2019*
Total Vesting (maximum 100%)	**36.9%**	**26.1%**	**0%**	**18 May 2018**	**17 May 2019**

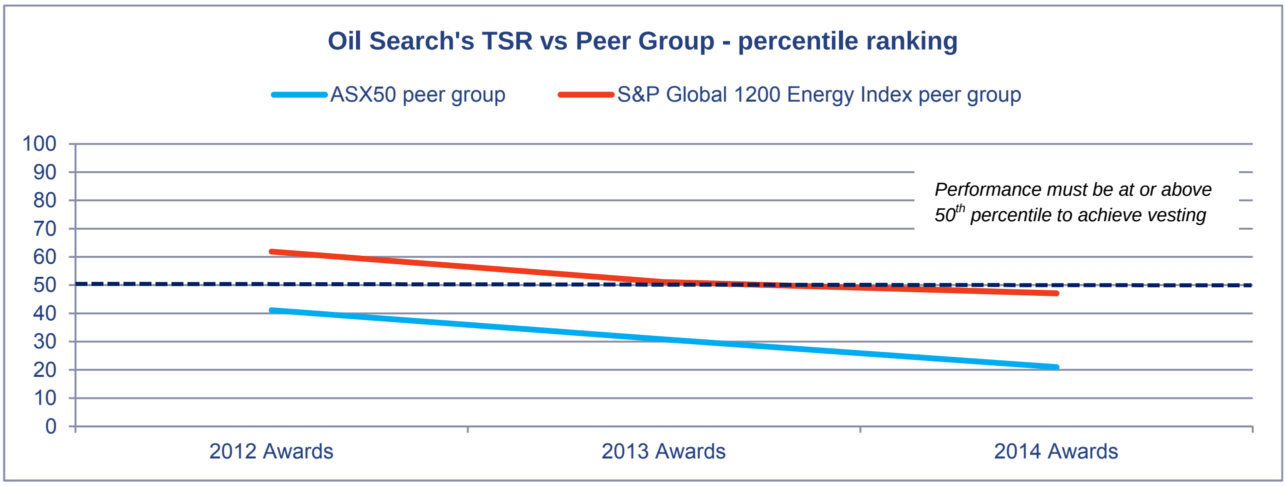
(1) TSR is calculated by an independent external consultant and is based on share price changes and dividends paid on the shares over the measurement period. In calculating the TSR it is assumed dividends are reinvested to purchase additional shares of the Company at the closing price applicable on the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

(2) TSR outcomes for the purposes of comparison against the S&P Global 1200 Energy Index peer group are measured in US dollars for Oil Search and all constituent companies.

(3) While the 2014 Performance Rights will not vest until May 2017, Oil Search's relative TSR for the period 1 January 2014 to 31 December 2016 is available.

Table 7 contains a chart which shows Oil Search's percentile ranking against each of the two peer groups for the 2012, 2013 and 2014 awards.

Table 7 – Oil Search's percentile ranking against each peer group



None of the 2014 Performance Rights will vest as the percentile ranking against both peer groups was below the 50th percentile.

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. If the share price does not increase above the Vesting Price, then the SARs 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..

Share Rights

SARs were replaced with Share Rights (SRs) in 2014. SRs are rights to receive Oil Search shares at the end of the three year 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 also provide a less leveraged and therefore less volatile outcome, making it easier for recipients to value the awards, which in turn increases the retention value.

Table 8 contains details of the shares awards made under the general employee share plan between 2012 and 2016.

Table 8 – Details of Share Appreciation Rights and Share Rights awards under the general employee share plan

	2012	**2013**	**2014**	**2015**	**2016**
Award Type	SARs	SARs	SRs	SRs	**SRs**
Grant Date	21 May 2012	20 May 2013	19 May 2014	18 May 2015	**16 May 2016**
Vesting Date	15 May 15	13 May 16	19 May 2017	18 May 2018	**17 May 2019**
Total Award	1,744,200	1,873,950	611,045	682,736	**677,623**
Exercise/Vesting Price	$7.26	$7.82	$nil	$nil	**$nil**

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. In certain cases for senior new hires, awards of Restricted Shares are made in lieu of equity forgone with previous employers.

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

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

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

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.

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration for Key Management Personnel 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 4, Oil Search executives are eligible to receive a STI and participate in a LTI program which is "at risk" remuneration, with any payment dependent on performance. The Board's objective is that the size of these incentives should reflect Oil Search's success in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

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

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

Short Term Incentive

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

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

Table 9 summarises STI awards as a % of TFR for Senior Executives and the Managing Director for a range STI outcomes.

Table 9 – STI awards at minimum, target and opportunity for Senior Executives and the Managing Director

	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.

Following the end of the financial 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.

Table 10 shows the STI outcomes for the Managing Director and Senior Executives since 2012 expressed as a percentage of Total Fixed Remuneration.

Table 10 – Senior Executive STI outcomes as a % of TFR, 2012-2016

	2012	2013	2014	2015	2016
Managing Director	106.8%	85.6%	172.4%	143.6%	**180.0%**
Senior Executives	85.4%	68.5%	95.8%	68.1%	**95.0%**

Analysis of individual Senior Executive STIs is contained in Tables 10 and 11 below.

Long Term Incentive (LTI) – Performance Rights

For 2016 the number of Performance Rights granted for the Managing Director and other senior executives was based on the following formula:

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

where X is 100% for the Managing Director and 60% for other senior executives, and "Oil Search Share Price" is based on the Volume Weighted Average Price of Oil Search shares for the 5 trading days following the release of 2015 annual results.

Table 11 summarises performance rights grants and vesting levels for awards made over the period 2012 to 2016 for Key Management Personnel.

Table 11 – Allocation of Performance Rights to Key Management Personnel

	2012		2013		2014		2015		2016	
	No.	Vest	No.	Vest	No.	Vest[(1)]	No.	Vest	No.	Vest
Directors										
P Botten	248,700	36.9%	240,000	26.1%	222,600	0%	236,000	2018	326,900	2019
G Aopi	53,600	36.9%	52,300	26.1%	48,500	0%	51,400	2018	64,100	2019
Executives										
P Cholakos	55,900	36.9%	53,900	26.1%	50,000	0%	53,009	2018	66,087	2019
M Drew[(2)]	-	-	-	-	-	-	11,660	2018	14,537	2019
J Fowles	55,300	36.9%	54,900	26.1%	51,000	0%	54,025	2018	67,353	2019
S Gardiner	44,700	36.9%	52,300	26.1%	49,700	0%	52,697	2018	67,300	2019
M Herrett	-	-	45,200	26.1%	42,500	0%	45,081	2018	56,203	2019
I Munro	-	-	18,700	26.1%	49,400	0%	52,331	2018	65,243	2019
K Wulff	-	-	-	-	-	-	55,638	2018	69,365	2019

	2012		2013		2014		2015		2016	
	No.	Vest	No.	Vest	No.	Vest(1)	No.	Vest	No.	Vest
Former Executives										
G Darnley-Stuart	26,100	36.9%	53,200	26.1%	49,400	0%	52,331	2018	-	-
M Kay			22,668	26.1%	49,400	2017	52,331	2018	-	-

(1) The vesting date of the 2014 Performance Rights is 19 May 2017. As described above, Oil Search's TSR for the period 1 January 2014 to 31 December 2016 will result in nil vesting.
(2) Mr Drew was appointed to an Executive General Manager position effective 19 October 2016. The Performance Rights detailed above were allocated based on the framework applying to his previous, non-Executive General Manager level, position.

Corporate Financial Performance
Table 12 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 12 – Oil Search's Five Year Performance

Year Ended 31 December	2012	2013	2014	2015	2016
Net profit/(loss) after tax (US$m)	175.8	205.7	353.2	(39.4)	89.8
Diluted Earnings per share (US cents)	13.2	15.3	23.8	(2.59)	5.89
Dividends per share (US cents)	4.0	4.0	14.0(1)	10.0	3.5
Shares Closing price (A$)(2)	$7.01	$8.11	$7.89	$6.70	$7.17
Oil Search Three Year TSR (AUD)(3)	23%	27.4%	34.7%	6.1%	(12.7%)

(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. The closing share price at the start of the 5 year period (31 December 2010) was $7.04.
(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 9. 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 Stakeholder Engagement
Incumbent for the full year

Gerea plays a major role in managing relationships with the PNG Government and other joint venture partners. He is also charged with strategy development and enactment of our community affairs 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 and social programs within PNG.

Mr Paul Cholakos – Executive General Manager Technical Services
Incumbent for the full year

Paul was appointed to the role of EGM Technical Services in February 2015. In his current position, Paul oversees the delivery of HSES, risk, drilling, engineering and ICT functions that underpin the Company's operations. In his previous role as EGM PNG Operations, Paul played a major role in the Company's transition to a major LNG exporter through its contributions to the world-class PNG LNG Project. Paul's role was expanded to incorporate overall responsibility for the Project Development function following Mr Darnley-Stuart's departure.

Mr Michael Drew – Executive General Manager & General Counsel
Appointed from 19 October 2016

Michael joined Oil Search in 2014 in the role of General Counsel. His duties were subsequently expanded to include procurement & supply chain when he was appointed General Counsel and Chief Procurement Officer in 2015. Michael joined the Executive Leadership team as Executive General Manager & General Counsel from 19 October 2016. In his current position Michael is responsible for the legal function, as well as all aspects of procurement, contracts and supply chain.

Dr Julian Fowles – Executive General Manager PNG Business Unit
Incumbent for the full year

Julian was appointed to the role of EGM PNG Business Unit in February 2015. In his current role, Julian's responsibilities include the management of Oil Search's PNG assets and production, engagement with key stakeholders and addressing in-country issues. Julian previously held the position of Executive General Manager Exploration.

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 delivering an appropriate financial control and reporting framework. Prior to this position, Stephen held the position of EGM Sustainability, Corporate Services & Group Secretary.

Mr Michael Herrett – Executive General Manager Human Resources – Health & Administration
Incumbent for the full year

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

Mr Ian Munro – Executive General Manager – Gas Business Development
Incumbent for the full year

Ian has responsibility for directing and managing Oil Search's gas business development strategy, including managing OSL's gas interests and assets, from a commercial and operational perspective. This includes but is not limited to OSL'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.

Dr Keiran Wulff – Executive General Manager – Exploration & New Business
Incumbent for the full year

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

Former Executives

Mr Glenn Darnley-Stuart - Executive General Manager – Project Development
Incumbent until 31 December 2016

Prior to his departure, Glenn was responsible for the delivery and management of Oil Search projects, with a specific focus on those associated with the PNG LNG Project. He was also responsible for the management of the corporate project function. Mr Darnley-Stuart's role was eliminated following the closure of Oil Search's Brisbane office and relocation of the Project Development function to Sydney.

Mr Matthew Kay – Executive General Manager – Strategy & Commercial

Incumbent from 6 January 2014, resigned 11 January 2016

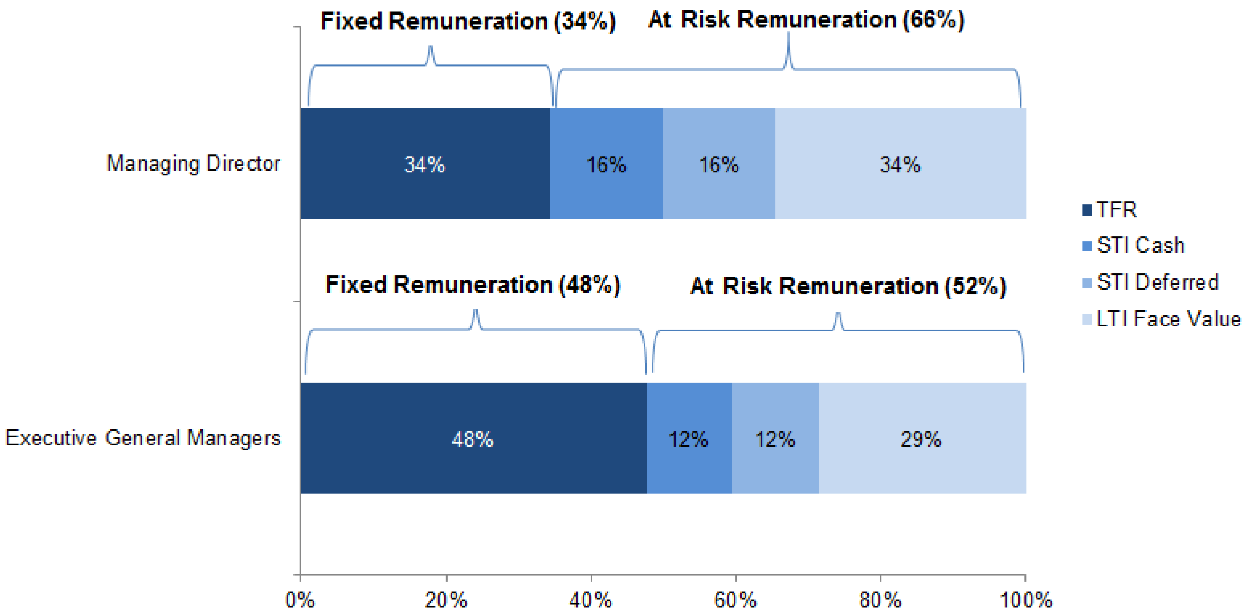
Matthew had responsibility for leading all commercial aspects of the business, establishing cross business Commercial guidelines, processes and overseeing all commercial capability within the organisation. He co-ordinated the development of Corporate Strategy and had responsibility for the execution of mergers, divestments & acquisitions. Matthew resigned his employment on 11 January 2016.

