



Oil Search

2017 FULL YEAR RESULTS

ASX: OSH | ADR: OISHY | POMSOX: OSH

NET PROFIT AFTER TAX UP 236%, REFLECTING STRONG OIL AND GAS PRICES AND RECORD PRODUCTION

HIGHLIGHTS

+236% **US\$8.67** /BOE **\$466_M** **9.5 US** CENTS

**NET PROFIT
AFTER TAX**

Net profit after tax increased 236% to US\$302.1 million, reflecting record production levels and stronger oil and gas prices.

UNIT PRODUCTION COSTS

Total unit production costs were a very competitive US\$8.67/boe and the operating margin was 73%.

**REDUCTION IN NET
DEBT**

Over 2017, net debt was reduced by US\$466 million. Liquidity at year end was US\$1.9 billion.

DIVIDEND PER SHARE

A 5.5 US cents per share final dividend was announced, taking total dividends for 2017 to 9.5 US cents per share, compared to 3.5 US cents in 2016.

2017 FULL YEAR RESULTS



◆ HIGHLIGHTS (CONTINUED)

Year to 31 December	2017	2016	% CHANGE
Total production (mmbobe)	30.3	30.2	-
Total sales (mmbobe)	30.0	30.6	-2
Average realised oil and condensate price (US\$ per barrel)	55.68	45.04	+24
Average realised LNG and gas price (US\$ per mmBtu)	7.67	6.36	+21
Total revenue (US\$m)	1,446.0	1,235.9	+17
Net profit after tax (US\$m)	302.1	89.8	+236
Operating cash flow (US\$m)	843.6	555.1	+52
Total dividend (US cents per share)	9.5	3.5	+171

◆ 2017 full year net profit was US\$302.1 million, 236% higher than net profit in 2016, reflecting:

- Stronger global oil and gas prices, with the average realised oil and condensate price up 24% and LNG and gas prices 21% higher. This drove a 17% increase in total revenue, to US\$1,446.0 million.
- Stable operating costs, which resulted in competitive unit production costs of US\$8.67 per boe and an operating margin of 73%.
- 13% reduction in depreciation and amortisation expense, primarily reflecting higher 2P PNG LNG Project reserves, following the recertification of Project fields in 2016.
- 33% reduction in exploration expense, reflecting lower exploration drilling undertaken in 2017.
- An effective tax rate of 31.5% compared to 51.5% in 2016, with 2016 including a one-off restatement of deferred tax balances, reflecting the reduction in oil field tax rates that came into effect at the beginning of 2017.

◆ A 2017 final unfranked dividend of 5.5 US cents per share was declared, taking the 2017 total dividend to 9.5 US cents per share, nearly triple the 2016 full year dividend of 3.5 US cents per share.

The 2017 dividend payout ratio of 48% is at the upper end of Oil Search's dividend guidance range of 35% - 50% of core net profit after tax. The final dividend will not be subject to a deduction for PNG withholding taxes, following clarifications to PNG tax legislation.

◆ Significant progress was made on LNG expansion in PNG, with broad alignment on the preferred downstream development concept for expansion reached with Oil Search's key joint venture partners.

At recent high level meetings, Oil Search, ExxonMobil and Total reached broad alignment on the preferred downstream configuration for LNG expansion and the next steps to reach agreement on the key principles governing integration and cost sharing arrangements.



2017 FULL YEAR RESULTS

Oil Search

- ◆ **The Alaska North Slope acquisition was completed on 14 February, following approval by the Committee on Foreign Investment in the US, and Oil Search expects to assume operatorship in March 2018.**

Following workshops with its partners, Oil Search believes that the Pikka Unit Nanushuk reservoir has material upside potential, substantially above the resource estimates used for the acquisition. A comprehensive exploration and appraisal programme is being planned for the 2018/19 Alaskan drilling season and beyond.

- ◆ **Despite record production in 2017 of 30.3 mmboe, total 2P (Proved and Probable) gas Reserves and 2C (Contingent) gas Resources increased by 3.4% over the year, while total 2P and 2C oil and condensate Reserves and Resources rose 1.5%. Based on 2017 production of 30.3 mmboe, Oil Search's 2P Reserves and 2C Resources life is 45 years.**

The increase in Reserves and Resources reflected upgrades at the Kutubu, Agogo and Moran oil fields following an independent audit of the fields, the first booking of resource at Muruk following the successful Muruk 1 well and additions at Elk-Antelope and P'nyang, due to a minor change in the treatment of tail gas. The figures do not incorporate the results of the successful P'nyang South 2 well, nor do they include any resources for the Pikka Unit and Horseshoe Block in the Alaska North Slope, given the acquisition closed after year end.

- ◆ **The Company is financially robust, with funding capacity to support growth projects, as well as debt servicing and dividend payments, without the need to raise additional equity.**

Oil Search ended 2017 in a strong financial position, buoyed by net operating cash flow for the year of US\$843.6 million. Despite an active exploration and appraisal programme, net debt declined over the year, from US\$3.1 billion to US\$2.6 billion.

- ◆ **2018 production, operating costs and non-cash costs are expected to be similar to 2017, while capex is forecast to be higher, as activity on growth projects accelerate.**

2018 production is expected to be between 28.5 and 30.5 mmboe. Unit production costs are forecast to be within the range of US\$8.50–9.50/boe, while unit depreciation and amortisation guidance is US\$11.50–12.50/boe. Total capital expenditure for 2018, excluding Alaskan acquisition costs, is expected to be between US\$475 million and US\$575 million and will be funded from operating cash flows and existing cash balances, supplemented, if necessary, by funds from existing corporate facilities, which are currently undrawn.

◆ COMMENTING ON THE 2017 FULL YEAR RESULTS, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

Financial results

"Oil Search reported a 2017 net profit after tax (NPAT) of US\$302.1 million, 236% higher than net profit in 2016.

Sales revenue benefited from the rise in global oil and gas prices, with the average realised oil and condensate price increasing by 24% to US\$55.68/bbl and the average realised LNG and gas price 21% higher, at US\$7.67/mmBtu. This more than offset slightly lower sales volumes, driving a 17% increase in total revenue to US\$1.45 billion.

Unit production costs remained highly competitive, at US\$8.67 per boe, and the Company's operating margin was a healthy 73%. Other operating costs increased from US\$131.7 million to US\$141.1 million, primarily reflecting the impact of higher oil and gas prices on royalties and levies, higher LNG shipping costs and a provision for redundant warehouse stock. Depreciation and amortisation charges of US\$11.95 per boe were significantly lower than in 2016, reflecting the impact of higher 2P reserves following the recertification of the PNG LNG Project fields.

During the year, Oil Search generated US\$843.6 million in operating cash flow, an increase of 52% on the previous year, largely due to higher oil and gas prices. The Company used this cash to repay US\$314 million of PNG LNG project

finance debt and fund dividends totalling US\$99 million, while continuing to invest in high potential exploration and appraisal activities in PNG, including the Muruk and P'nyang South wells in the North-West Highlands. In February 2018, the US\$400 million Alaska North Slope acquisition was completed, with the consideration paid from Oil Search's existing cash balances. Following completion, the Company still has liquidity of US\$1.6 billion, comprising approximately US\$700 million in cash and US\$850 million of undrawn corporate credit facilities.

The Company's cash flow priorities remain unchanged, with scheduled debt servicing, sustaining capital expenditure, other commitments and paying dividends having the first call on operating cash flow. Oil Search has considerable discretion about when and how much to invest on other activities and will prioritise the development of its LNG expansion projects in PNG and the Nanushuk oil field in Alaska, which are the most value accretive opportunities within its portfolio. Based on the Company's current view on future oil prices, Oil Search expects to have sufficient financial capacity from its existing balance sheet and operating cash flows to fund these developments, as well as other planned exploration, appraisal and PNG in-country activities, without raising additional equity."

2017 final dividend of 5.5 US cents per share, full year payout ratio of 48%

"The Board has approved the payment of a final unfranked dividend of 5.5 US cents per share, compared to the 2016 final dividend of 2.5 US cents per share. The total dividend payment for the year, of 9.5 US cents per share, represents a dividend payout ratio of 48%, which is towards the upper end of the Board's dividend policy to return between 35% and 50% of net profit after tax to shareholders by way of dividend.