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.

2016 Key Management Personnel Remuneration Mix

The remuneration mix and quantum for the Managing Director and Executive General Managers is aligned with achieving the Company's targeted market positioning. The remuneration mix for the Managing Director and Executive General Managers is set out in the chart in Table 13.

Table 13 – Key Management Personnel Remuneration Mix



The pay mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of target 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.

For all remuneration reporting stated in US Dollars, the exchange rates set out in Table 14 have been used:

Table 14 – Exchange rates used in the remuneration tables where disclosure is in US Dollars

EXCHANGE RATE	2015	2016
AUD/USD	0.7530	0.7439
PGK/USD	0.3618	0.3193

Table 15 sets out the remuneration of Key Management Personnel for 2015 and 2016 in US Dollars and has been prepared in accordance with the requirements of Section 300A of the Australian *Corporations Act 2001* and associated accounting standards.

Table 15 – Key Management Personnel Remuneration (US$)

	Year	Short Term			Post Employment	Long Term	Equity[6]		Other	Total
		Salaries fees and allowances (1)	Non-Monetary benefits (2)	Short Term Incentive (3)	Company contribution to super[4]	Long Service Leave accrual[5]	Perform. Rights	Restricted Shares	Sign on / termi-nation benefits	
Directors										
P Botten Managing Director	**2016**	**1,783,626**	**206,218**	**1,465,812**	**14,478**	**54,804**	**776,050**	**1,206,454**	**-**	**5,507,442**
	2015	1,693,030	72,670	1,154,424	14,341	26,806	830,408	895,438	-	4,687,117
G Aopi EGM Stakeholder Engagement	**2016**	**370,474**	**154,982**	**252,752**	**35,347**	**16,799**	**165,082**	**206,891**	**-**	**1,202,327**
	2015	389,219	171,327	190,487	39,075	13,010	180,683	192,942	-	1,176,743
Executives										
P Cholakos EGM Technical Services	**2016**	**554,433**	**171,540**	**260,700**	**14,478**	**10,429**	**171,667**	**218,999**	**-**	**1,402,246**
	2015	548,436	159,150	196,477	14,341	51,176	190,615	202,492	-	1,362,687
M Drew[7] EGM & General Counsel	**2016**	**97,408**	**-**	**44,827**	**4,237**	**-**	**6,027**	**14,956**	**-**	**167,455**
	2015	-	-	-	-	-	-	-	-	-
J Fowles EGM PNG Business Unit	**2016**	**1,062,459**	**-**	**265,697**	**-**	**-**	**174,999**	**324,290**	**-**	**1,827,445**
	2015	945,780	50,282	200,243	1,179	-	193,577	292,807	-	1,683,868
S Gardiner Chief Financial Officer & Group Secretary	**2016**	**547,033**	**-**	**265,488**	**14,478**	**14,578**	**170,929**	**224,160**	**-**	**1,236,666**
	2015	540,964	-	197,612	14,341	8,975	183,184	202,196	-	1,147,272
M Herrett EGM Human Resources, Health & Administration	**2016**	**443,575**	**-**	**221,713**	**23,188**	**-**	**155,644**	**188,916**	**-**	**1,033,036**
	2015	449,784	-	174,009	27,088	-	151,248	170,693	-	972,822
I Munro EGM Gas Business Development	**2016**	**525,709**	**-**	**257,370**	**19,008**	**-**	**152,927**	**254,437**	**-**	**1,209,451**
	2015	508,890	-	194,235	24,095	-	118,834	329,462	-	1,175,516
K Wulff EGM Exploration & New Business	**2016**	**584,401**	**233,528**	**273,632**	**14,478**	**-**	**80,157**	**84,537**	**-**	**1,270,733**
	2015	554,979	34,704	218,881	14,341	-	26,217	-	-	849,122
Former Executives										
G Darnley-Stuart EGM Project Development	**2016**	**545,648**	**-**	**270,915**	**34,414**	**17,004**	**54,978**	**210,670**	**541,831**	**1,675,460**
	2015	532,174	-	193,968	25,486	8,905	175,946	196,136	-	1,132,615
M Kay EGM Strategy & Commercial	**2016**	**14,099**	**-**	**-**	**1,755**	**-**	**3,555**	**4,356**	**-**	**23,765**
	2015	538,724	-	133,770	25,170	-	124,136	146,508	-	968,308

(1) Includes salaries, allowances, expatriate allowances and movements in annual leave accruals.
(2) Includes the grossed up FBT value of benefits subject to FBT 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 as calculated under IFRS 2 Share-Based Payment.
(7) Remuneration disclosed for Mr Drew is for the period 19 October 2016 to 31 December 2016.

Table 16 details the vesting profile of the Short Term Incentives awarded as remuneration to each Director of Oil Search and the Key Management Personnel for 2016. Percentages of STI are based on assuming STI awards at 100% of opportunity.

Table 16 – Analysis of STI Included in Remuneration

	Included in remuneration (US$)[1]	% of STI Opportunity	Cash	Deferred
Directors				
P Botten	2,931,624	100%	1,465,812	1,465,812
G Aopi	505,504	95%	252,752	252,752
Executives				
P Cholakos	521,400	95%	260,700	260,700
M Drew	89,654	95%	44,827	44,827
J Fowles	531,394	95%	265,697	265,697
S Gardiner	530,976	95%	265,488	265,488
M Herrett	443,426	95%	221,713	221,713
I Munro	514,740	95%	257,370	257,370
K Wulff	547,264	95%	273,632	273,632
Former Executives				
G Darnley-Stuart[2]	270,915	50%	270,915	-

(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 2019.
(2) Mr Darnley-Stuart received an STI at the target level for the 2016 year, consistent with the good leaver provisions.

7. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

Table 17 sets out 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.

Table 17 – 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)

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.

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 4 on Remuneration Structure.

Rights over Equity Instruments Granted as Remuneration

Table 18 provides details of Performance Rights over ordinary shares in the Company that were granted as remuneration to Key Management Personnel during 2016 and details of Performance Rights that vested during 2016.

Table 18– Details of Performance Rights Granted during 2016

	Number of Rights granted during 2016	Grant Date	Fair value per right (A$)	Exercise price per right (A$)	Expiry date
Directors					
P Botten	326,900	16 May 2016	3.59	nil	17 May 2019
G Aopi	64,100	16 May 2016	3.59	nil	17 May 2019
Executives					
P Cholakos	66,087	16 May 2016	3.59	nil	17 May 2019

	Number of Rights granted during 2016	Grant Date	Fair value per right (A$)	Exercise price per right (A$)	Expiry date
M Drew[(1)]	14,537	16 May 2016	3.59	nil	17 May 2019
J Fowles	67,353	16 May 2016	3.59	nil	17 May 2019
S Gardiner	67,300	16 May 2016	3.59	nil	17 May 2019
M Herrett	56,203	16 May 2016	3.59	nil	17 May 2019
I Munro	65,243	16 May 2016	3.59	nil	17 May 2019
K Wulff	69,365	16 May 2016	3.59	nil	17 May 2019

(1) Mr Drew was appointed to an Executive General Manager position effective 19 October 2016. The Performance Rights detailed above were allocated based on the framework applying to his previous, non-Executive General Manager level, position.

All Performance Rights expire on the earlier of their expiry date or termination of the individual's employment unless the Board determines otherwise. 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 2016 the earliest exercise date is 17 May 2019.

The deferred component of the 2015 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain Key Management Personnel in 2016. Table 19 sets out the number of Restricted Shares granted during 2016:

Table 19 – Details of Deferred STI granted as Restricted Shares

	Number granted during 2016	Grant Date	Fair value (A$)	Exercise price (A$)	Vesting date
Directors					
P Botten[(1)]	228,875	13 May 2016	6.75	nil	1 January 2018
G Aopi[(1)]	37,766	13 May 2016	6.75	nil	1 January 2018
Executives					
P Cholakos	38,953	13 May 2016	6.75	nil	1 January 2018
J Fowles	39,700	13 May 2016	6.75	nil	1 January 2018
S Gardiner	39,178	13 May 2016	6.75	nil	1 January 2018
M Herrett	34,499	13 May 2016	6.75	nil	1 January 2018
I Munro	38,509	13 May 2016	6.75	nil	1 January 2018
K Wulff	43,395	13 May 2016	6.75	nil	1 January 2018
Former Executives					
G Darnley-Stuart	38,456	13 May 2016	6.75	nil	1 January 2018

(1) The allocations for P Botten and G Aopi were approved at the 2016 Annual Meeting.

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

Table 20 summarises the number of Performance Rights exercised during 2016 and 2015.

Table 20 – Details of the Exercise of Performance Rights

Exercised in 2016	Number of Rights Exercised	Amount paid per share (A$)
Directors		
P Botten	62,640	nil
G Aopi	13,650	nil
Executives		
P Cholakos	14,067	nil
J Fowles	14,328	nil
S Gardiner	13,650	nil
I Munro	4,880	nil
M Herrett	11,797	nil
Former Executives		
G Darnley-Stuart	13,885	nil

Exercised in 2015	Number of Rights Exercised	Amount paid per share (A$)
Directors		
P Botten	91,770	nil
G Aopi	19,778	nil
Executives		
P Cholakos	20,627	nil
G Darnley-Stuart	9,631	nil
J Fowles	20,406	nil
S Gardiner	16,494	nil
Former executives		
P Caldwell	21,882	nil

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

Details of movements of Performance Rights and Restricted Shares granted as remuneration to Key Management Personnel are set out in Tables 21 and Table 22.

Table 21 – Details of movements of Performance Rights during 2016

			Movements during the year						
	Grant Date	Balance at 1 Jan 2016	Rights Granted	Rights Exercised	Rights Lapsed	Balance at 31 Dec 2016	% vested in the year	% forfeited in the year	Financial Year of Vesting
Directors									
P Botten	10/5/13	240,000	-	(62,640)	(177,360)	-	26.1%	73.9%	2016
	19/5/14	222,600	-	-	-	222,600	-	-	2017
	18/5/15	236,000	-	-	-	236,000	-	-	2018
	16/5/16	-	326,900	-	-	326,900	-	-	2019
	Total	**698,600**	**326,900**	**(62,640)**	**(177,360)**	**785,500**			
G Aopi	10/5/13	52,300	-	(13,650)	(38,650)	-	26.1%	73.9%	2016
	19/5/14	48,500	-	-	-	48,500	-	-	2017
	18/5/15	51,400	-	-	-	51,400	-	-	2018
	16/5/16	-	64,100	-	-	64,100	-	-	2019
	Total	**152,200**	**64,100**	**(13,650)**	**(38,650)**	**164,000**			
Executives									
P Cholakos	24/5/13	53,900	-	(14,067)	(39,833)	-	26.1%	73.9%	2016
	19/5/14	50,000	-	-	-	50,000	-	-	2017
	18/5/15	53,009	-	-	-	53,009	-	-	2018
	16/5/16	-	66,087	-	-	66,087	-	-	2019
	Total	**156,909**	**66,087**	**(14,067)**	**(39,833)**	**169,096**			
M Drew	13/10/14	5,500	-	-	-	5,500	-	-	2017
	18/5/15	11,660	-	-	-	11,660	-	-	2018
	16/5/16	-	14,537	-	-	14,537	-	-	2019
	Total	**17,160**	**14,537**	**-**	**-**	**31,697**			
J Fowles	24/5/13	54,900	-	(14,328)	(40,572)	-	26.1%	73.9%	2016

	Grant Date	Balance at 1 Jan 2016	Movements during the year: Rights Granted	Rights Exercised	Rights Lapsed	Balance at 31 Dec 2016	% vested in the year	% forfeited in the year	Financial Year of Vesting
	19/5/14	51,000	-	-	-	51,000	-	-	2017
	18/5/15	54,025	-			54,025	-	-	2018
	16/5/16	-	67,353	-	-	67,353	-	-	2019
	Total	**159,925**	**67,353**	**(14,328)**	**(40,572)**	**172,378**			
S Gardiner	24/5/13	52,300	-	(13,650)	(38,650)	-	26.1%	73.9%	2016
	19/5/14	49,700	-	-	-	49,700	-	-	2017
	18/5/15	52,697	-	-	-	52,697	-	-	2018
	16/5/16	-	67,300	-	-	67,300	-	-	2019
	Total	**154,697**	**67,300**	**(13,650)**	**(38,650)**	**169,697**			
M Herrett	24/5/13	45,200	-	(11,797)	(33,403)	-	26.1%	73.9%	2016
	19/5/14	42,500	-	-	-	42,500	-	-	2017
	18/5/15	45,081	-	-	-	45,081	-	-	2018
	16/5/16	-	56,203	-	-	56,203	-	-	2019
	Total	**132,781**	**56,203**	**(11,797)**	**(33,403)**	**143,784**			
I Munro	10/1/14	18,700	-	(4,880)	(13,820)	-	26.1%	73.9%	2016
	19/5/14	49,400	-	-	-	49,400	-	-	2017
	18/5/15	52,331	-	-	-	52,331	-	-	2018
	16/5/16	-	65,243	-	-	65,243	-	-	2019
	Total	**120,431**	**65,243**	**(4,880)**	**(13,820)**	**166,974**			
K Wulff	18/5/15	55,638	-	-	-	55,638	-	-	2018
	16/5/16	-	69,365	-	-	69,365	-	-	2019
	Total	**55,638**	**69,365**	**-**	**-**	**125,003**			
Former Executives									
G Darnley-Stuart	24/5/13	53,200	-	(13,885)	(39,315)	-	26.1%	73.9%	2016
	19/5/14	49,400	-	-	(6,422)	42,978	-	13.00%	2017
	18/5/15	52,331	-	-	(24,072)	28,259	-	46.00%	2018
	Total	**154,931**		**(13,885)**	**(69,809)**	**71,237**			
M Kay	24/5/13	22,668	-	-	(22,668)	-	0%	100%	2016
	19/5/14	49,400	-	-	(49,400)	-	0%	100%	2017
	18/5/15	52,331	-	-	(52,331)	-	0%	100%	2018
	Total	**124,399**			**101,731**	**-**			