Taxation amendments in the PNG 2018 Budget clarified that dividends paid from PNG LNG-sourced profits can be paid without dividend withholding tax, in accordance with the PNG LNG Gas Agreement. Consequently, the final dividend for 2017 will be exempt from PNG dividend withholding tax, as it will be paid solely from PNG LNG-sourced profits."

Safety and Environmental Performance

"Disappointingly, our Total Recordable Incident Rate (incidents per million work hours) rose from 1.53 in 2016, to 1.93 in 2017. Many of the incidents reported during the year related to employees being struck by objects or experiencing injuries during activities requiring manual handling. In response, a 2018 initiative has been introduced, to ensure a re-focus on the basics - that all work is planned with safety as the highest priority, that work takes place in accordance with the plan and that performance is monitored during execution of the work.

The implementation of measures to improve process safety performance continued during 2017. As a result, the number of significant process safety events was reduced from two in 2016 to one in 2017 and significant improvements were realised in the maintenance of safety critical equipment.

During 2017, our environmental management system was successfully re-certified against the more stringent ISO 14001:2015 standard and there was a significant reduction in the number environmental incidents, down from 16 in 2016 to nine incidents in 2017, all of which were minor."

Climate Change

"Considerable work took place over 2017 on how Oil Search approaches the global challenge of climate change. As well as approving a new Climate Policy, the Company has recently completed a comprehensive climate scenario analysis, to determine how our current operations and growth opportunities would perform under different climate outcomes. The results have confirmed that both current and growth assets are robust and perform well, including under

a 2°C scenario, and will continue to provide positive returns to shareholders. Our first Climate Change Resilience Report, which has been prepared in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), will be released in March 2018."

LNG expansion

"Productive, high level meetings were recently held between Oil Search, ExxonMobil and Total to discuss the results of the downstream development options that were received by the PRL 15 joint venture partners last December. The partners have reached broad agreement on the preferred development concept, which will be presented to the PNG Government and other PNG LNG and PRL 3 joint venture partners for endorsement. The development concept that will be proposed is likely to comprise the construction of three LNG trains, with total capacity of approximately 8 MTPA. Two of these trains are likely to be dedicated to Papua LNG, supplied with gas from the Elk-Antelope fields, with an additional expansion train underpinned by gas from the existing PNG LNG fields and the P'nyang field. We expect negotiations on cost sharing arrangements and the principles governing integration to commence shortly, which will enable the completion of downstream and upstream technical studies. Oil Search expects that discussions with the PNG Government on project gas agreements will commence late in the first quarter/early second quarter of 2018, with a decision on the Front End Engineering and Design phase in the second half of 2018, subject to partner approvals and progress on Government negotiations.

It is expected that LNG from the Papua LNG Project will be equity marketed. In preparation, we have recently established an office in Japan, staffed by a highly experienced team, with collectively more than 70 years in LNG marketing. We are increasingly confident about the demand outlook for LNG from PNG, with a material shortfall in supply developing in the early 2020s, and will be targeting key NE and SE Asian markets for offtake agreements."

Alaska North Slope acquisition completed

"Oil Search recently completed the acquisition of a 25.5% interest in the Pikka Unit and adjacent exploration acreage and a 37.5% interest in the Horseshoe Block in the Alaska North Slope, following approval of the transaction by the Committee on Foreign Investment in the US. The assets acquired contain the Nanushuk oil field, one of the largest conventional oil discoveries made in the United States in the last 30 years. Oil Search's current resource assumption for the field and nearby satellites, on which it made the US\$400 million purchase, is 500 million barrels, which is less than half of our joint venture partners' estimates of more than one billion barrels. Following a number of workshops with our partners, we believe there is significant resource upside within the Nanushuk reservoir, as well as material exploration potential.

ConocoPhillips is currently drilling the Putu 1 well, which is located immediately south of the Pikka Unit and on trend with the Nanushuk field. We expect the results of this well to be available to us, through a data trade agreement, in the second quarter of 2018. This information will assist in planning our 2018/19 programme, which will focus on delineating the Nanushuk field and appraising other discovered resources, as well as on exploration.

Oil Search expects to assume operatorship of the assets in March 2018. Over the next six months, we intend to build a highly experienced, fully integrated, operational, subsurface and development team, largely located in Anchorage, and commence planning work for the 2019 drilling season. We have been pleasantly surprised with the strong level of interest from extremely well qualified personnel, with extensive experience in the Alaska North Slope, to join the Company. In addition, meetings held with local indigenous groups and Government officials have reinforced our view that Oil Search's skills, particularly operating in remote locations and working closely with local communities, governments and partners, can add significant value to both our Alaskan assets and to shareholders."

Exploration/appraisal activity planned in PNG in 2018

“The Company plans to drill three appraisal wells in PNG in 2018. The Muruk 2 appraisal well is expected to commence drilling in the second quarter of 2018. This well will help define the gas resource estimate for the field and assist in determining the forward development plan. In the onshore Gulf and Forelands region, Oil Search plans to drill the Kimu 2 and Barikewa 3 wells, to appraise the resource size of these fields and help determine the optimal commercialisation route, which could include delivery of third party gas for LNG expansion or small scale LNG.

In 2018, Oil Search will also undertake the largest operated onshore seismic programme in the Company’s history, covering some 475 kilometres. This will include seismic over the Karoma prospect, located north-east of Muruk, as well as over licences surrounding the Elk-Antelope fields on behalf of ExxonMobil and within PRL 15 on behalf of Total. The two surveys in the onshore Gulf will be conducted concurrently, resulting in material operational synergies and cost savings.”

Reserves and resources

“Total 2P and 2C gas increased 3.4% over the twelve months to end 2017, to 6,341 billion cubic feet (bcf), while 2P and 2C oil and condensate Reserves and Resources rose 1.5% to 125.8 million barrels (mmbbl). This was an excellent result, given the record production of 30.3 million barrels of oil equivalent (mmbbl).

At the end of 2017, the Company’s total 2P oil and condensate Reserves were 73.0 mmbbl, 3% lower than at the end of 2016, reflecting net production of 7.4 mmbbl for the year, offset by net additions of 4.8 mmbbl in Kutubu, Agogo and Moran Reserves following an independent audit of the fields. 2P gas Reserves declined 5% to 2,314 billion cubic feet (bcf), after allowing for PNG LNG and Hides GTE production.

2C oil and condensate Resources and gas Resources both increased by 9%, to 52.7 mmbbl and 4,027 bcf, respectively. Following the successful Muruk 1 drilling campaign, 2C gas of 174 bcf and 2C liquids of 1.7 mmbbl were booked, representing the Resource identified in close proximity to the Muruk 1 and sidetrack wells. Additional potential resource in Muruk will be tested by the Muruk 2 appraisal well, due to spud in the second quarter of 2018.

In addition, following a minor change in the treatment of tail gas in the Contingent Resource category, to provide consistency across Oil Search’s Reserves and Resources estimates, Elk-Antelope 2C gas and condensate Resources were revised up by 71 bcf and 0.6 mmbbl respectively, while P’nyang 2C Resources increased by 73 bcf gas and 1.3 mmbbl condensate. A recertification of the P’nyang field by an independent expert is underway, incorporating the results from the recent successful P’nyang South 2 ST1 appraisal well, and is expected to be finalised in the second quarter of 2018. Oil Search believes that an increase in both 1C and 2C P’nyang certified Resources is likely.

Resources for the Pikka Unit and Horseshoe Block in the Alaska North Slope have not been included in the 2017 Reserves and Resources statement, as the transaction was not completed until after year end.

Based on 2017 production of 30.3 mmbbl, Oil Search has a 1P Reserves life of 15 years and a 2P Reserves life of 17 years. The Company’s 2P Reserves and 2C Resources life is 45 years.”

The table on the next page summarises the movements in Oil Search’s Reserves and Resources in 2017:

2017 FULL YEAR RESULTS



Reserves and Resources Summary ⁽¹⁾

As at 31 December	2017	2016	% change	Key drivers
1P Reserves:				
Gas (bcf)	2,041	2,151	-5	Net production of 111 bcf ⁽²⁾
Oil and condensate (mmbbl)	59.1	62.3	-5	4.2 mmbbl increase in 1P reserves from the Kutubu, Agogo and Moran fields offset by production of 7.4 mmbbl
2P Reserves				
Gas (bcf)	2,314	2,425	-5	Net production of 111 bcf ⁽²⁾
Oil and condensate (mmbbl)	73.0	75.7	-3	4.8 mmbbl increase in 2P reserves from the Kutubu, Agogo and Moran fields offset by production of 7.4 mmbbl
2C Resources				
Gas (bcf)	4,027	3,709	+9	Addition of 174 bcf at Muruk, 73 bcf at P'nyang and 71 bcf at Elk/Antelope
Oil and condensate (mmbbl)	52.7	48.3	+9	Addition of 1.7 mmbbl at Muruk, 1.3 mmbbl at P'nyang, 0.9 mmbbl at Kutubu and Agogo and 0.6 mmbbl at Elk/Antelope
Total 2P Reserves and 2C Resources				
Gas (bcf)	6,341	6,134	+3	
Oil and condensate (mmbbl)	125.8	124.0	+1	

1. Numbers may not add due to rounding.

2. Production figures based on Oil Search's net 16.67% share of PDL 1 Hides GTE production

Please see the 2017 Reserves and Resources Statement for full details.

On the outlook for 2018, Mr Botten said:

"2018 is expected to be a pivotal year for Oil Search, with many activities reaching important milestones. Oil Search's key objectives in 2018 include the following:

- Maintain the focus on personal and process safety and target improvements in all safety metrics.
- LNG Expansion:
 - Complete the negotiation of cost sharing and integration agreements between the PRL 15, PRL 3 and PNG LNG joint ventures.
 - Negotiate gas agreements for LNG expansion volumes with the PNG Government.
 - Complete technical studies supporting integration.
 - Commence equity marketing of Oil Search's share of expansion LNG.
 - Commence discussions with prospective lenders on joint project financing.
 - Make a decision on Front End Engineering and Design.

- Progress the Associated Gas Expansion (AGX) opportunity, to increase the volume of gas being provided to the PNG LNG Project from the Kutubu, Agogo and Moran fields, to support PNG LNG expansion.
- PNG LNG Project:
 - Support the PNG LNG Project operator in progressing the tie-in of the Angore A1 and A2 wells into Project infrastructure and undertaking modifications to the Hides Gas Conditioning Plant in the second quarter of 2018.
 - Sign binding contracts for an additional 1.3 MTPA of LNG offtake.
- Continue to focus on cost reductions and improving efficiencies across the organisation.
- Undertake well work activities on operated oil fields to help mitigate natural production decline.
- Drill the Muruk 2 appraisal well in the North-West Highlands and Kimu 2 and Barikewa 3 in the Gulf and Forelands.
- Acquire seismic in the North-West Highlands and onshore Papuan Gulf Basin, to mature prospects adjacent to existing or planned infrastructure for potential drilling and development, subject to establishing a clear route for commercialisation.
- Alaska North Slope:
 - Assume operatorship of the Alaska North Slope assets.
 - Build a locally-based development and operational team in Anchorage.
 - Undertake preparations for appraisal drilling in 2019.
 - Create value from the Option.
- Continue to invest in activities in PNG that promote a stable operating environment. These include:
 - Supporting the PNG Government, where possible, to address outstanding PNG LNG benefits distribution delays and LNG expansion activities.
 - Completing, on behalf of the PNG Government, the construction of APEC Haus, a new function centre that will house the Asia-Pacific Economic Cooperation Summit in 2018.
 - Completing the construction of a 58 MW gas fired power station in Port Moresby and making a Final Investment Decision on the Markham Valley Biomass Project.
 - Continuing the Company's extensive social programmes, managed both directly and by the Oil Search Foundation.

2017 FULL YEAR RESULTS



2018 Guidance ⁽¹⁾:

Year to December	2017 ACTUAL	2018 GUIDANCE
Production		
Oil Search operated (PNG oil and gas) ^{2,3} (mmboe)	5.9	4.5 – 5.5
PNG LNG Project		
LNG (bcf)	106.3	105 – 109
Power (bcf)	0.7	0.6 – 0.7
Liquids (mmbbl)	3.5	3.3 – 3.5
Total PNG LNG Project ² (mmboe)	24.4	24.0 – 25.0
Total production (mmboe)	30.3	28.5 – 30.5
Operating costs		
Production costs (US\$ per boe)	8.67	8.50 – 9.50
Other operating costs ⁴ (US\$m)	141.0	145 – 155
Depreciation and amortisation (US\$ per boe)	11.95	11.50 - 12.50
Capital costs		
Production (US\$m)	40.7	80 - 85
Development – oil and gas (US\$m)	30.1	50 - 65
Exploration and evaluation (US\$m)	169.5	250 - 310
Other plant and equipment (US\$m)	27.6	45 - 50
Power (US\$m)	9.8	50 - 65
Total (US\$m)	277.6	475 - 575

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 3.0 – 3.3 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), expenditure related to inventory movements and other expenses.

Production in 2018 is forecast to be in the range of 28.5 – 30.5 mmboe. Oil field production is expected to decline, reflecting the maturity of the fields, combined with the impact of little well work having been conducted in 2016 and 2017, due to the low oil price environment. This is expected to be largely offset by an increase in production from the PNG LNG Project, which, following the 2017 compressor upgrades, and despite approximately a two-week planned shut-down for the HGCP and Angore tie-in work in the second quarter, is forecast to produce between 8.2 and 8.5 MT (gross) in 2018.

Operating costs and depreciation and amortisation costs are expected to be similar to 2017 levels.

Capital costs are expected to be higher than in 2017, reflecting an acceleration in activity on Oil Search's growth projects. Production capital costs assume two development wells, while exploration and evaluation costs include the Muruk, Barikewa and Kimu wells, an extensive seismic programme in PNG, pre-FEED and FEED activities on LNG expansion and exploration and appraisal activities in Alaska. 2018 development cost guidance includes costs for the ongoing tie-in of the Angore field to PNG LNG Project infrastructure. Power costs comprise expenditure on the Port Moresby gas-fired power station, as well as the Biomass Project.

Other plant and equipment in 2018 includes the implementation of a new Company-wide Enterprise Resource Planning system, plus the establishment of an office in the US to support the Alaskan activities.



2017 FULL YEAR RESULTS

Oil Search

FINANCIAL PERFORMANCE SUMMARY¹

Year to 31 December	2017	2016	%change
Sales data			
PNG LNG PROJECT			
LNG (Billion Btu)	123,239	118,574	+4
Condensate ('000 bbls)	3,145	3,371	-7
Naphtha ('000 bbls)	335	302	+11
PNG oil ('000 bbls)	3,909	5,097	-23
HIDES GTE			
Gas (Billion Btu)	6,266	6,012	+4
Condensate & refined products ('000 bbls)	115	106	+8
Total barrels of oil equivalent sold ('000 boe) ²	30,044	30,593	-2
Average realised oil and condensate price (US\$/bbl) ³	55.68	45.04	+24
Average realised LNG and gas price (US\$/mmBtu)	7.67	6.36	+21
Financial data (US\$ million)			
Revenue from operations	1,446.0	1,235.9	+17
Production costs	(262.8)	(257.1)	+2
Other operating costs	(141.1)	(131.7)	+7
Other income	10.0	5.1	+96
EBITDAX ⁴	1,052.1	852.2	+23
Depreciation and amortisation	(380.6)	(436.7)	-13
Exploration costs expensed	(35.9)	(53.2)	-33
Proposed InterOil acquisition	-	18.7	N.M.
EBIT ⁴	635.6	381.0	+67
Net finance costs	(194.7)	(196.0)	-1
Profit before tax	440.9	185.0	+138
Taxation expense	(138.8)	(95.2)	+46
Net profit after tax	302.1	89.8	+236
InterOil break-fee (net of costs and tax)	-	(18.7)	N.M.
PNG tax changes	-	35.6	N.M.
Core profit	302.1	106.7	+183
Net operating cash flow	843.6	555.1	+52
Per share data (US cents)			
Basic EPS before significant items	19.8	7.0	+183
Basic EPS after significant items	19.8	5.9	+236
Diluted EPS before significant items	19.8	7.0	+183
Diluted EPS after significant items	19.8	5.9	+236
Net operating cash flow per share	55.4	36.5	+52
Interim dividend	4.0	1.0	+300
Final dividend	5.5	2.5	+120
Total dividend for the year	9.5	3.5	+171

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, impairment and exploration), EBIT (earnings before interest and tax) and Core Profit (net profit after tax and before significant items) are non-IFRS measures that are presented to provide a more meaningful understanding of Oil Search's financial performance. The non-IFRS financial information is unaudited but is derived from the financial statements which have been subject to review by the Group's auditor.