Table 22 – Details of movements of Restricted Shares

	Grant Date	Balance at 1 Jan 2016	Movements during the year: Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Balance at 31 Dec 2016	% vested in the year	% forfeited in the year	Financial Year of Vesting
Directors									
P Botten	19/5/14	99,460	-	(99,460)	-	-	100%	0%	2016
	18/5/15	226,043	-	-	-	226,043	-	-	2017
	13/5/16	-	228,875	-	-	228,875	-	-	2018
	Total	**325,503**	**228,875**	**(99,460)**	**-**	**454,918**			
G Aopi	19/5/14	25,996	-	(25,996)	-	-	100%	0%	2016
	18/5/15	39,593	-	-	-	39,593	-	-	2017
	13/5/16	-	37,766	-	-	37,766	-	-	2018
	Total	**65,589**	**37,766**	**(25,996)**	**-**	**77,359**			
Executives									
P Cholakos	19/5/14	26,813	-	(26,813)	-	-	100%	0%	2016
	18/5/15	42,506	-	-	-	42,506	-	-	2017
	13/5/16	-	38,953	-	-	38,953	-	-	2018
	Total	**69,319**	**38,953**	**(26,813)**	**-**	**81,459**			
M Drew	2/11/15	31,250	-	-	-	31,250	-	-	2017

	Grant Date	Balance at 1 Jan 2016	Movements during the year: Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Balance at 31 Dec 2016	% vested in the year	% forfeited in the year	Financial Year of Vesting
	Total	**31,250**	**-**	**-**	**-**	**31,250**			
J Fowles	19/5/14	27,327	-	(27,327)	-	-	100%	0%	2016
	2/3/15	50,000	-	-	-	50,000	-	-	2017
	18/5/15	41,621	-	-	-	41,621	-	-	2017
	13/5/16	-	39,700	-	-	39,700	-	-	2018
	Total	**118,948**	**39,700**	**(27,327)**	**-**	**131,321**			
S Gardiner	19/5/14	26,033	-	(26,033)	-	-	100%	0%	2016
	18/5/15	43,914	-	-	-	43,914	-	-	2017
	13/5/16	-	39,178	-	-	39,178	-	-	2018
	Total	**69,947**	**39,178**	**(26,033)**	**-**	**83,092**			
M Herrett	19/5/14	22,481	-	(22,481)	-	-	100%	0%	2016
	18/5/15	36,149	-	-	-	36,149	-	-	2017
	13/5/16	-	34,499	-	-	34,499	-	-	2018
	Total	**58,630**	**34,499**	**(22,481)**	**-**	**70,648**			
I Munro	19/5/14	9,258	-	(9,258)	-	-	100%	0%	2016
	7/11/14	40,000	-	(40,000)	-	-	100%	0%	2016
	18/5/15	43,610	-	-	-	43,610	-	-	2017
	13/5/16	-	38,509	-	-	38,509	-	-	2018
	Total	**92,868**	**38,509**	**(49,258)**	**-**	**82,119**			
K Wulff	13/5/16	-	43,395	-	-	43,395	-	-	2018
	Total	**-**	**43,395**	**-**	**-**	**43,395**			
Former executives									
G Darnley-Stuart	19/5/14	49,400	-	(49,400)	-	-	100%	0%	2016
	18/5/15	40,316	-	-	-	40,316	-	-	2017
	13/5/16	-	38,456	-	-	38,456	-	-	2018
	Total	**89,716**	**38,456**	**(49,400)**	**-**	**78,772**			
M Kay	10/1/14	16,200	-	(16,200)	-	-	100%	0%	2016
	18/5/15	41,077	-	-	(41,077)	-	0%	100%	2017
	Total	**57,277**	**-**	**(16,200)**	**(41,077)**				

Analysis of Movements in Performance Rights and Restricted Shares

Table 23 summarises the movement in value of Performance Rights and Restricted Shares held by each Key Management Personnel during 2016.

Table 23 – Movement in Value of Performance Rights and Restricted Shares

	Granted in the year (US$)[1]	Value of Performance Rights exercised and Restricted Shares vested in the year[2]			Value of Performance Rights lapsed and Restricted Shares forfeited in the year[3]		
		Number	Average Value (US$)	Total Value (US$)	Number	Average Value (US$)	Total Value (US$)
Directors							
P Botten	2,022,275	162,100	5.00	810,257	177,360	5.02	890,582
G Aopi	360,821	39,646	4.98	197,601	38,650	4.98	192,637
Executives							
P Cholakos	372,088	40,880	5.00	204,274	39,883	5.02	200,266
M Drew	38,823	-	-	-	-	-	-
J Fowles	379,220	41,655	5.00	208,147	40,572	4.98	202,216
S Gardiner	376,457	39,683	5.00	198,293	38,650	5.02	194,074
M Herrett	323,326	34,278	5.00	171,285	33,403	5.02	167,727
I Munro	367,604	14,138	0.00	70,647	13,820	5.02	69,395
K Wulff	403,147	-	-	-	-	-	-
Former Executives							
G Darnley-Stuart	193,100	40,356	5.00	201,656	39,315	5.02	197,413
M Kay	-	16,200	4.95	80,261	165,476	3.84	634,769

(1) The value for awards granted 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 Performance 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 Performance 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 the lapse or forfeiture.

KMP shareholdings

Table 24 summarises the movements in the numbers of Oil Search Limited shares held by Executive KMP and their personally related entities during 2016.

Table 24– Movements in Executive KMP shareholdings

	Balance at 1 January 2016	Net movement during 2016	Balance at 31 December 2016
Directors			
P Botten	2,387,934	(19,895)	2,368,039
G Aopi	451,444	22,873	474,317
Executives			
P Cholakos	230,417	40,880	271,297
M Drew	-	-	-
J Fowles	49,505	32,556	82,061
S Gardiner	347,484	39,683	387,167
M Herrett	1,829	(1,829)	-
I Munro	-	-	-
K Wulff	8,590	-	8,590
Former Executives			
G Darnley-Stuart	10,000	32,500	42,500
M Kay	-	-	-

9. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

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

Remuneration Payable

Fees payable to Non-Executive Directors are reviewed periodically and are fixed by the Board as discussed above.

Table 25 sets out the fee structure applied from 1 January 2016.

Table 25 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars

POSITION	ANNUAL FEE
Chairman of the Board(1)	A$519,750
Non-Executive Directors other than the Chairman	A$173,250
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)	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.

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

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.

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.

Details of Directors' Remuneration

Table 26 outlines the remuneration received by Oil Search Limited directors in 2015 and 2016.

The Managing Director, Mr Botten, and the EGM Stakeholder Engagement, Mr Aopi, are the only executive directors on the Board.

Table 26 – Oil Search Limited Directors Remuneration (US$)

Directors	Year	Short Term			Post Emp'ment	Long Term	Equity		Other	Total
		Salaries fees and allowances	Non-Monetary benefits	Short Term Incentive	Company contribution to super	Long Service Leave accrual	Perform. Rights	Restricted Shares	Sign on / termination benefits	
Executive Directors										
P Botten	**2016**	**1,783,626**	**206,218**	**1,465,812**	**14,478**	**54,804**	**776,050**	**1,206,454**	**-**	**5,507,442**
Managing Director	2015	1,693,030	72,670	1,154,424	14,341	26,806	830,408	895,438	-	4,687,117
G Aopi	**2016**	**370,474**	**154,982**	**252,752**	**35,347**	**16,799**	**165,082**	**206,891**	**-**	**1,202,327**
EGM Stakeholder Engagement	2015	389,219	171,327	190,487	39,075	13,010	180,683	192,942	-	1,176,743
Non-Executive Directors										
R Lee	2016	405,611	-	-	-	-	-	-	-	405,611
	2015	391,937	-	-	-	-	-	-	-	391,937
KG Constantinou	2016	180,582	-	-	-	-	-	-	-	180,582
	2015	176,578	-	-	-	-	-	-	-	176,578
EJ Doyle	2016	158,971	-	-	-	-	-	-	-	158,971
	2015	-	-	-	-	-	-	-	-	-
FE Harris	2016	-	-	-	-	-	-	-	-	-
	2015	119,476	-	-	-	-	-	-	-	119,476
A Kanstler	2016	201,039	-	-	-	-	-	-	-	201,039
	2015	197,286	-	-	-	-	-	-	-	197,286
KW Spence	2016	192,856	-	-	-	-	-	-	-	192,856
	2015	189,003	-	-	-	-	-	-	-	189,003
MP Togolo	2016	45,796	-	-	-	-	-	-	-	45,796
	2015	-	-	-	-	-	-	-	-	-
Former Non-Executive Directors										
B Philemon	2016	137,389	-	-	-	-	-	-	-	137,389
	2015	179,214	-	-	-	-	-	-	-	179,214
ZE Switkowski	2016	195,460	-	-	-	-	-	-	-	195,460
	2015	191,638	-	-	-	-	-	-	-	191,638

Equity Participation for Non-Executive Directors

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

Table 27 summarises the movements in shareholdings of Non-Executive Directors including their personally related entities for the 2016 financial year.

Table 27 – Non-Executive Director shareholdings

	Balance at 1 January 2016	Net movement during 2016	Balance at 31 December 2016
KG Constantinou	-	-	-
EJ Doyle	-	30,800	30,800
FE Harris	31,961	-	31,961
AJ Kantsler	45,736	-	45,736
RJ Lee	96,829	-	96,829
KW Spence	25,000	-	25,000
MP Togolo	-	-	-
Former Non-Executive Directors			
B Philemon	7,241	-	7,241
ZE Switkowski	201,829	-	201,829

Signed in accordance with a resolution of the directors.

………………………………………………

RJ LEE

Chairman

………………………………………………

PR BOTTEN

Managing Director

Sydney, 20 February 2017

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

20 February 2017

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 2016, 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

Matthew Donaldson
Partner
Chartered Accountants

Statements of comprehensive income for the year ended 31 December 2016

		Consolidated		Parent	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Revenue	3	**1,235,908**	1,585,728	**-**	-
Cost of sales	4	**(770,953)**	(781,811)	**-**	-
Gross profit		**464,955**	803,917	**-**	-
Other income		**53,120**	14,841	**48,000**	763,389
Other expenses	5	**(137,044)**	(525,389)	**(677,038)**	(27,762)
Profit/(loss) from operating activities		**381,031**	293,369	**(629,038)**	735,627
Net finance (costs)/income	6	**(195,999)**	(185,115)	**(11)**	403
Profit/(loss) before income tax		**185,032**	108,254	**(629,049)**	736,030
Income tax (expense)/benefit	7	**(95,237)**	(147,636)	**(9)**	3,129
Net profit/(loss) after tax		**89,795**	(39,382)	**(629,058)**	739,159
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations		**1,096**	(4,218)	**-**	-
Total comprehensive income/(loss) for the year		**90,891**	(43,600)	**(629,058)**	739,159

		Cents	Cents
Basic earnings/(loss) per share	8	**5.90**	(2.59)
Diluted earnings/(loss) per share	8	**5.89**	(2.59)

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

Statements of financial position as at 31 December 2016

		Consolidated		Parent	
		2016	2015	2016	2015
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	19(a)	**862,748**	910,479	**-**	103,460
Receivables	10	**152,712**	81,074	**697,389**	1,280,364
Inventories	11	**106,817**	136,786	**-**	-
Prepayments		**11,761**	13,576	**582**	2,163
Current tax receivable		**-**	-	**1,411**	1,344
Total current assets		**1,134,038**	1,141,915	**699,382**	1,387,331
Non-current assets					
Other assets		**2,476**	4,931	**-**	-
Other financial assets	12	**114,487**	104,125	**-**	-
Exploration and evaluation assets	13	**1,521,371**	1,420,651	**66,017**	60,260
Oil and gas assets	14	**6,646,293**	7,023,774	**-**	-
Other plant and equipment	14	**186,669**	128,507	**-**	-
Investments	25	**-**	-	**2,294,804**	2,294,804
Deferred tax assets	7	**520,795**	518,931	**23,827**	22,831
Total non-current assets		**8,992,091**	9,200,919	**2,384,648**	2,377,895
Total assets		**10,126,129**	10,342,834	**3,084,031**	3,765,226
Current liabilities					
Payables	15	**161,647**	214,583	**24,470**	1,832
Provisions	16	**17,912**	15,989	**-**	-
Borrowings	17	**315,875**	290,372	**-**	-
Current tax payable		**56,403**	55,655	**-**	-
Total current liabilities		**551,837**	576,599	**24,470**	1,832
Non-current liabilities					
Payables	15	**19,717**	18,670	**-**	-
Provisions	16	**384,299**	394,764	**2,435**	2,418
Borrowings	17	**3,758,906**	4,012,278	**-**	-
Deferred tax liabilities	7	**686,054**	631,162	**385**	150
Total non-current liabilities		**4,848,976**	5,056,874	**2,820**	2,568
Total liabilities		**5,400,813**	5,633,473	**27,290**	4,400
Net assets		**4,725,316**	4,709,361	**3,056,741**	3,760,826
Shareholders' equity					
Share capital	18	**3,147,340**	3,147,340	**3,147,340**	3,147,340
Reserves	18	**(10,769)**	(12,974)	**843**	(265)
Retained earnings/(losses)		**1,588,745**	1,574,995	**(91,442)**	613,751
Total shareholders' equity		**4,725,316**	4,709,361	**3,056,741**	3,760,826

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

Statements of cash flows for the year ended 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Cash flows from operating activities					
Receipts from customers and third parties		**1,203,846**	1,683,489	**48,199**	-
Payments to suppliers and employees		**(397,512)**	(434,312)	**(35,036)**	(14,262)
Interest received		**6,986**	4,006	**152**	835
Borrowing costs paid		**(193,986)**	(170,215)	**(163)**	(297)
Income tax paid		**(41,301)**	(85,392)	**-**	-
Payments for exploration and evaluation - seismic, G&A, G&G		**(20,955)**	(32,809)	**(269)**	(695)
Payments for site restoration		**(1,962)**	(12,028)	**-**	-
Net cash from/(used in) operating activities	19(b)	**555,116**	952,739	**12,883**	(14,419)
Cash flows from investing activities					
Payments for other plant and equipment		**(11,958)**	(16,028)	**-**	-
Payments for exploration and evaluation		**(142,869)**	(248,287)	**(6,611)**	(3,424)
Payments for oil and gas development assets		**(34,779)**	(141,591)	**-**	-
Payments for producing assets		**(35,687)**	(119,620)	**-**	-
Loan to third party in respect of exploration and evaluation		**(6,960)**	(10,121)	**-**	-
Net cash used in investing activities		**(232,253)**	(535,647)	**(6,611)**	(3,424)
Cash flows from financing activities					
Dividend payments		**(76,135)**	(274,085)	**(76,135)**	(274,085)
Purchase of treasury shares		**(4,722)**	(8,569)	**(4,722)**	(8,569)
Contributions received for employee share schemes		**1,051**	1,887	**-**	-
Proceeds from borrowings		**-**	149,484	**-**	-
Repayment of borrowings		**(289,255)**	(333,046)	**-**	-
Establishment fee on credit facility		**-**	(1,500)	**-**	-
Finance lease payments		**(1,533)**	(950)	**-**	-
Loans (to)/from related entities		**-**	-	**(28,875)**	254,559
Net cash used in financing activities		**(370,594)**	(466,779)	**(109,732)**	(28,095)
Net decrease in cash and cash equivalents		**(47,731)**	(49,687)	**(103,460)**	(45,938)
Cash and cash equivalents at the beginning of the year		**910,479**	960,166	**103,460**	149,398
Cash and cash equivalents at the end of the year	19(a)	**862,748**	910,479	**-**	103,460

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 2016

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 2015	**3,147,340**	**(14,523)**	**(8,099)**	**12,236**	**1,888,522**	**5,025,476**
Dividends provided for or paid	-	-	-	-	(274,085)	(274,085)
Total comprehensive income for the year						
Net loss after tax for the year	-	-	-	-	(39,382)	(39,382)
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(4,218)	-	-	-	(4,218)
Total comprehensive loss for the year	-	(4,218)	-	-	(39,382)	(43,600)
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	11,277	(11,277)	-	-
Employee share-based remuneration	-	-	-	10,199	-	10,199
Purchase of treasury shares	-	-	(8,569)	-	-	(8,569)
Trust distribution	-	-	-	-	(60)	(60)
Total transactions with owners	-	-	2,708	(1,078)	(60)	1,570
Balance at 31 December 2015	**3,147,340**	**(18,741)**	**(5,391)**	**11,158**	**1,574,995**	**4,709,361**
Balance at 1 January 2016	**3,147,340**	**(18,741)**	**(5,391)**	**11,158**	**1,574,995**	**4,709,361**
Dividends provided for or paid	-	-	-	-	(76,135)	(76,135)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	89,795	89,795
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	1,096	-	-	-	1,096
Total comprehensive profit for the year	-	1,096	-	-	89,795	90,891
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	9,863	(9,863)	-	-
Employee share-based remuneration	-	-	-	5,831	-	5,831
Purchase of treasury shares	-	-	(4,722)	-	-	(4,722)
Trust distribution	-	-	-	-	90	90
Total transactions with owners	-	-	5,141	(4,032)	90	1,199
Balance at 31 December 2016	**3,147,340**	**(17,645)**	**(250)**	**7,126**	**1,588,745**	**4,725,316**

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 2016 (continued)

Parent	Share capital $'000	Amalgam-ation reserve $'000	Reserve for treasury shares $'000	Employee equity compensation reserve $'000	Retained earnings/ (losses) $'000	Total $'000
Balance at 1 January 2015	**3,147,340**	**(2,990)**	**(5,479)**	**6,573**	**148,677**	**3,294,121**
Dividends provided for or paid	-	-	-	-	(274,085)	(274,085)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	739,159	739,159
Total comprehensive income for the year	-	-	-	-	739,159	739,159
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	11,277	(11,277)	-	-
Employee share-based remuneration	-	-	-	10,199	-	10,199
Purchase of treasury shares	-	-	(8,569)	-	-	(8,569)
Net exchange differences	-	-	-	1	-	1
Total transactions with owners	-	-	2,708	(1,077)	-	1,631
Balance at 31 December 2015	**3,147,340**	**(2,990)**	**(2,771)**	**5,496**	**613,751**	**3,760,826**
Balance at 1 January 2016	**3,147,340**	**(2,990)**	**(2,771)**	**5,496**	**613,751**	**3,760,826**
Dividends provided for or paid	-	-	-	-	(76,135)	(76,135)
Total comprehensive income for the year						
Net loss after tax for the year	-	-	-	-	(629,058)	(629,058)
Total comprehensive loss for the year	-	-	-	-	(629,058)	(629,058)
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	9,863	(9,863)	-	-
Employee share-based remuneration	-	-	-	5,831	-	5,831
Purchase of treasury shares	-	-	(4,722)	-	-	(4,722)
Net exchange differences	-	-	-	(1)	-	(1)
Total transactions with owners	-	-	5,141	(4,033)	-	1,108
Balance at 31 December 2016	**3,147,340**	**(2,990)**	**2,370**	**1,463**	**(91,442)**	**3,056,741**

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

Notes to the financial statements

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 2016 comprises the parent entity and its controlled entities (together, 'the Group').

The financial statements were authorised for issue by the Board of Directors on 20 February 2017.

(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 2016 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 2017 or later:

- *Amendments to IAS 7 Statement of Cash Flows – effective 1 January 2017*

  Additional disclosures may be included in the 31 December 2017 financial statements where necessary to evaluate changes in liabilities arising from financing activities.

- *IFRS 9 Financial Instruments – effective 1 January 2018*

  The Group has undertaken a detailed assessment of the classification and measurement of financial assets and determined there will be no change to the accounting for these assets. All of the Group's existing financial assets would continue to be measured at amortised cost.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

  The Group does not currently hedge and therefore the new hedge accounting rules will not impact on the Group's financial reports.

  The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39.

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

- *IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018*

  The Group has undertaken a detailed assessment of the new requirements based on existing revenue contracts and determined that no material changes in the timing or

  measurement of revenue would be required under the new standard.

  The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has not yet concluded which approach will be used.

- *IFRS 16 Leases – effective 1 January 2019*

  The Group has not yet determined to what extent its lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

  Some of the lease commitments may also be covered by the exception for short-term and low-value leases and some may relate to arrangements that will not qualify as leases under IFRS 16.

(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 25.

(c) Currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

- 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 on board 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 income from controlled entities is recognised as the dividends are declared, and from other parties as the dividends are received or receivable.

(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 is charged to the statement of comprehensive income over the period for which the benefits of employee services are to be derived. The corresponding accrued employee entitlement is recorded in the employee equity compensation reserve. The fair value of the awards is calculated using an option pricing model which considers a number of factors. Where awards are forfeited because non-market vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. At each statement of financial position date, the entity revises its estimates of the number of awards that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

Where shares in Oil Search Limited are acquired by on-market purchases prior to settling vested entitlements, the cost of the acquired shares is carried as treasury shares and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(g) Income tax

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

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

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

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

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

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

(h) Inventories

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

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

(i) Exploration and evaluation assets

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

Exploration licence acquisition costs are initially capitalised. For exploration and appraisal wells, costs directly associated with drilling and evaluating the wells are initially capitalised pending an assessment of whether economically recoverable hydrocarbons have been discovered or whether expenditures are expected to be recouped by sale. All other exploration and evaluation costs are expensed as incurred.

Capitalised exploration costs are reviewed at each reporting date to determine whether there is an indication of impairment, generally on a licence-by-licence basis. Impairment indicators include:

- the exploration licence has expired and is not expected to be renewed;
- exploration and appraisal activities have not led to the discovery of economically recoverable reserves and no further activity on the licence is planned;
- sufficient information exists to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where such indicators exist, an impairment test is performed – see accounting policy (m).

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.

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.

(j) Oil and gas assets

Assets in development

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

Producing assets

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

Amortisation of oil and gas assets

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

Restoration costs

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

(k) Other plant and equipment

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

Depreciation

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

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

(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 determining the recoverable amount, however, market values are also referenced where appropriate.

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

(n) Employee benefits

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

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

(o) Investments and other financial assets

(i) Investments

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

(ii) Other financial assets

All other financial assets are initially recognised at the fair value of consideration paid. Subsequently, all financial assets are carried at amortised cost less impairment. Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

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

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

(p) Borrowings

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

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

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

(q) Critical accounting estimates and assumptions

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

Impairment of assets
The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Market values are also referenced where appropriate. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment is disclosed in notes 13 to 14.

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

The carrying amount of the provision for restoration is disclosed in note 16.

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

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 13.

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 25(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 25(c).

Deferred taxes
The calculation of the Group's tax charge involves a degree of estimation and judgement in respect of certain items for which the ultimate tax determination is uncertain.

The Group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

In making this assessment, a forecast of future taxable profits is made, based on revenues, future production profiles, commodity prices and costs. Assumptions are also made in respect of future tax elections that may be utilised between tax ring fences and in respect of the ongoing success of the Group's exploration and appraisal program.

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. In 2016, Oil Search has amended its reportable segments to represent the integrated nature of the PNG LNG Project, Associated Gas and related oil fields. It also better aligns with the Group's changed organisational structure and the winding down of activity in the Middle East and North Africa (MENA) region. The comparative balances have been restated to reflect the current period presentation.

PNG Business Unit (PNG BU)

Development, production and sale of liquefied natural gas, crude oil, natural gas, condensate, naphtha, other refined products and electricity from the Group's interest in its operated assets for PNG crude oil and Hides gas-to-electricity operations and from the Group's interest in the PNG LNG Project.

Exploration

Exploration and evaluation of crude oil and gas in Papua New Guinea and, for prior years, in MENA.