2017 FULL YEAR RESULTS

Oil Search

FINANCIAL POSITION (US\$M)¹

As at	31 Dec 2017	30 Jun 2017	31 Dec 2016
Cash and short-term deposits ²	1,015.2	973.8	862.7
Debt (PNG LNG financing) ³	(3,625.5)	(3,786.0)	(3,939.4)
Net debt	(2,610.2)	(2,812.2)	(3,076.6)
Total liquidity⁴	1,865.2	1,823.8	1,612.7

- Numbers may not add due to rounding.
- As at 31 December 2017, US\$275.4 million was escrowed in PNG LNG Project accounts (30 June 2017: US\$301.1 million, 31 December 2016: US\$261.7 million).
- Excludes finance leases presented as 'Borrowings' in the Statement of Financial Position.
- As at 31 December 2017, the Company's corporate facilities remained undrawn.

A full analysis of the financial results can be found in the Results and Review of Operations commencing on page 5 of the Directors' Report for the year ended 31 December 2017.

PRODUCTION SUMMARY¹

Year to 31 December	2017		2016		% 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	Gross daily production	Net to OSH
PNG LNG Project						
LNG ²	1,004	106,266	959	101,827	+5%	+4%
Gas to power	6	665	-	-	NM	NM
Hides GTE gas ³	16	5,843	15	5,573	+5%	+5%
SE Gobe gas to PNG LNG ^{4, 5}	40	3,265	37	3,060	+8%	+7%
Total gas	1,066	116,038	1,011	110,460	+5%	+5%
Oil and liquids production						
	bopd	mmbbl	bopd	mmbbl		
Kutubu	12,000	2,630	14,918	3,279	-20%	-20%
Moran	7,013	1,267	9,068	1,643	-23%	-23%
Gobe Main	540	20	658	24	-18%	-18%
SE Gobe ⁵	693	57	915	76	-24%	-25%
Total PNG oil	20,245	3,973	25,559	5,022	-21%	-21%
Hides GTE liquids ³	323	118	308	113	+5%	+5%
PNG LNG liquids	32,777	3,470	32,514	3,451	+1%	+1%
Total liquids	53,345	7,561	58,381	8,586	-9%	-12%
	boepd	mmboe	boepd	mmboe		
Total production⁶	262,392	30,314	256,715	30,245	+2%	-

- Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
- Production net of fuel, flare and shrinkage and SE Gobe wet gas.
- 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.
- SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
- Oil Search interest in SE Gobe changed from 25.55% to 22.34% on 1 February 2016.
- 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.

2017 FULL YEAR RESULTS



Gas/LNG Glossary and Conversion Factors Used^{1,2}

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

1. Minor variations in conversion factors may occur over time, due to changes in gas composition.
2. Conversion factors used for forecasting purposes only.

PETER BOTTEN, CBE

Managing Director

20 February 2018

For more information regarding this report, please contact:

Investors and Media:

Ann Diamant

General Manager, Investor Relations and Communications

Tel: +612 8207 8440

Mob: +61 407 483 128

Investors:

Stephanie Chu

Senior Investor Relations Advisor

Tel: +612 8207 8542

Mob: +61 481 038 179

Presentation and Webcast

Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 20 February 2018. 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.

2017 FULL YEAR RESULTS



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 workovers and field development, reserves depletion and fiscal and other government issues and approvals.

Appendix 4E

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

This information should be read in conjunction with the consolidated Financial Report for the year ended 31 December 2017

Results for announcement to the market

	% Change	Year ended 31 December 2017 US\$'000	Year ended 31 December 2016 US\$'000
Revenue from ordinary activities	<i>up</i> 17.0%	1,446,001	1,235,908
Profit from ordinary activities after tax attributable to members	<i>up</i> 236.4%	302,092	89,795
Net profit for the year attributable to members	<i>up</i> 236.4%	302,092	89,795

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

Dividends

	Year ended 31 December 2017 US cents	Year ended 31 December 2016 US cents
Final dividend paid per security ¹	5.50	2.50
Interim dividend paid per security ¹	4.00	1.00

Net tangible assets

	Year ended 31 December 2017 US\$	Year ended 31 December 2016 US\$
Net tangible asset backing per ordinary security	2.55	2.41

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 2017.

Details of joint venture

	Percent ownership interest held at the end of the period	
	31 December 2017 %	31 December 2016 %
Papua New Guinea Liquefied Natural Gas Company LDC	29	29

¹ 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. The record date for determining entitlements to the dividends is 7 March 2018.

Consolidated Financial Report for the year ended 31 December 2017

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Directors' report

The directors submit their report for the financial year ended 31 December 2017.

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), 67 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 sixteen 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), 63 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: 2,368,039; Performance Rights: 877,900; Restricted shares: 506,841*

Mr G Aopi, CBE, BEc, BAC, MBA, (Executive Director), 63 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, Marsh Limited and a number of other private sector and charitable organisations in Papua New Guinea. He was previously a Director of Bank of South Pacific and the Chairman of Telikom PNG Ltd and Independent Public Business Corporation (IPBC). *Ordinary shares, fully paid: 497,223; Performance Rights: 177,300; Restricted shares: 85,696*

Sir KG Constantinou, OBE, (Non-Executive Director), 60 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, and Trade Commissioner for Solomon Islands to Papua New Guinea. *Ordinary shares, fully paid: nil*

Dr EJ Doyle, BMath (Hons), MMath, PhD, FAICD, (Non-Executive Director), 63 years

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 Panel's Division. She is a Director of GPT Group Limited, Boral Limited and Hunter Angels Trust. Dr Doyle is a member of the National Governance Committee 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 and director of the Knights Rugby League Pty Ltd. *Ordinary shares, fully paid: 30,800*

Ms FE Harris, BCom, FCA (Aust), FAICD, (Non-Executive Director), 57 years

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), 67 years

Dr Kantsler joined the Board on 19 July 2010. Dr Kantsler worked with Woodside Petroleum where he was Executive Vice President Exploration and New Ventures from 1995 to 2009 and Executive Vice President Health, Safety and Security from 2009 to 2010. 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 a Director of the Australian Petroleum Production and Exploration Association for 15 years, where he chaired several committees and was Chairman from 2000 to 2002. Dr Kantsler was a member of the Australian Government's Council for Australian Arab Relations from 2003 to 2009. He is a former President of the Chamber of Commerce and Industry, WA and a former Director of the Australian Chamber of Commerce and Industry. He is Managing Director of Transform Exploration Pty Ltd. *Ordinary shares, fully paid: 45,736*

Mr KW Spence, BSc (Geophysics) (Hons), (Non-Executive Director), 64 years (resigned effective 20 October 2017)

Mr Spence joined the Board on 9 May 2012, bringing 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. At the date of his resignation he was a director of Independence Group NL and Murray and Roberts Holdings Limited. Mr Spence resigned from the Board effective October 2017. *Ordinary shares, fully paid: 25,000 (as at resignation date)*

Mr MP Togolo, CBE, BEcon (Hons), MA (Econ), MA (Geography), (Non-Executive Director), 71 years

Mr Togolo joined the Board on 1 October 2016. He has more than twenty-five 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 serves on boards both in PNG and overseas, 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, including NASFUND and Westpac Bank (PNG) Limited. 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, 59 years

Stephen joined Oil Search 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. Stephen's roles at Oil Search have covered senior corporate finance and services responsibilities. In November 2012, Stephen was appointed to the position of Chief Financial Officer of Oil Search. Stephen is also the Group Secretary of Oil Search; a role he has held since May 2009. *Ordinary shares, fully paid: 431,081; Performance Rights: 186,797; Restricted shares: 89,523*

RESULTS AND REVIEW OF OPERATIONS

The Oil Search Limited Group ('the Group') delivered a consolidated net profit of US\$302.1 million (2016: US\$89.8million) for the year, after providing for income tax of US\$138.8 million (2016: US\$95.2 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 5.5 cents per ordinary share (2016: US 2.5 cents final dividend) to ordinary shareholders in respect of the financial year ended 31 December 2017. The due date for payment is 29 March 2018 to all holders of ordinary shares on the Register of Members on 7 March 2018. 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 materially 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 2017 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 1,286 employees as at 31 December 2017 (2016: 1,208). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 717,446 share rights (2016: 677,623) granted under the Employee Share Rights Plan. There were 1,184,700 performance rights (2016: 1,154,612) granted under the Performance Rights Plan and 627,304 restricted shares (2016: 606,231) granted under the Restricted Share Plan during the year.

As at 31 December 2017, there were 1,710,808 share rights (2016: 1,497,709), 3,201,088 performance rights (2016: 2,857,354) and 1,220,155 restricted shares (2016: 1,201,233) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 21 for further details).

COMMITTEES OF THE BOARD

During the year ended 31 December 2017, 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 Kantsler¹ (Committee Chair), Dr EJ Doyle, Ms FE Harris² and Mr MP Togolo. Mr RJ Lee is an ex-officio attendee of this Committee;

Corporate Actions Committee: Mr RJ Lee (Committee Chair), Mr PR Botten, Ms FE Harris, Dr AJ Kantsler, and Mr KW Spence³;

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

People and Nominations Committee: Mr KW Spence (Committee Chair), Sir KG Constantinou, Ms FE Harris, Dr AJ Kantsler and Mr MP Togolo. Mr RJ Lee⁴ is an ex-officio attendee of this Committee.

Independent Committee Members

The Independent Committee Members during the year were:

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

Ms ME Johns, LL.B, Company Secretary, Bank of South Pacific Ltd. Ms Johns is 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 Sasingian-Sumanop is an Independent Member of the Health, Safety and Sustainability Committee.

The Independent Committee Members do not serve 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 ⁵	Health, Safety and Sustainability	People and Nominations
Number of meetings held	9	4	0	4	4
Number of meetings attended					
Mr G Aopi	9/9	-	-	4/4	-
Mr PR Botten	9/9	-	-	-	-
Sir KG Constantinou	9/9	-	-	4/4	4/4
Dr EJ Doyle	9/9	4/4	-	4/4	-
Ms FE Harris	9/9	4/4	-	-	4/4
Dr AJ Kantsler	9/9	4/4	-	4/4	-
Mr RJ Lee	9/9	4/4	-	4/4	4/4
Mr KW Spence	4/8	-	-	4/4	3/3
Mr MP Togolo	9/9	4/4	-	-	4/4

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.

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 22 to the financial statements.

¹ Dr. AJ Kantsler was the Chair of the Audit and Financial Risk Committee during 2017 and resigned effective 31 December 2017. Dr AJ Kantsler was appointed as a Chair of the People and Nominations Committee effective 1 January 2018.

² Ms FE Harris became the Chair of the Audit and Financial Risk Committee effective 1 January 2018.

³ Mr KW Spence resigned as a Director of the Board effective 20 October 2017.

⁴ Due to the departure of Mr KW Spence, Mr RJ Lee was Chair of the People and Nominations Committee meeting held in December 2017.

⁵ In lieu of Corporate Actions Committee meetings during 2017, the Board held two additional Directors meetings to consider certain major company transactions.

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 25 to the financial statements. Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 38.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to balance date, the Directors declared an unfranked final dividend of US 5.5 cents per share, to be paid on 29 March 2018. The proposed final dividend for 2017 is payable to all holders of ordinary shares on the Register of Members on 7 March 2018.

On 14 February 2018, Oil Search completed the acquisition of a 25.5% interest in the Pikka Unit and adjacent acreage and 37.5% in the Horseshoe Block, which contain the discovered Nanushuk and satellite oil fields, from Armstrong Energy LLC and GMT Exploration Company LLC, on the Alaska North Slope, for US\$400 million. The acquisition includes an option to acquire Armstrong's remaining equity interests by mid-2019 for a fixed price of US\$450 million. Oil Search will assume operatorship in early 2018 and plans to undertake an active drilling appraisal campaign are targeted for late 2018/early 2019.

There were no other significant events after balance date.

Operating and Financial Review

1. Financial Overview

1.1 Summary of Financial Performance

Year ended 31 December	2017	2016	% change
Production and Sales Data			
Production (mmboe ¹)	30.31	30.24	N.M
Sales (mmboe)	30.04	30.59	-2
Average realised oil and condensate price (US\$/bb ²)	55.68	45.04	+24
Average realised LNG and gas price (US\$/mmBtu ³)	7.67	6.36	+21
Financial Data (\$US million)			
Revenue	1,446.0	1,235.9	+ 17
Production costs	(262.8)	(257.1)	+2
Other operating costs ⁴	(141.1)	(131.7)	+7
Other income	10.0	5.1	+96
EBITDAX⁵	1,052.1	852.2	+23
Depreciation and amortisation	(380.6)	(436.7)	-13
Exploration costs expensed	(35.9)	(53.2)	-33
Proposed InterOil acquisition	-	18.7	N.M
Net finance costs	(194.7)	(196.0)	-1
Profit before tax	440.9	185.0	+138
Taxation	(138.8)	(95.2)	+46
Net profit/(loss) after tax	302.1	89.8	+236
Proposed InterOil acquisition (net of tax)	-	(18.7)	N.M
PNG tax law changes	-	35.6	N.M
Core profit⁵	302.1	106.7	+183
Net debt	2,610.2	3,076.7	-15

Note: Numbers may not add due to rounding.

Production and Revenue

Oil Search's total net production in 2017 of 30.31 million barrels of oil equivalent (mmboe) was marginally higher than net production of 30.24 mmboe in 2016, and a record for the Company, reflecting a higher contribution from the PNG LNG Project that more than offset lower production from the mature 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 US\$1,446.0 million was 17% higher than the prior year. LNG delivered sales volumes totalled 123,239 billion Btu, 4% higher than in the prior year, with the delivery of 110 LNG cargoes (2016: 108 cargoes). The increase in sales revenue in 2017 was due to higher average realised LNG, gas, oil and condensate prices and higher LNG and gas sales volumes, partially offset by lower sales volumes of oil and condensate.

Liquid volumes delivered in 2017 totalled 7.50 million barrels (mmbbl), 16% lower than the 8.88 mmbbl delivered in 2016, largely due to natural field declines and scheduled maintenance activities undertaken at the oil fields facilities in 2017.

Other revenue, consisting mainly of rig revenue, electricity, refinery and naphtha sales and infrastructure tariffs, decreased slightly to US\$58.0 million in 2017 from US\$59.8 million in 2016.

The average price realised for LNG and gas sales increased by 21%, compared to the prior year, to US\$7.67/mmBtu. The average realised oil and condensate price for 2017 was US\$55.68 per barrel, 24% higher than the prior year outcome. The Group did not establish any oil hedges during the year and remains unhedged to oil price movements.

Production and other operating costs

Production costs increased marginally from US\$257.1 million in 2016 to US\$262.8 million in 2017, primarily due to higher costs from operated oil assets due to planned maintenance shutdowns and increased well workover activity. This was partially offset by a decrease in LNG production costs. Production costs on a per barrel of oil equivalent (boe) basis increased slightly from US\$8.50 per boe in 2016 to US\$8.67 per boe in 2017.

US\$ million	Production costs	
	2017	2016
PNG LNG	142.2	150.6
PNG oil and gas	120.6	106.5
	262.8	257.1

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 (10⁶) British thermal units.