Other

This segment includes the Group's ownership of drilling rigs, investment and development towards the Group's power strategy 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 BU		Exploration		Other		Total	
$'000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External revenues	**1,208,350**	1,550,974	**-**	-	**27,558**	34,754	**1,235,908**	1,585,728
Costs of production	**(296,046)**	(324,348)	-	-	**-**	(32)	**(296,046)**	(324,380)
Selling and distribution costs	**(41,820)**	(50,421)	-	-	**(966)**	(1,046)	**(42,786)**	(51,467)
Rig operating costs	**-**	-	-	-	**(4,314)**	(5,858)	**(4,314)**	(5,858)
Corporate	**-**	-	-	-	**(41,962)**	(50,454)	**(41,962)**	(50,454)
Foreign currency gains/(losses)	**-**	-	-	-	**1,287**	(2,106)	**1,287**	(2,106)
Power costs expensed	**-**	-	-	-	**(8,326)**	-	**(8,326)**	-
Loss on disposal of non-current asset	**-**	-	**-**	-	**(44)**	(5,528)	**(44)**	(5,528)
Other income[1]	**3,641**	1,969	-	-	**1,479**	12,872	**5,120**	14,841
Other expenses[2]	**-**	-	**-**	-	**3,366**	(9,494)	**3,366**	(9,494)
EBITDAX	**874,125**	1,178,174	**-**	-	**(21,922)**	(21,364)	**852,203**	1,151,282
Depreciation and amortisation	**(419,793)**	(391,985)	**-**	(430)	**(16,909)**	(15,338)	**(436,702)**	(407,753)
Proposed InterOil acquisition[2]	**-**	-	**-**	-	**18,694**	-	**18,694**	-
Exploration costs expensed	**-**	-	**(53,164)**	(50,889)	**-**	-	**(53,164)**	(50,889)
EBIT	**454,332**	786,189	**(53,164)**	(51,319)	**(20,137)**	(42,230)	**381,031**	692,640
Impairment	**-**	-	**-**	(399,271)	**-**	-	**-**	(399,271)
Net finance costs	**(179,502)**	(164,234)					**(195,999)**	(185,115)
Profit/(loss) before income tax							**185,032**	108,254
Income tax expense							**(95,237)**	(147,636)
Net profit/(loss) after tax							**89,795**	(39,382)
Capital expenditure								
Exploration and evaluation assets	**-**	-	**151,761**	275,699	**-**	-	**151,761**	275,699
Oil and gas assets - development and production	**47,861**	247,041	**-**	-	**-**	-	**47,861**	247,041
Other plant and equipment	**-**	-	**-**	-	**17,927**	16,438	**17,927**	16,438
	47,861	247,041	**151,761**	275,699	**17,927**	16,438	**217,549**	539,178

[1] Excludes the break-fee related to the InterOil transaction of $48.0 million.

[2] Excludes InterOil acquisition-related costs of $29.3 million.

The difference between capital expenditure above and asset additions in note 14 relate to finance leased assets recognised during the year that are not included as capital expenditure for management reporting purposes.

2 Segment reporting (continued)

Geographical segments
The Oil Search Group operates primarily in Papua New Guinea, but also has activities in Australia and, for prior years, in MENA.

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[1]	
$'000	**2016**	**2015**	**2016**	**2015**
PNG	**1,235,908**	1,585,728	**8,328,635**	8,560,564
Australia	**-**	-	**26,435**	17,262
Other	**-**	-	**116,226**	104,162
Total	**1,235,908**	1,585,728	**8,471,296**	8,681,988

(1) Non-current assets exclude deferred tax of $520.8 million (2015: $518.9 million).

Major customers

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

Revenue from one customer represents approximately $236.5 million or 19% of the Group's total revenue (2015: $122.9 million, 8%).

Revenue from one other customer represents approximately $198.7 million or 16% of the Group's total revenue (2015: $228.0 million, 14%).

Revenue from one other customer represents approximately $143.1 million or 12% of the Group's total revenue (2015: $207.0 million, 13%).

Revenue from one other customer represents approximately $132.5 million or 11% of the Group's total revenue (2015: $184.4 million, 12%).

	Consolidated		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
3 Revenue				
Liquefied natural gas sales	**759,034**	1,043,469	**-**	-
Oil and condensate sales	**383,136**	429,543	**-**	-
Gas sales	**33,841**	44,802	**-**	-
Other revenue	**59,897**	67,914	**-**	-
Total revenue	**1,235,908**	1,585,728	**-**	-
4 Cost of sales				
Costs of production:				
Production costs	**(257,104)**	(294,818)	**-**	-
Royalties and levies	**(5,432)**	(12,376)	**-**	-
Gas purchases	**(14,652)**	(20,924)	**-**	-
Inventory movements	**(18,858)**	3,738	**-**	-
	(296,046)	(324,380)	**-**	-
Selling and distribution costs	**(42,786)**	(51,467)	**-**	-
Rig operating costs	**(4,314)**	(5,858)	**-**	-
Depreciation and amortisation				
Oil and gas assets	**(413,791)**	(388,355)	**-**	-
Marine assets	**(6,002)**	(3,630)	**-**	-
Rig assets	**(8,014)**	(8,121)	**-**	-
Total cost of sales	**(770,953)**	(781,811)	**-**	-
5 Other expenses				
Corporate[1]	**(41,962)**	(50,454)	**(7,754)**	(10,752)
Exploration costs expensed	**(53,164)**	(50,889)	**(269)**	(906)
Power costs expensed	**(8,326)**	-	**-**	-
Acquisition related expenses	**(29,306)**	-	**(29,394)**	-
Impairment	**-**	(399,271)	**(640,965)**	-
Depreciation	**(8,895)**	(7,647)	**-**	-
Loss on disposal of non-current assets	**(44)**	(5,528)	**-**	-
Other	**3,366**	(9,494)	**90**	(14,309)
Foreign currency gain/(loss)	**1,287**	(2,106)	**1,254**	(1,795)
Total other expenses	**(137,044)**	(525,389)	**(677,038)**	(27,762)

(1) Includes business development costs of $6.8 million (2015: $10.7 million) on a consolidated basis.

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000

6 Net finance costs

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Interest income	**10,837**	6,808	**152**	699
Finance leases	**(15,232)**	(8,724)	**-**	-
Borrowing costs	**(181,467)**	(172,896)	**(163)**	(296)
Unwinding of discount on site restoration	**(10,137)**	(10,303)	**-**	-
Net finance (costs)/income	**(195,999)**	(185,115)	**(11)**	403

7 Income tax

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
The major components of tax expenses are:				
Current tax expense	**(9,766)**	(28,328)	**-**	-
Adjustments for current tax of prior periods	**5,084**	14,250	**548**	2,798
Deferred tax (expense)/income	**(90,555)**	(133,558)	**(557)**	331
Income tax (expense)/benefit	**(95,237)**	(147,636)	**(9)**	3,129
Reconciliation of income tax expense to prima facie tax payable:				
Profit/(loss) before tax	**185,032**	108,254	**(629,049)**	736,030
Tax at PNG rate for gas and non-oil (30%)	**(55,510)**	(32,477)	**188,715**	(220,809)
Remeasurement of deferred tax balances	**(34,964)**	11,953	**-**	-
Effect of differing tax rates across tax regimes	**(8,363)**	(4,503)	**-**	-
	(98,837)	(25,027)	**188,715**	(220,809)
Tax effect of items not tax deductible or assessable:				
Over provisions in prior periods	**5,084**	14,250	**548**	2,798
Non-deductible expenditure	**(7,499)**	(140,456)	**(193,450)**	(7,877)
Non-assessable income	**1,818**	4,017	**210**	4,017
Reinstatement deferred tax assets	**4,187**	-	**3,968**	-
Exempt dividends	**10**	15	**-**	225,000
Other	**-**	(435)	**-**	-
Income tax (expense)/benefit	**(95,237)**	(147,636)	**(9)**	3,129

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Deferred tax (expense)/income recognised in net profit/(loss) for each type of temporary difference:				
Exploration, development and production	**(89,943)**	(139,791)	**220**	(442)
Other assets	**3,364**	2,419	**-**	-
Provisions and accruals	**(844)**	(6,893)	**156**	726
Other items	**(2,236)**	539	**(933)**	63
Tax losses	**(896)**	10,168	**-**	(16)
Deferred tax (expense)/income	**(90,555)**	(133,558)	**(557)**	331

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Deferred tax assets				
Temporary differences:				
Exploration, development and production	**197,366**	248,406	**23,160**	22,105
Other assets	**1,205**	-	**-**	-
Provisions	**168,203**	149,270	**667**	726
Other differences	**7**	-	**-**	-
Tax losses recognised	**7**	8,786	**-**	-
Tax credits	**154,007**	112,469	**-**	-
	520,795	518,931	**23,827**	22,831
Deferred tax liabilities				
Temporary differences:				
Exploration, development and production	**645,153**	619,155	**-**	-
Prepayments and receivables	**95**	888	**385**	150
Other assets	**40,420**	11,119	**-**	-
Other differences	**386**	-	**-**	-
	686,054	631,162	**385**	150

	Consolidated 2016 cents	Consolidated 2015 cents
8 Earnings per share		
Basic earnings/(loss) per share	**5.90**	(2.59)
Diluted earnings/(loss) per share	**5.89**	(2.59)

	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	**1,522,692,587**	1,522,692,587
Employee share rights	**1,092,703**	-
Employee performance rights	**1,978,847**	-
Diluted earnings per share	**1,525,764,137**	1,522,692,587

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of $89.8 million (2015: net loss after tax $39.4 million). There are 1,092,703 share rights (2015: nil) and 1,978,847 performance rights (2015: nil) 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. In 2016, the Restricted Share Plan Trust held 47,069 Oil Search Limited shares that may be used to settle dilutive potential ordinary shares which were taken into account in the calculation of diluted earnings per share.

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
9 Dividends paid or proposed				
Unfranked [1] dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividend [2]	**38,067**	60,908	**38,067**	60,908
	38,067	60,908	**38,067**	182,723
Unfranked [1] dividends paid during the year:				
Ordinary – previous year final	**60,908**	121,815	**60,908**	121,815
Special – previous year final	**-**	60,908	**-**	60,908
Ordinary – current year interim [3]	**15,227**	91,362	**15,227**	91,362
	76,135	274,085	**76,135**	274,085

(1) As Oil Search Limited is a Papua New Guinea incorporated company, there are no franking credits available on dividends.
(2) On 20 February 2017, the Directors declared a final unfranked dividend of 2.5 cents per ordinary share for the current year (2015: 4 cents final dividend) to be paid on 30 March 2017. The proposed final dividend for 2016 is payable to all holders of ordinary shares on the Register of Members on 8 March 2017 (record date). The proposed final dividend has not been included as a liability in these financial statements.
(3) On 24 August 2016, the Directors declared an interim unfranked dividend of 1 cent per ordinary share (2015: 6 cents interim dividend), paid to the holders of ordinary shares on 29 September 2016.

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
10 Receivables				
Current				
Trade debtors [1][2]	**117,312**	54,887	**-**	-
Other debtors [1]	**35,400**	26,187	**-**	199
Amounts due from subsidiary entities [3][4]	**-**	-	**697,389**	1,280,165
	152,712	81,074	**697,389**	1,280,364

(1) During 2016, no current receivables have been determined to be impaired and no related impairment loss has been charged to the statement of comprehensive income (2015: nil).
(2) Credit sales are on payment terms between 8 and 30 days.
(3) Receivables from related entities are payable on call.
(4) During 2016, the parent entity recognised an impairment provision of $640.0 million in respect of loans receivable from Oil Search (Middle Eastern) Limited that were advanced for exploration and evaluation activities that were unsuccessful or have ceased.

11 Inventories

	Consolidated		Parent	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current				
At cost				
Materials and supplies	**91,455**	102,565	**-**	-
Petroleum products	**15,362**	34,221	**-**	-
	106,817	136,786	**-**	-

12 Other financial assets

Non-current				
Loan receivable	**114,487**	104,125	**-**	-

The loan receivable relates to cash advanced by Oil Search under a farm-in arrangement in respect of an exploration licence that remains subject to government approvals. The balance is comprised of both interest bearing, $35.9 million (2015: $32.4 million) and non-interest bearing, $78.6 million (2015: $71.8 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.

13 Exploration and evaluation assets

At cost	**2,168,035**	2,067,115	**89,810**	84,053
Less impairment	**(646,464)**	(646,464)	**(23,793)**	(23,793)
	1,521,371	1,420,651	**66,017**	60,260
Balance at start of year	**1,420,651**	1,576,668	**60,260**	55,932
Additions	**151,761**	275,699	**6,009**	2,816
Exploration costs expensed	**(53,164)**	(50,889)	**(269)**	(906)
Changes in restoration obligations	**2,205**	19,474	**17**	2,418
Net exchange differences	**(82)**	(1,030)	**-**	-
Impairment(1)	**-**	(399,271)	**-**	-
Balance at end of year	**1,521,371**	1,420,651	**66,017**	60,260

(1) At 31 December 2015, an impairment loss of $399.3 million was recognised in respect of the Taza PSC.

Exploration and evaluation assets include $1,055.9 million (2015: $1,056.6 million) of licence acquisition costs that are classified as intangible assets.