⁴ Other operating costs excludes InterOil acquisition related costs of US\$29.3 million in 2016, included in net gain under Proposed InterOil acquisition.

⁵ 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

Other operating costs increased from US\$131.7 million in 2016 (excluding one-off InterOil transaction costs) US\$141.0 million in 2017 primarily due to higher royalties, levies, gas purchases, selling and distribution expenses and stock obsolescence and disposal of asset write-offs, partially offset by inventory movements and lower rig operating and power costs.

Depreciation and amortisation

Depreciation and amortisation decreased from US\$436.7 million in 2016 to US\$380.6 million in 2017.

Amortisation costs decreased by US\$51.6 million to US\$362.2 million in 2017, primarily due to the impact of substantially higher PNG LNG 2P reserves following the 2016 year-end recertification process. On a cost per boe produced basis, the average amortisation rate for the producing assets was US\$11.95 in 2017, compared to US\$13.68 in 2016.

Depreciation on other plant and equipment decreased by US\$4.6 million on the prior year, reflecting lower rig utilisation in 2017.

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 \$35.9 million. This included US\$10.1 million attributable to the Antelope Deep well in PRL15 and US\$6.2 million attributable to seismic data acquisition in Alaska.

The balance of 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 US\$194.7 million in 2017 were US\$1.3 million lower than the prior year, predominantly due to higher interest income on higher average cash on hand, partially offset by higher borrowing costs in relation to the PNG LNG Project and the finance charge for the additional LNG tanker leased in May 2016.

Taxation

Tax expense on statutory profit in 2017 was US\$138.8 million, compared to US\$95.2 million in 2016. This resulted in an effective tax rate of 31.5% for 2017 against an effective tax rate of 51.5% in 2016. The effective tax rate in 2017 is substantially lower than the prior year due to PNG legislative changes in late 2016, which included the reduction of the tax on oil projects from 45-50% to 30%, with effect from 1 January 2017. This resulted in a one-off reduction in deferred tax asset balances at the end of 2016. However, the lower oil field tax rate, together with lower non-deductible costs compared to the prior year, has benefited the effective tax rate in 2017.

1.2 Summary of Financial Position

Net debt

As at 31 December 2017, Oil Search had net debt (total borrowings less cash) of US\$2,610.2 million, a US\$466.4 million reduction on the prior year net debt position of US\$3,076.6 million. A reconciliation of the movement in net debt during the year is as follows:

	US\$ million
Net debt at 31 December 2016	3,076.6
Net repayment – PNG LNG Project finance facility	(313.9)
Increase in cash balances	(152.5)
Net movement in 2017	(466.4)
Net debt at 31 December 2017	2,610.2

At 31 December 2017, the Group had US\$3,625.5 million of debt outstanding under the PNG LNG Project finance facility, with corporate credit facilities remaining undrawn.

Oil Search remained in a strong liquidity position at 31 December 2017, with cash of US\$1,015.2 million, including US\$275.4 million in PNG LNG escrow accounts, and US\$850 million available under the Group's corporate facilities. During 2017, the Company refinanced its major corporate revolving credit facility, extending the term for another five years, increasing the committed amount to US\$600 million and lowering the fees and margins.

Investment expenditure

Total investment expenditure for 2017 was US\$277.6 million, 27% higher than the prior year expenditure of US\$217.6 million. The components of investment expenditure for the year were:

US\$ million	2017	2016
Exploration and evaluation ¹	169.5	151.8
Development		
PNG LNG Project	30.1	9.6
Biomass	9.8	14.8
Producing assets	40.7	38.3
Other plant and equipment ²	27.6	3.1
Total capital expenditure	277.6	217.6

¹ Includes US\$35.9 million (2016: US\$53.2 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 2017 totalled US\$169.5 million (2016: US\$151.8 million). Major expenditures in PNG in 2017 included US\$33.9 million on PPL 402 (Muruk1 drilling costs), US\$49.6 million on PRL3 (P'nyang SE2) and US\$31.1 million on PRL 15 (Elk-Antelope). Exploration and evaluation expenditure of US\$7.9 million was incurred on the acquisition of seismic data in Alaska.

Development expenditure for 2017 was US\$39.9 million (2016: US\$24.4 million). This included Oil Search's share of PNG LNG development costs of US\$30.1 million covering activities to tie-in Angore A1 and A2 wells to the existing PNG LNG Project and US\$9.8 million to progress Biomass FEED activities in 2017.

Expenditure on producing assets totalled US\$40.7 million for 2017 (2016: US\$38.3 million) and largely comprised sustaining capital expenditure for PNG LNG and PNG oil and gas assets.

The increase in other plant and equipment expenditure was mainly associated with early implementation costs for the Company's new Enterprise Resource Planning (ERP) system.

1.3 Operating cash flows

Year to 31 December (US\$ million)	2017	2016	% change
Net receipts	1,102.6	783.4	+41
Net interest paid	(199.3)	(187.0)	+7
Tax paid	(59.7)	(41.3)	+45
Operating cash flow	843.6	555.1	+52
Net investing cash flow	(267.3)	(232.3)	+15
Net financing cash flow	(423.8)	(370.6)	+14
Net cash inflow	152.5	(47.7)	+420

Operating cash flow increased by 52% to US\$843.6 million, due to higher average realised hydrocarbon prices in 2017 and higher LNG and gas delivered volumes, partially offset by lower sales volumes of oil and condensate.

During 2017, Oil Search's net investing cash flow included expenditures of:

- US\$157.3 million on exploration and evaluation (US\$142.9 million in 2016);
- US\$21.1 million on projects under development (US\$34.8 million in 2016);
- US\$38.2 million of capital investment on production activities (US\$35.7 million in 2016);
- US\$38.1 million on other plant and equipment (US\$12.0 million in 2016); and
- US\$10.2 million on payments made in respect of power assets (US\$0 million in 2016).

The Group distributed US\$99.0 million to shareholders by way of the 2016 final dividend and the 2017 interim dividend during the year. During 2017, borrowings of US\$313.9 million (2016: US\$289.3 million) were repaid under the PNG LNG Project finance facility, in accordance with the repayment schedule.

1.4 Reserves and Resources

As at 31 December 2017, the Company's Proved Reserves (1P) were 59.1 million barrels (mmbbl) oil and condensate, down from 62.3 mmbbl in 2016, and 2,040.5 billion cubic feet (bcf) gas, down from 2,150.7 bcf in 2016.

The Company's total Proved and Probable Reserves (2P) and contingent resources (2C) for oil and condensate were 125.8 mmbbl, up 1.5 % compared to 2016. The movements reflect an additional 4.8 mmbbl in the 2P category following a recent recertification of Kutubu and Moran oil Reserves, 4.5 mmbbl in the 2C category following the successful drilling at Muruk, change in treatment of tail gas in contingent resources at Elk Antelope and P'nyang; and additional Contingent Resources as a result of the recertification work at Kutubu and Moran. This is partially offset by net production of 7.4 mmbbl.

Total Proven and Probable Reserves (2P) and Contingent Resources (2C) for gas were 6,341.1 bcf, up 3.4% from 2016. The movements reflect an additional 174.1 bcf in the 2C category reflecting the successful Muruk 1 and sidetrack wells and the addition of 144 bcf at Elk Antelope and P'nyang following a change in the treatment of tail gas in Contingent Resources. This is partially offset by net production of 111.1 bcf.

Further details are included in the 2017 Reserves and Resources Statement.

2. Overview of operations

Established in 1929, Oil Search is a Papua New Guinean (PNG) oil and gas exploration, development 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. During 2017, the Project produced at an average rate of 8.3 MTPA of LNG, 20% above its 6.9 MTPA nameplate capacity, and sold 110 LNG cargoes to markets in Asia. Since commencement of production in 2014 to the end of 2017, the PNG LNG Project has delivered a total of 370 LNG cargoes.

Oil Search is pursuing opportunities to develop additional LNG trains in PNG, supported by more than 10 tcf of undeveloped 2C contingent gas resources in the P'nyang gas field in the North West Highlands, the Elk-Antelope gas fields in the onshore Gulf Province and potential additional low cost gas from the PNG LNG Project fields. Oil Search believes that these resources are sufficient to supply more than 8 MTPA of new train capacity. Oil Search and the venture operators, Total SA (Total) and Exxon Mobil Corporation (ExxonMobil), are working towards achieving a Final Investment Decision on the development of these fields in 2019 and with first gas targeted for 2023.

Following the 2016 discovery of gas at Muruk, just 20 kilometres northwest of the Hides field in the North-West Highlands, the Company is also undertaking a range of exploration and appraisal activities in PNG to support further LNG expansion. Oil Search estimates that the proven gas fairway between P'nyang, Muruk and Hides has the potential to hold more than 10 tcf of unrisks gas. Subject to further exploration and appraisal success, given its proximity to PNG LNG Project infrastructure, this area could provide additional low cost gas and optionality for gas field development sequencing to maximise value.

In November 2017, Oil Search announced the proposed acquisition of interests in the Alaska North Slope for US\$400 million, plus an option to double its interests by mid-2019 at a fixed price of US\$450 million. The leases acquired contain the undeveloped Nanushuk oil field, which, for acquisition purposes, Oil Search estimates contains approximately 500 million barrels of oil. The acquisition, which was completed on 14 February 2018, represents an entry into world class assets in a well-established, prolific oil producing province, with an attractive fiscal regime. The assets, which have material exploration and appraisal upside, complement the Company's existing high value PNG portfolio.

2.1 Production Activities

2.1.1 PNG LNG Project

The PNG LNG Project produced 24.4 mmbbl net to Oil Search in 2017, comprising 106.9 bcf of LNG and 3.5 mmbbl of liquids. Gross annualised production from the Project was 8.3 MTPA, 20% higher than nameplate capacity of 6.9 MTPA, reflecting excellent gas deliverability from the upstream facilities combined with a high level of uptime at the LNG trains. Compressor upgrades undertaken at the LNG plant site during the year are expected to enable production rates at or above 8.5 MTPA, before factoring in normal levels of downtime, to be sustainably achieved.

In 2017, 110 LNG cargoes were exported, with 86 sold under long-term contract and 24 cargoes sold on the spot market. 28 cargoes of Kutubu Blend and 11 cargoes of naphtha were also sold.

In early 2017, ExxonMobil commenced marketing up to 1.3 MTPA of additional LNG on behalf of PNG LNG Project participants. Offers were received from a number of top-tier LNG buyers, with interest in securing contracts for periods of up to a five years. Binding contracts are expected to be in place by the middle of 2018.

The Hides F1 well was successfully tied-in and the well came online in the second quarter of 2017. The development of the Angore field, comprising the tie-in of the Angore A1 and A2 wells to the existing PNG LNG processing facilities, continued and is scheduled to be completed by mid-2019

2.1.2 Operated oil and gas production

Kutubu (PDL 2 – 60.0%, operator)

Production at Kutubu in 2017 was 20% lower than in 2016, with gross production averaging 12,000 barrels of oil per day (bopd). This was primarily due to natural decline from this mature field and planned and unplanned downtime at the Central Processing Facility (CPF) and Agogo Production Facility (APF) to help ensure ongoing safe and reliable operations. Production was also impacted by higher than expected gas-to-oil ratios from the Usano East reservoir and a short weather related production curtailment.

This was partly offset by production benefits from zone changes made in 2016 to the Agogo 7 well, with the forelimb portion of the reservoir delivering higher than expected rates of production. The Usano Main field also performed above expectations, due to the sustained benefit of long term reservoir management and the optimisation of gas-to-oil ratios by cycling between the most favourable reservoir intervals.

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 2017 averaged 7,013 bopd, down 23% from 2016 levels.

Production was impacted by natural decline, planned and unplanned downtime at the CPF and APF (referred to above) and reduced gas injection capability from the Moran 4 well, which has been shut-in since the first quarter of 2016 for integrity reasons. A workover of the Moran 4 well commenced in the fourth quarter of 2017 to reinstate gas injection at the well. Once complete, this is expected to deliver production benefits, particularly in the J-Block region of the field. However, due to landowner issues, workover operations were shut-in in early 2018. Once the landowner issues are resolved, the workover activities at Moran will re-commence. Additional workover activity, including at Moran 9 ST4, is planned for 2018

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

In 2017, gross production from the Gobe Main field declined 18% to 540 bopd, while production from the SE Gobe field was 24% lower, at 57 bopd.

While both fields benefited from stable, reliable facility performance, oil production rates fell largely due to a maintenance campaign completed in early March at the Gobe Production Facility, which required both Gobe fields to be taken offline for 10 days.

The Gobe fields continued to provide a steady supply of gas to the PNG LNG Project. In total, 26.7 bcf of gas (gross) was supplied to the PNG LNG Project from the Gobe Main and SE Gobe fields during the year, compared to 26.9 bcf (gross) in 2016.

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

The Hides Gas-to-Electricity Project produced 5.8 bcf of gas in 2017, 5% higher than in 2016 and 118,000 barrels of liquids were produced, up 4% on 2016 levels.

2017 Production Summary ^{1,2}

Year to 31 December	2017		2016		% change	
	Daily production - gross (bopd)	Total production - net (mmbbl)	Daily production - gross (bopd)	Total production - net (mmbbl)	Daily production	Total production
Oil Production						
Kutubu	12,000	2,630	14,918	3,279	-20%	-20%
Moran	7,013	1,267	9,068	1,643	-23%	-23%
Gobe Main	540	20	658	24	-18%	-18%
SE Gobe	693	57	915	76	-24%	-26%
Total PNG Oil	20,245	3,973	25,559	5,022	-21%	-21%
PNG LNG Project Liquids	32,777	3,470	32,514	3,451	+1%	+1%
Hides GTE Liquids	323	118	308	113	+5%	+4%
Total Liquids	53,345	7,561	58,381	8,586	-9%	-12%
Gas production						
	mmscf/d	mmscf	mmscf/d	mmscf		
PNG LNG Project LNG	1,004	106,266	959	101,827	+5%	+4%
PNG LNG Gas to Power	6	665	-	-	NM	NM
Hides GTE Sales Gas	16	5,843	15	5,573	+5%	+5%
SE Gobe Gas to PNG LNG	40	3,265	37	3,060	+8%	+7%
Total Gas	1,066	116,038	1,011	110,460	+5%	+5%
	boepd	mmboe	boepd	mmboe		
Total Production³	262,392	30,314	256,715	30,245	+2%	-

2.2 Exploration and appraisal activities

During 2017, progress continued on the cooperative development of more than 10 trillion cubic feet (tcf) of discovered undeveloped gas in the Elk-Antelope and P'nyang fields in PNG. The entry of ExxonMobil into Elk-Antelope, following completion of its acquisition of InterOil in early 2017, resulted in greater alignment between the key joint venture parties and a more cooperative and integrated approach to LNG expansion. During the year, discussions on establishing integration principles, the optimal commercial model for asset ownership and financing, LNG marketing and reaching alignment on future exploration acreage and activities took place. Engineering studies to evaluate a range of potential downstream development options for processing Elk-Antelope and P'nyang gas were completed and provided to the joint venture participants in late December. Oil Search and its co-venturers expect to present an aligned view on the preferred coordinated development concept to the Government in early 2018. This will lead to the negotiation of a final gas agreement, prior to entry into Front End Engineering and Design in the second half of 2018, with a Final Investment Decision targeted for 2019.

¹ Prior period comparatives updated for subsequent changes.

² Numbers may not add due to rounding.

³ 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. This reflects the energy content of the Company's gas reserve portfolio. Minor variations to the conversion factors may occur over time.

P'nyang gas field, PRL 3, PNG

During 2017, the P'nyang South 2 well pad was constructed and the P'nyang South 2 well commenced drilling in the fourth quarter. Oil Search operated the construction of the well pad and drilling activities on behalf of the PRL 3 Joint Venture (Oil Search – 38.5%).