14 Property, plant and equipment

	Consolidated Oil and gas			Consolidated Other plant and equipment			
	Development	Producing	Total	Marine	Rigs	Corporate	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2016							
At cost	446	8,917,085	8,917,085	138,020	84,479	143,546	366,045
Accumulated amortisation, depreciation and impairment	-	(2,270,792)	(2,269,928)	(9,982)	(65,849)	(103,545)	(179,376)
	446	**6,646,293**	**6,646,293**	**128,038**	**18,630**	**40,001**	**186,669**
Balance at 1 January 2016	446	7,023,328	7,023,774	71,121	26,644	30,742	128,507
Additions	9,611	38,250	47,861	62,919	-	17,927	80,846
Transfers	(10,057)	10,057	-	-	-	-	-
Disposals	-	-	-	-	-	(54)	(54)
Changes in restoration obligations	-	(11,551)	(11,551)	-	-	177	177
Net exchange differences	-	-	-	-	-	104	104
Amortisation and depreciation	-	(413,791)	(413,791)	(6,002)	(8,014)	(8,895)	(22,911)
Balance at 31 December 2016	**-**	**6,646,293**	**6,646,293**	**128,038**	**18,630**	**40,001**	**186,669**
2015							
At cost	446	8,880,329	8,880,775	75,101	84,479	125,392	284,972
Accumulated amortisation, depreciation and impairment	-	(1,857,001)	(1,857,001)	(3,980)	(57,835)	(94,650)	(156,465)
	446	**7,023,328**	**7,023,774**	**71,121**	**26,644**	**30,742**	**128,507**
Balance at 1 January 2015	143,320	7,038,824	7,182,144	8,653	34,765	29,648	73,066
Additions	135,211	111,830	247,041	66,098	-	16,438	82,536
Transfers	(278,085)	278,085	-	-	-	-	-
Disposals	-	-	-	-	-	(5,528)	(5,528)
Changes in restoration obligations	-	(17,056)	(17,056)	-	-	(183)	(183)
Net exchange differences	-	-	-	-	-	(1,986)	(1,986)
Amortisation and depreciation	-	(388,355)	(388,355)	(3,630)	(8,121)	(7,647)	(19,398)
Balance at 31 December 2015	**446**	**7,023,328**	**7,023,774**	**71,121**	**26,644**	**30,742**	**128,507**

15 Payables

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Current				
Payables and accruals[(1)]	**156,921**	209,755	**24,470**	1,832
Deferred lease liability	**4,726**	4,828	**-**	-
	161,647	214,583	**24,470**	1,832
Non-current				
Other payables	**7,643**	8,055	**-**	-
Deferred lease liability	**12,074**	10,615	**-**	-
	19,717	18,670	**-**	-

[(1)] Trade creditors are normally settled on 30 day terms.

16 Provisions

		Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Current					
Employee entitlements	(i)	**5,882**	6,106	**-**	-
Site restoration	(ii)	**11,822**	7,179	**-**	-
Contingent consideration		**-**	2,000	**-**	-
Other provisions		**208**	704	**-**	-
		17,912	15,989	**-**	-
Non-current					
Employee entitlements	(i)	**10,183**	10,628	**-**	-
Site restoration	(ii)	**373,432**	384,136	**2,435**	2,418
Other provisions		**684**	-	**-**	-
		384,299	394,764	**2,435**	2,418

(i) Movement in employee entitlements provision

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Balance at start of year	**16,734**	20,051	**-**	-
Additional provision recognised	**10,742**	9,064	**-**	-
Provision utilised	**(11,411)**	(12,381)	**-**	-
Balance at end of year	**16,065**	16,734	**-**	-

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 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Balance at start of year	**391,315**	392,524	**2,418**	-
Change in provision	**(8,795)**	516	**17**	2,418
Provision utilised	**(1,990)**	(12,028)	**-**	-
Excess provision released	**(5,413)**	-	**-**	-
Unwinding of discount	**10,137**	10,303	**-**	-
Balance at end of year	**385,254**	391,315	**2,435**	2,418

These provisions are related to the estimated costs of restoring wells and facilities at the end of the economic life of the Group's producing assets and for the restoration of wells drilled for exploration and evaluation activities.

17 Borrowings

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Current				
Finance lease	**1,957**	1,117	**-**	-
Secured loan from joint operation[(1)]	**313,918**	289,255	**-**	-
	315,875	290,372	**-**	-
Non-current				
Finance lease	**133,448**	72,902	**-**	-
Secured loan from joint operation[(1)]	**3,625,458**	3,939,376	**-**	-
	3,758,906	4,012,278	**-**	-

[(1)] Details regarding borrowings are contained in Note 26(f).

	2016 $'000	2015 $'000

18 Share capital and reserves

	2016 $'000	2015 $'000
Issued 1,522,692,587 (2015: 1,522,692,587) Ordinary shares, fully paid (no par value)	**3,147,340**	3,147,340

		Consolidated		Parent	
		2016 $'000	2015 $'000	2016 $'000	2015 $'000
Reserves at the end of the year					
Foreign currency translation reserve	(i)	**(17,645)**	(18,741)	**-**	-
Amalgamation reserve	(ii)	**-**	-	**(2,990)**	(2,990)
Reserve for treasury shares	(iii)	**(250)**	(5,391)	**2,370**	(2,771)
Employee equity compensation reserve	(iv)	**7,126**	11,158	**1,463**	5,496
		(10,769)	(12,974)	**843**	(265)

(i) The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.
(ii) The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.
(iii) The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust and the issue of shares to settle vested share-based obligations.
(iv) 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.

19 Statement of cash flows

	Consolidated		Parent	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(a) Cash and cash equivalents				
Cash at bank and on hand	**104,769**	183,480	**-**	103,355
Share of cash in joint operations	**24,258**	31,221	**-**	105
Interest-bearing short-term deposits [1] [2]	**733,721**	695,778	**-**	-
	862,748	910,479	**-**	103,460

(1) Includes $261.7 million (2015: $270.8 million) escrowed in the PNG LNG Project account. Refer to Note 26 for further details.
(2) Includes $10.1 million (2015: $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.

	Consolidated		Parent	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(b) Reconciliation of cash flows from operating activities				
Net profit/(loss) after tax	**89,795**	(39,382)	**(629,058)**	739,159
Add/(deduct):				
Exploration costs expensed [1]	**32,209**	18,088	**-**	199
Impairment expense	**-**	399,271	**640,965**	-
Loss on disposal of non-current assets	**44**	5,528	**-**	-
Dividend income	**-**	-	**-**	(750,000)
Depreciation and amortisation	**436,702**	407,753	**-**	-
Unwinding of site restoration discount	**10,137**	10,303	**-**	-
Employee share-based remuneration	**5,831**	10,199	**-**	-
Exchange losses - unrealised	**1,219**	172	**-**	1,790
Movement in tax provisions	**53,776**	58,533	**583**	465
(Increase)/decrease in receivables	**(76,156)**	81,011	**809**	(14,724)
Decrease in inventories	**14,990**	13,225	**-**	-
(Increase)/decrease in other current and non-current assets	**(1,154)**	7,414	**251**	-
(Decrease)/increase in payables	**(4,714)**	(166)	**(668)**	8,692
Decrease in provisions	**(7,563)**	(19,210)	**-**	-
	465,321	992,121	**641,941**	(753,578)
Net cash from/(used in) operating activities	**555,116**	952,739	**12,883**	(14,419)

(1) Exploration costs expensed totalled $53.2 million (2015: $50.9 million), of which $32.2 million (2015: $18.1 million) represents the write-off of costs for unsuccessful wells which are not included in operating cash flows.

(c) Non-cash investing and financing activities

	Consolidated	
	2016 $'000	2015 $'000
Acquisition of marine assets by means of finance lease	**62,919**	66,098

20 Employee benefits and share-based payments

	Consolidated		Parent	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Salaries and short-term benefits	**144,527**	174,422	**-**	-
Post-employment benefits	**4,256**	4,925	**-**	-
Employee share-based payments	**5,831**	10,199	**-**	-
Total	**154,613**	189,546	**-**	-

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

Share Rights 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 are no longer awarded.

There are currently 876 (2015: 988) employees participating in the Employee Share Rights.

	2016	2015	2014	2013	2012
Grant date	16 May 2016	18 May 2015	19 May 2014	20 May 2013	21 May 2012
Share price at grant date	A$6.70	A$8.15	A$9.04	A$8.04	A$6.72
Fair value	A$6.61	A$6.86	A$8.46	A$1.67	A$1.29
Exercise date	17 May 2019	18 May 2018	19 May 2017	13 May 2016	15 May 2015
Exercise price	A$nil	A$nil	A$nil	A$7.82	A$7.26
Number of awards					
Balance as at 1 Jan 2016	-	568,269	450,339	1,255,800	-
Granted during year	677,623	-	-	-	-
Forfeited during year	(29,227)	(93,672)	(75,623)	(1,255,800)	-
Exercised during year	-	-	-	-	-
Balance at 31 Dec 2016	**648,396**	**474,597**	**374,716**	**-**	**-**
Avg. share price at date of exercise	-	-	-	-	-
Balance at 1 Jan 2015	-	-	581,748	1,661,400	1,387,000
Granted during year	-	682,736	-	-	-
Forfeited during year	-	(114,467)	(130,479)	(405,600)	(1,312,264)
Exercised during year	-	-	(930)	-	(74,736)
Balance at 31 Dec 2015	**-**	568,269	**450,339**	**1,255,800**	**-**
Avg. share price at date of exercise	-	-	A$7.13	-	A$7.52

Share Rights and Share Appreciation Rights were priced using a binomial option pricing model with the following inputs:

	2016	2015	2014	2013	2012
Volatility	30%	30%	20%	25%	30%
Dividend yield	0.70%	2.2%	2.2%	0.48%	0.60%
Risk-free interest rate	1.57%	2.1%	2.85%	2.53%	2.43%

Performance Rights Plan

An employee Performance Rights Plan was established in 2004, under which 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.

20 Employee benefits and share-based payments (continued)

Performance Rights Plan (continued)
The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 44 (2015: 117) employees participating in the Performance Rights Plans.

	2016	**2015**	**2014**	**2013**	**2012**
Grant date	16 May 2016	18 May 2015	19 May 2014	24 May 2013	21 May 2012
Share price at grant date	A$6.75	A$8.15	A$9.04	A$8.16	A$6.72
Fair value	A$3.59	A$3.00	A$5.59	A$5.28	A$4.52
Exercise date	17 May 2019	18 May 2018	19 May 2017	20 May 2016	15 May 2015
Exercise price	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of rights					
Balance at 1 January 2016	-	1,020,494	876,265	1,525,484	-
Granted during year	1,154,612	-	-	-	-
Forfeited during year	(12,242)	(103,110)	(78,665)	(1,128,712)	-
Exercised during year	-	-	-	(396,772)	-
Balance at 31 December 2016	**1,142,370**	**917,384**	**797,600**	**-**	-
Average share price at date of exercise	-	-	-	A$6.75	-
Balance at 1 January 2015	-	-	934,100	1,610,868	1,525,800
Granted during year	-	1,052,876	-	-	-
Forfeited during year	-	(32,382)	(57,835)	(85,384)	(958,887)
Exercised during year	-	-	-	-	(566,913)
Balance at 31 December 2015	**-**	**1,020,494**	**876,265**	**1,525,484**	-
Average share price at date of exercise	-	-	-	-	A$7.70

	2016	**2015**	**2014**	**2013**	**2012**
Volatility	30%	30%	20%	25%	30%
Dividend yield	0.70%	2.2%	2.2%	0.48%	0.60%
Risk-free interest rate	1.57%	2.1%	2.85%	2.60%	2.43%

20 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, they were granted as a way of retaining key management and other employees, and, 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 are 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 12 (2015: 14) employees participating in the Restricted Share Plan.

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

Executives	2016	2016	2016	2016	2015	2015	2015	2014	2014	2014
Grant date	12 Jul 2016	12 Jul 2016	12 Jul 2016	16 May 2016	2 Nov 2015	18 May 2015	2 Mar 2015	7 Nov 2014	14 Oct 2014	14 Oct 2014
Share price at grant date	A$6.80	A$6.80	A$6.80	A$6.75	A$7.79	A$7.33	A$8.12	A$8.69	A$8.43	A$8.43
Exercise date	10 Jul 2017	10 Jul 2018	10 Jul 2019	1 Jan 2018	30 Oct 2017	1 Jan 2017	31 Dec 2017	1 Mar 2016	1 Oct 2016	1 Oct 2015
Exercise price	$A nil	$A nil	$A nil	$A nil	$A nil	$A nil	$A nil	$A nil	$A nil	$A nil
Number of shares										
Balance at 1 January 2016	-	-	-	-	31,250	554,829	50,000	40,000	4,889	-
Granted during year	13,380	20,070	33,450	539,331	-	-	-	-	-	-
Forfeited during year	-	-	-	-	-	(41,077)	-	-	-	-
Vested during year	-	-	-	-	-	-	-	(40,000)	(4,889)	-
Balance at 31 December 2016	**13,380**	**20,070**	**33,450**	**539,331**	**31,250**	**513,752**	**50,000**	**-**	**-**	**-**
Balance at 1 January 2015	-	-	-	-	-	-	-	40,000	4,889	4,889
Granted during year	-	-	-	-	31,250	599,991	50,000	-	-	-
Forfeited during year	-	-	-	-	-	-	-	-	-	-
Vested during year	-	-	-	-	-	(45,162)	-	-	-	(4,889)
Balance at 31 December 2015	**-**	**-**	**-**	**-**	**31,250**	**554,829**	**50,000**	**40,000**	**4,889**	**-**

.

Executives	2014	2014	2014	2014	2014	2013
Grant date	19 May 2014	19 May 2014	19 May 2014	10 Jan 2014	10 Jan 2014	7 Mar 2013
Share price at grant date	A$8.80	A$7.92	A$7.92	A$7.72	A$7.72	A$7.87
Exercise date	1 Jan 2016	1 Jan 2016	1 Jan 2015	24 Feb 2016	24 Feb 2015	1 Jan 2015
Exercise price	$A nil	$A nil	$A nil	$A nil	$A nil	A$ nil
Number of shares						
Balance at 1 January 2016	263,839	15,150	-	16,200	-	-
Granted during year	-	-	-	-	-	-
Forfeited during year	-	-	-	-	-	-
Vested during year	(263,839)	(15,150)	-	(16,200)	-	-
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 1 January 2015	292,328	15,150	15,150	16,200	16,200	321,230
Granted during year	-	-	-	-	-	-
Forfeited during year	-	-	-	-	-	-
Vested during year	(28,489)	-	(15,150)	-	(16,200)	(321,230)
Balance at 31 December 2015	**263,839**	**15,150**	**-**	**16,200**	**-**	**-**

21 Key management personnel remuneration

Directors' and executive remuneration

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

	Directors'		Executives	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Short-term benefits	**5,751,568**	5,116,289	**6,640,175**	6,551,341
Long-term benefits	**71,603**	39,816	**42,011**	69,056
Post-employment benefits	**49,825**	53,416	**126,036**	161,347
Share-based payments	**2,354,477**	2,099,471	**2,496,204**	3,180,303
Termination benefits	**-**	-	**541,831**	-
	8,227,473	7,308,992	**9,846,257**	9,962,047

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

	No.	**No.**	**No.**	**No.**
$20,000 – $29,999	**-**	-	**1**	-
$40,000 – $49,999	**1**	-	**-**	-
$110,000 – $119,999	**-**	1	**-**	-
$130,000 – $139,999	**1**	-	**-**	-
$150,000 – $159,999	**1**	-	**-**	-
$160,000 – $169,999	**-**	-	**1**	-
$170,000 – $179,999	**-**	2	**-**	-
$180,000 – $189,999	**1**	1	**-**	-
$190,000 – $199,999	**2**	2	**-**	-
$200,000 – $209,999	**1**	-	**-**	-
$390,000 – $399,999	**-**	1	**-**	-
$400,000 – $409,999	**1**	-	**-**	-
$660,000 – $669,999	**-**	-	**-**	1
$840,000 – $849,999	**-**	-	**-**	1
$960,000 – $969,999	**-**	-	**-**	1
$970,000 – $979,999	**-**	-	**-**	1
$1,030,000 – $1,039,999	**-**	-	**1**	-
$1,130,000 – $1,139,999	**-**	-	**-**	1
$1,140,000 – $1,149,999	**-**	-	**-**	1
$1,170,000 – $1,179,999	**-**	1	**-**	1
$1,200,000 – $1,209,999	**1**	-	**1**	-
$1,230,000 – $1,239,999	**-**	-	**1**	-
$1,270,000 – $1,279,999	**-**	-	**1**	-
$1,360,000 – $1,369,999	**-**	-	**-**	1
$1,380,000 – $1,389,999	**-**	-	**-**	-
$1,400,000 – $1,409,999	**-**	-	**1**	-
$1,680,000 – $1,689,999	**-**	-	**-**	1
$1,670,000 – $1,679,999	**-**	-	**1**	1
$1,820,000 – $1,829,999	**-**	-	**1**	1
$4,680,000 – $4,689,999	**-**	1	**-**	-
$5,500,000 – $5,509,999	**1**	-	**-**	-

22 Key management personnel transactions

The directors and other key management personnel of Oil Search Limited during the year to 31 December 2016 and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares 2016	No. of ordinary shares 2015	No. of performance rights[1] 2016	No. of performance rights[1] 2015	No. of restricted shares[1] 2016	No. of restricted shares[1] 2015
PR Botten	**2,368,039**	2,387,394	**785,500**	698,600	**454,918**	325,503
G Aopi	**474,317**	451,444	**164,000**	152,200	**77,359**	65,589
KG Constantinou	**-**	-	**-**	-	**-**	-
Dr EJ Doyle	**30,800**	-	**-**	-	**-**	-
FE Harris	**-**	31,961	**-**	-	**-**	-
AJ Kantsler	**45,736**	45,736	**-**	-	**-**	-
RJ Lee	**96,829**	96,829	**-**	-	**-**	-
B Philemon	**7,241**	7,241	**-**	-	**-**	-
KW Spence	**25,000**	25,000	**-**	-	**-**	-
ZE Switkowski	**201,829**	201,829	**-**	-	**-**	-
Other key management personnel						
P Cholakos	**271,297**	230,417	**169,096**	156,909	**81,459**	69,319
G Darnley-Stuart[2]	**42,500**	10,000	**71,237**	154,931	**78,772**	66,787
J Fowles	**82,061**	49,505	**172,378**	159,925	**131,321**	118,948
S Gardiner	**387,167**	347,484	**169,697**	154,697	**83,092**	69,947
M Herrett	**-**	1,829	**143,784**	132,781	**70,648**	58,630
I Munro	**-**	-	**166,974**	120,431	**82,119**	92,868
K Wulff	**8,590**	8,590	**125,003**	55,638	**43,395**	-
M Drew	**-**	-	**31,697**	-	**31,250**	-
M Kay[2]	**-**	-	**-**	124,399	**-**	57,277
P Caldwell[2]	**-**	-	**-**	57,348	**-**	-

[1] Refer to note 20 for key terms.
[2] Number of ordinary shares held at date of ceasing to be key management personnel of the Group.

Some directors and other key management personnel, or their related parties, hold positions in other entities that may result in them having control or joint control over those entities.

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

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

Consolidated	Transactions value year ended 31 December 2016 $'000	2015 $'000
Airways Hotel and Apartments Limited [1]	**164**	7
Airways Residence Limited[1]	**90**	122
Alotau International Hotel[1]	**1**	2
Lamana Hotel Port Moresby [1]	**82**	41

[1] The Group acquired hotel, conference facility and accommodation services from PNG from Airways Hotel and Apartments Limited, Airways Residence Limited, Alotau International Hotel and Lamana Hotel Port Moresby, companies of which Sir KG Constantinou is a Director.

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

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000

23 Commitments

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Finance lease commitments				
Lease of PNG LNG marine vessels				
Payable within 12 months	**19,931**	10,436	**-**	-
Payable 1 to 5 years	**79,724**	41,744	**-**	-
Payable greater than 5 years	**265,358**	139,697	**-**	-
	365,014	191,877	**-**	-
Future finance charges	**(229,610)**	(117,858)	**-**	-
Finance lease liability	**135,403**	74,019	**-**	-
Operating lease commitments				
Rental of premises, equipment and LNG charter vessels				
Payable within 12 months	**25,618**	27,586	**-**	-
Payable 1 to 5 years	**92,201**	86,395	**-**	-
Payable greater than 5 years	**148,424**	142,123	**-**	-
	266,243	256,104	**-**	**-**
Expenditure commitments				
Capital expenditure commitments	**113,019**	266,557	**16,220**	16,220
Other expenditure commitments	**125,362**	181,864	**-**	-
	238,382	448,421	**16,220**	16,220

24 Auditor's remuneration

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Amounts paid or due and payable in respect of:				
Audit and review of the Group's financial report	**282**	303	**101**	100
Other services	**43**	38	**-**	-
	325	341	**101**	100

The audit fees are in Australian dollars and are translated at 0.7439 (2015: 0.7530).

25 Subsidiaries and interests in joint arrangements

(a) Subsidiaries

	Ownership interest % 2016	Ownership interest % 2015	Country of Incorporation
Parent entity			
Oil Search Limited			PNG
Consolidated entities			
Oil Search (Middle Eastern) Limited	**100**	100	British Virgin Is.
Oil Search (Iraq) Limited	**100**	100	British Virgin Is.
Oil Search (Libya) Limited	**100**	100	British Virgin Is.
Oil Search (Tunisia) Limited	**100**	100	British Virgin Is.
Oil Search (Newco) Limited	**100**	100	British Virgin Is.
Oil Search (ROY) Limited	**100**	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	**100**	100	PNG
Oil Search (Tumbudu) Limited	**100**	100	PNG
Oil Search Highlands Power Limited (1)	**100**	100	PNG
Markham Valley Power Limited (2)	**100**	100	PNG
Oil Search (PNG) Limited	**100**	100	PNG
Oil Search (Drilling) Limited	**100**	100	PNG
Oil Search (Exploration) Inc.	**100**	100	Cayman Is.
Oil Search (LNG) Limited	**100**	100	PNG
Oil Search Finance Limited	**100**	100	British Virgin Is.
Oil Search Power Holdings Limited (3)	**100**	100	PNG
Markham Valley Biomass Limited (4)	**100**	100	PNG
Oil Search Foundation Limited (5)	**100**	100	PNG
Papuan Oil Search Limited	**100**	100	Australia
Oil Search (Uramu) Pty Limited	**100**	100	Australia
Oil Search Limited Retention Share Plan Trust	**100**	100	Australia
Pac LNG Investments Limited	**100**	100	PNG
Pac LNG Assets Limited	**100**	100	PNG
Pac LNG International Limited	**100**	100	PNG
Pac LNG Overseas Limited	**100**	100	PNG
Pac LNG Holdings Limited	**100**	100	PNG

(1) Formerly known as Oil Search (P'nyang) Holdings Limited.
(2) Formerly known as Oil Search (P'nyang) Limited.
(3) Formerly known as New Guinea (Investments) Limited.
(4) Formerly known as New Guinea (Petroleum) Limited.
(5) Oil Search Foundation Limited is Trustee of the Oil Search 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.

25 Subsidiaries and interests in joint arrangements (continued)

(b) Interests in joint operations

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

		Principal place of business	% Interest 2016		% Interest 2015	
(i)	**Exploration licences**					
	PPL 233 [2]	PNG	**100.00**		52.50	
	PPL 234 [1][2]	PNG	**100.00**		80.00	
	PPL 339 [1]	PNG	**70.00**		70.00	
	PPL 277 [2]	PNG	**50.00**		50.00	
	PRL 3	PNG	**38.51**		38.51	
	PRL 9 [1]	PNG	**45.11**		45.11	
	Block 7 [1]	Yemen	**34.00**	[3]	34.00	[3]
(ii)	**Production assets and other arrangements**					
	PNG LNG Project [4]	PNG	**29.00**		29.00	
	Papua New Guinea Liquefied Natural Gas Global Company LDC	Bahamas	**29.00**		29.00	

(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 2016		% Interest 2015
(i)	**Production assets and other arrangements**				
	Hides gas-to-electricity project [1]	PNG	**100.00**		100.00
	PDL 2 Kutubu [1]	PNG	**60.05**		60.05
	South East Mananda [1]	PNG	**72.27**		72.27
	Moran Unit [1]	PNG	**49.51**		49.51
	South East Gobe Unit [1]	PNG	**22.34**		25.55
	Gobe Main [1]	PNG	**10.00**		10.00
	Kutubu pipeline system [1]	PNG	**60.05**		60.05
(ii)	**Exploration licences**				
	PPL 219 [1]	PNG	**71.25**		71.25
	PPL 244 [1]	PNG	**100.00**		40.00
	PPL 260 [1]	PNG	**40.00**		40.00
	PPL 269	PNG	**10.00**		10.00
	PPL 385	PNG	**100.00**		100.00
	PPL 402 [1]	PNG	**37.50**	[5]	50.00
	PPL 464	PNG	**50.00**		50.00
	PRL 8 [1]	PNG	**60.71**		60.71
	PRL 10 [1]	PNG	**100.00**		100.00
	PRL 14 [1]	PNG	**62.56**		62.56
	PRL 15	PNG	**22.84**		22.84
	Taza (K42) [1][6]	Iraq	**-**		60.00

[1] Operated by an Oil Search Group entity.
[2] Subject to government approval.
[3] Participating interest is 34%. Paying interest is 40%.
[4] Includes the PDL 1 Hides, PDL 7 South Hides, PDL 8 Angore and PDL 9 Juha gas fields, Associated Gas fields and pipeline licences.
[5] 12.5% interest farmed out to Santos Limited in 2016.
[6] The Group relinquished its interest in the Taza PSC during 2016.

26 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, cash and counter-parties for liquefied natural gas, oil, condensate and gas sales also create liquidity and credit risk exposures. Monetary assets and liabilities denominated in currencies that are different to 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 Procedure.

(a) Foreign exchange risk

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

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

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

The Group is not exposed to material translation exposures as the majority of its assets and liabilities are denominated in US$.

Foreign exchange risk management

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

Cash flows related to joint ventures where Oil Search is the operator 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 2016, there were no foreign exchange hedge contracts outstanding (2015: nil).

No currency sensitivity analysis is provided as there were no derivative financial instruments in place to hedge residual foreign exchange exposure.

(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 cash is held in PGK and A$, the Group's 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 2016, there was no interest rate hedging in place (2015: 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.

26 Financial and capital risk management (continued)

(b) Interest rate risk (continued)

At the reporting date, if interest rates had been 25 basis points (2015: 25 basis points) higher or lower and all other variables were held constant, the Group's net (loss)/profit after tax would increase/decrease by $5.6 million (2015: $5.88 million).

At the reporting date, if interest rates had been 25 basis points (2015: 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 $0.0 million (2015: $0.3 million).

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
2016						
Financial assets						
Cash and cash equivalents	**127,027**	**733,721**	**-**	**-**	**-**	**862,748**
Trade debtors	**-**	**-**	**-**	**-**	**117,312**	**117,312**
Other debtors	**-**	**-**	**-**	**-**	**35,400**	**35,400**
Loan receivable	**35,862**	**-**	**-**	**-**	**78,625**	**114,487**
Non-current receivables	**-**	**-**	**-**	**-**	**2,025**	**2,025**
Total financial assets	**164,889**	**733,721**	**-**	**-**	**233,362**	**1,131,972**
Financial liabilities						
Payables and accruals	**-**	**-**	**-**	**-**	**156,921**	**156,921**
Other payables	**-**	**-**	**-**	**-**	**7,643**	**7,643**
Finance leases	**-**	**1,957**	**10,956**	**122,492**	**-**	**135,405**
Secured loan from Joint operations	**3,202,319**	**-**	**-**	**737,057**	**-**	**3,939,376**
Total financial liabilities	**3,202,319**	**1,957**	**10,956**	**859,549**	**164,564**	**4,239,376**
2015						
Financial assets						
Cash and cash equivalents	183,480	695,778	-	-	-	910,479
Trade debtors	-	-	-	-	54,887	54,887
Other debtors	-	-	-	-	26,187	26,187
Loan receivable	32,397	-	-	-	71,728	104,125
Non-current receivables	-	-	-	-	2,084	2,084
Total financial assets	215,877	695,778	-	-	148,327	1,097,762
Financial liabilities						
Payables and accruals	-	-	-	-	209,755	209,755
Other payables	-	-	-	-	8,055	8,055
Finance leases	-	1,117	6,302	66,600	-	74,019
Secured loan from Joint operations	3,437,031	-	-	791,600	-	4,228,631
Total financial liabilities	3,437,031	1,117	6,302	858,200	217,810	4,520,460

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
2016						
Financial assets						
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**	**-**
Amounts due from subsidiary entities	**-**	**-**	**-**	**-**	**697,389**	**697,389**
Total financial assets	**-**	**-**	**-**	**-**	**697,389**	**697,389**
Financial liabilities						
Payables and accruals	**22,418**	**-**	**-**	**-**	**2,052**	**24,470**
Total financial liabilities	**22,418**	**-**	**-**	**-**	**2,052**	**24,470**
2015						
Financial assets						
Cash and cash equivalents	103,460	-	-	-	-	103,460
Other debtors	-	-	-	-	199	199
Amounts due from subsidiary entities	-	-	-	-	1,280,165	1,280,165
Total financial assets	103,460	-	-	-	1,280,364	1,383,824
Financial liabilities						
Payables and accruals	-	-	-	-	1,832	1,832
Total financial liabilities	-	-	-	-	1,832	1,832

26 Financial and capital risk management (continued)

(c) Commodity price risk

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

Commodity risk management

The Group does not seek to limit its exposure to 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. Any hedging programmes entered into will ensure that maturities are spread over time and there are maximum hedge cover levels that apply to future years. This avoids the Group being forced to price a significant proportion of its exposure in an unfavourable oil price environment.

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

As at 31 December 2016, there was no oil price hedging in place (2015: 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; and
- Loan receivable.

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. Sales to non-investment grade counterparties are secured by letters of credit from investment grade banks.

An option agreement and a share pledge agreement are held as security for the third party loan receivable balance, permitting Oil Search Limited to acquire an equity interest in the issued share capital of the borrower (Note 12).

At 31 December 2016 there was no significant concentration of credit risk exposure to any single counterparty (2015: nil).

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

		Consolidated		Parent	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current					
Cash at bank and on hand	19(a)	**104,769**	183,480	**-**	103,355
Share of cash in joint operations	19(a)	**24,258**	31,221	**-**	105
Interest-bearing short-term deposits	19(a)	**733,721**	695,778	**-**	-
Receivables	10	**152,712**	81,074	**697,389**	1,280,364
Borrowings	17	**315,875**	290,372	**-**	-
		1,331,334	1,281,925	**697,389**	1,383,824
Non-current					
Other assets - receivables		**2,025**	2,084	**-**	-
Loan receivable	12	**114,487**	104,125	**-**	-
Borrowings	17	**3,758,906**	4,012,278	**-**	-
		3,875,418	4,118,487	**-**	-

26 Financial and capital risk management (continued)

(e) Liquidity risk

The Group has exposure to liquidity risk if it is unable to settle financial 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 it has 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.

As at 31 December 2016, the Group has cash of $862.7 million (2015: $910.5 million), of which $733.7 million was invested in short-term instruments (2015: $695.8 million) and undrawn loan facilities of $750.0 million (2015: $748.0 million).

The table below shows the Group's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

		Contractual cash flows			
	Carrying amount $'000	**Total $'000**	**Less than 1 year $'000**	**1 to 5 years $'000**	**More than 5 years $'000**
Non-derivative financial liabilities					
2016					
Payables and accruals	**156,921**	**156,921**	**156,921**	**-**	**-**
Other payables	**7,643**	**7,643**	**7,643**	**-**	**-**
Secured loan from joint operation	**3,939,376**	**4,934,941**	**481,377**	**1,952,964**	**2,500,600**
Finance leases	**135,405**	**365,014**	**19,931**	**79,724**	**265,358**
Total	**4,239,345**	**5,464,519**	**665,872**	**2,032,688**	**2,765,958**
2015					
Payables and accruals	209,755	209,755	209,755	-	-
Other payables	8,055	8,055	8,055	-	-
Secured loan from joint operation	4,228,631	5,479,128	449,662	1,962,007	3,067,459
Finance leases	74,019	191,877	10,436	41,744	139,697
Total	4,520,460	5,888,815	677,908	2,003,751	3,207,156

(f) Financing facilities

Syndicated revolving credit facility

Oil Search (Finance) Limited ("OSFL") signed a five year non-amortising syndicated financing facility effective 29 October 2012 for $500 million. As part of the terms and conditions of this facility, OSFL has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited and Oil Search (PNG) Limited as guarantor, 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 separate three year bilateral revolving facilities effective 18 December 2015, with facility limits of $125 million each. As part of the terms and conditions of these facilities, OSP provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited and the lenders have the benefit of security over OSFL's 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 the Project Finance Debt Facility, and the purchase and re-sale of PNG LNG Project liquids and LNG. The Borrower is owned by each Project participant in a percentage equal to its interest in the PNG LNG Project (the Oil Search Limited Group interest at 31 December 2016 is 29.0% (December 2015: 29.0%)). Oil Search (LNG) Limited and Oil Search (Tumbudu) Limited are the Group's participants in the PNG LNG Project (the "OSL Participants").

Interest and principal on the Project Finance Debt Facility is payable on specified semi-annual dates, which commenced in June 2015, with the principal being repayable over 11.5 years based on a customised repayment profile and with 9.5 years remaining on the facility as at 31 December 2016.

26 Financial and capital risk management (continued)

(f) Financing facilities (continued)

The liquids and LNG sales proceeds from the PNG LNG Project are received into a sales escrow account from which agreed expenditure obligations and debt servicing are firstly made and, subject to meeting certain debt service cover ratio tests, surpluses are distributed to the Project participants.

The Borrower granted to the security trustee for the Project Finance Debt Facility:
- a first-ranking security interest in all of its assets, 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 OSL Participants have granted the security trustee for the Project Finance Debt Facility a security interest in all their rights, titles, interests in and to all of their assets, excluding any non-PNG LNG Project assets. The Company, as the shareholder in the OSL Participants, has provided the security trustee for the Project Finance Debt Facility a share mortgage over its shares in the OSL Participants.

The Project Finance Debt Facility is subject to various covenants and a negative pledge restricting further 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.

Financial Completion for the PNG LNG Project was achieved on 5 February 2015. From that date, the completion guarantee that was provided by the Company for its share of the Project Finance Debt Facility was released. The Company has not provided any other security.

(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.

27 Events occurring after the reporting period

Subsequent to balance date, the Directors declared an unfranked final dividend of US 2.5 cents per share, to be paid on 30 March 2017. The proposed final dividend for 2016 is payable to all holders of ordinary shares on the Register of Members on 8 March 2017.

There were no other significant events after balance date.

Directors' Declaration

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

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

(i) give a true and fair view of the consolidated entity's financial position as at 31 December 2016, 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 2016.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

....

RJ LEE

Chairman

....

PR BOTTEN

Managing Director

Sydney, 20 February 2017

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

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oil Search Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration as set out on pages 38 to 68.

In our opinion:

(i) the accompanying financial statements of Oil Search Limited give a true and fair view of the Company's and the Group's financial position as at 31 December 2016 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.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants (the Code)* that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration which has been given to the directors of Oil Search Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying Value of Exploration and Evaluation Assets	
The carrying value of Exploration and Evaluation assets at 31 December 2016 is $1,521.3 million. See note 13 for further details. The Group's accounting policy in respect of Exploration and Evaluation assets is outlined in note 1(i). Management have updated their exploration strategy in light of exploration and appraisal activities undertaken during the year and the prevailing market conditions. The assessment of the carrying value of Exploration and Evaluation assets requires management to exercise significant judgement including in respect of the Group's intention to proceed with a future work programme for a licence, the right of tenure, and where relevant, the likelihood of licence renewal or extension and the success of exploration and appraisal activities including drilling and geological and geophysical analysis.	We evaluated management's assessment of impairment indicators at 31 December 2016 pursuant to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources for each licence. Our work included, but was not limited to, the following procedures: • evaluating and testing the key controls management have in place to analyse and identify indicators of impairment for Exploration and Evaluation assets. • evaluating the status of licences and, where applicable, obtaining evidence of the lodged applications for licence renewal or extension, assessing on a case by case basis, in conjunction with management, the reasonability of the expectation that the licence will be extended upon their expiry. • for each material licence, obtaining an understanding of the exploration and appraisal activity undertaken during the year and the results of that activity. In doing this we participated in meetings with key operational and finance staff. • obtaining evidence of the ongoing exploration and appraisal activity, including the future intention for each material licence, by reference to the allocation of future budgeted expenditure.
Carrying value of Producing and Development Assets	
The carrying value of Producing and Development assets at 31 December 2016 is $6,646.3 million. See note 14 for further details. The assessment of the carrying value of Producing and Development assets requires management to exercise judgement in identifying indicators of impairment for the purpose of determining whether the recoverable amount of the assets needs to be estimated.	We evaluated management's assessment of impairment indicators at 31 December 2016 pursuant to the requirements of IAS 36 Impairment of Assets. Our work included, but was not limited to, the following procedures: • evaluating and testing the key controls management have in place to assess indicators of impairment for Producing and Development assets. • benchmarking and analysing management's oil and gas price assumptions against external data, in conjunction with our valuation specialists, to determine whether they indicate that there has been a significant change with an adverse effect on the Group.

	• comparing actual operating costs for Producing assets during the year to budget, to determine whether they indicate that there has been a significant change with an adverse effect on the Group. • comparing field and plant production performance during the year against budget, to determine whether they indicate that there has been a significant change with an adverse effect on the Group. • reading new reserve reports obtained by the Group during the year in conjunction with our internal reservoir engineer, to determine whether they indicate there has been a significant change with an adverse effect on the Group. This included holding discussions with management's internal experts to assess their competency and objectivity and the significant assumptions, methods and source data used in estimating reserves.
Accounting for Income Tax The income tax expense for the year ended 31 December 2016 is $95.2 million and the balances of deferred tax assets and deferred tax liabilities at 31 December 2016 are $520.8 million and $686.1 million respectively. See note 7 for further details. Tax applicable to hydrocarbon exploration and production activities in Papua New Guinea is based on tax ring-fencing, on a licence-by-licence basis. Judgement is required to determine the application of tax legislation, as well as to assess the recoverability of deferred tax assets.	We evaluated the tax calculations together with our internal tax specialist based in Papua New Guinea, to challenge the Group's assumptions and judgements. Specifically our work included, but was not limited to, the following procedures: • evaluating and testing the key controls over the allocation of costs to ring-fences and preparation of tax calculations. • evaluating the utilisation of tax carrying values and related deferred tax assets, by reference to forecasts of future taxable income at a ring-fence level. This included evaluating whether the assumptions included in management's forecasts were consistent with board approved assumptions and prevailing PNG tax legislation. • assessing tax returns and tax reconciliations for compliance with local tax laws. • reconciling opening tax carrying values against tax returns lodged with tax authorities.

The directors are responsible for the other information. The other information comprises the Directors' Report and Reserves and Resources Report, which we obtained prior to the date of this auditor's report, and the following additional documents which will be included in the annual report: Our vision our values, The power of partnership (Our co-venture partners, Community and Governments, Employees), 2016 highlights, Letter from the chairman, Managing director's review, Financial management, Oil Search's Executive Team, Production, Gas growth, Exploration, Social responsibility, Organisational capability, Licence interest map, Licence interest table, Board and corporate governance, Shareholder information, Ten year summary table, Glossary and Corporate directory which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Deloitte.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Our vision our values, The power of partnership, 2016 highlights, Letter from the chairman, Managing director's review, Financial management, Oil Search's Executive Team, Production, Gas growth, Exploration, Social responsibility, Organisational capability, Licence interest map, Licence interest table, Board and corporate governance , Shareholder information, Ten year summary table, Glossary and Corporate directory if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and if the matter is not resolved take whatever additional action we deem appropriate.

Directors' Responsibilities for the Financial Statements

The directors of the Company are responsible for the preparation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

As part of an audit in accordance with the International Standards of Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions

Deloitte.

are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report of Oil Search Limited included in pages 17 to 35 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Oil Search Limited for the year ended 31 December 2016, has been prepared in accordance with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company have voluntarily presented the Remuneration Report which has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 20 February 2017

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 20 February 2017