After encountering drilling difficulties, a sidetrack, P'nyang South 2 ST1, was kicked off. In January 2018, the sidetrack reached a total depth of 2,725 metres. The well encountered gas in good quality Toro and Digimu sands, while the Emuk Formation was largely water-bearing. The result confirmed the presence of gas in the south-eastern part of the field and is expected to result in an increase in 1C contingent gas resource, to support further development planning of the P'nyang field for potential LNG expansion. In addition, while further evaluation is ongoing, Oil Search believes an uplift in the 2C gas resource estimate for the field is also possible.

The joint venture continues to work with the Department of Petroleum to progress the offer of a Petroleum Development Licence over the field, currently subject to an application (APDL 13). A recertification of the field's gas volumes by an independent expert is expected to be completed in the second quarter of 2018.

Elk-Antelope gas fields, PRL 15, PNG

Appraisal drilling on the Antelope 7 well in PRL 15 (Oil Search – 22.835%) continued during the first half of 2017. Located west-south-west of Antelope 5, the well was designed to test for reservoir presence and provide better definition of the western flank of the field. No carbonate reservoir was encountered in the appraisal section, in line with Oil Search's pre-drill expectations.

The well was subsequently deepened to test the secondary Antelope Deep exploration objective. The well encountered a tight carbonate which contained gas but was deemed as sub-commercial and was plugged and abandoned. Both results were consistent with Oil Search's pre-drill model and did not impact the Company's view of the field or regional prospectivity.

In the fourth quarter of 2017, the PRL 15 Joint Venture (Oil Search – 22.835%) began preparations to acquire approximately 100 kilometres of 2D seismic data and magnetotellurics, commencing in 2018.

NW Highlands, PNG

Following the Muruk 1 gas discovery in PPL 402 (Oil Search – 37.5%¹) in December 2016, sidetrack drilling took place in early 2017 to help constrain the configuration of the structure and determine the down-dip extent of hydrocarbons within the Toro formation. The well was interpreted to have been drilled through a fold axis and penetrated the Toro reservoir twice. After plugging back the ST1 wellbore, Muruk ST2, a second north-east orientated wellbore was drilled. The Toro reservoir in the sidetrack was tightly folded and overturned at the ST2 location. Wireline logs and pressure data suggested that the Toro reservoir in the overturned limb of the fold was likely water bearing.

A third sidetrack, Muruk 1 ST3, subsequently commenced drilling and in the second quarter proved the presence of a gas-bearing Toro reservoir in a separate, deeper fault block. Production testing confirmed a good quality reservoir with high deliverability, consistent with Toro reservoirs in the Central Fold Belt.

Site preparation for the Muruk 2 appraisal well commenced in the third quarter of 2017 and, subject to weather, the well is expected to spud in the second quarter of 2018. The objective of Muruk 2, which is located approximately 11 kilometres north-west of the discovery well, is to determine how far the structure extends to the north-west and to determine the gas-water contact. This information will help narrow the pre-drill volumetric gas resource estimate of 1-3 tcf for the field.

The Muruk gas discovery has materially upgraded a number of prospects along the Hides-P'nyang trend, which Oil Search estimates have the potential to hold more than 10 tcf of unrisks gas¹. Through two phases of 2D seismic acquisition – the first being the programme over Koki and Blucher to the north-west near P'nyang which was completed in the second quarter of 2017 and the second comprising the programme over Karoma to the south-east near Muruk commencing in the first half of 2018 – Oil Search and its partners are working to mature prospects for possible drilling, should there be commercial justification.

Eastern Foldbelt/Forelands/Gulf, PNG

Construction of the Barikewa 3 appraisal well pad in PRL 9 (Oil Search – 45.1%, operator) and the Kimu 2 appraisal well pad in PRL 8 (Oil Search – 60.7%, operator) was completed at the end of 2017 and first quarter of 2018, respectively. Kimu 2 is expected to spud in the first/second quarter of 2018, with Barikewa 3 to follow. The wells will test the upside resource base of these fields and assist in selecting the optimal commercialisation pathway, which could include the delivery of third party gas for LNG expansion or small scale LNG, which represents a potential competitive source of fuel for domestic and regional markets that are currently dependent on diesel and/or heavy fuel oil.

During the second half of 2017, preparations took place for a 200 kilometre seismic and magnetotellurics acquisition programme over PPLs 475, 476 and PRL 39, which Oil Search will operate on behalf of ExxonMobil. Analysis of the results is expected to be completed in the second half of 2018.

¹ Mean gross prospective resources. Summed prospective resource P50/best estimate is ~4.9 tcf. Numbers are based on Oil Search's 2016 internal analysis. All estimates are unrisks.

Offshore Gulf of Papua, PNG

During the year, Oil Search focused on optimising offshore Gulf datasets and remapping prospectivity. Reprocessing of existing shallow water 3D datasets resulted in a significant uplift to data quality, revealing new opportunities and encouraged the Company to reprocess more of the available 3D data. Oil Search continues to work with the data to refresh its assessment of the acreage's prospectivity.

In the deep water Gulf, interpretation of 2D data progressed well. Identified prospects were risked, ranked and prioritised. A 3D seismic acquisition programme is planned by the operator for the first half of 2018, to further constrain prospectivity.

Middle East and North Africa

Oil Search discontinued operations under the Taza PSC in the Kurdistan Region of Iraq during 2016 and continues to work through the formal relinquishment process with the Ministry of Natural Resources. All operational sites have been remediated and will be returned to the landowners and Oil Search's Kurdistan office has been closed.

Oil Search continued to work with Petsec and the Yemeni government to complete the transaction that will result in Oil Search divesting its 34% interest in Block 7 and fully exit Yemen. Operations in Yemen have ceased due to the security situation in-country.

New licences in PNG

In May 2017, Oil Search entered into arrangements with ExxonMobil affiliates to acquire a 30% interest in five licences in the onshore Papuan Gulf Basin. The licences, PPL's 474, 475, 476, 477 and PRL 39, are located adjacent to the world-class Elk-Antelope gas fields and contain the Triceratops, Bobcat and Raptor gas discoveries. Binding agreements for Oil Search's entry into the Gulf licences are expected to be executed in the first quarter of 2018.

In the North-West Highlands, in the first half of 2017 Oil Search farmed down a 12.5% interest in PPL 402 to a subsidiary of Santos Ltd. In October, Oil Search entered into arrangements to also farm-down a 12.5% interest in each of PPLs 395, 464, 487 and 507 to Santos. Santos's acquisition of these licence interests is subject to conditions precedent and regulatory approvals. In November, Oil Search, ExxonMobil and Santos were granted exploration licence PPL 545. These licences are located adjacent to the Muruk gas discovery in PPL 402 and along the Hides-P'nyang trend.

These transactions are consistent with the Company's strategy to own an appropriate equity interest in exploration licences, which balances risk with potential reward, and to align with strategic partners in areas with the potential for significant gas resource and a clear path to commercialisation.

The recent licence awards, farm-ins and farm-downs, conclude the Company's aim to optimise its exploration portfolio in PNG, to support long-term gas growth.

2.3 Power

In 2017, Oil Search Power continued to support government electricity sector objectives with options to provide gas and biomass fuelled power in PNG. The PNG Biomass and Port Moresby gas fired power station projects were both identified as priorities in the new PNG Government's 100-day plan.

During the year, Oil Search and Kumul Petroleum established an Independent Power Producer, NiuPower Ltd, to deliver 58MW of gas fired generation to the Port Moresby grid. Long lead construction has now commenced on a site adjacent to the PNG LNG plant, with power generated from PNG LNG Project gas, planned for the first quarter of 2019. NiuPower will deliver electricity into Port Moresby at a substantially lower cost than other hydrocarbon fuel sources and will significantly reduce sulphur and greenhouse gas emissions.

Front End Engineering and Design activities on the PNG Biomass Project in the Markham Valley were completed in early 2018. Discussions with PNG Power Limited and the PNG Government are being conducted prior to progressing a Final Investment Decision for the project.

2.4 Proposed acquisition of interests in Alaska

In November 2017, Oil Search announced it had entered into an agreement to acquire a 25.5% interest in the Pikka Unit and adjacent exploration acreage and 37.5% interest in the Horseshoe Block in the Alaska North Slope, from Armstrong Energy LLC and GMT Exploration Company LLC for US\$400 million. The purchase price is equivalent to US\$3.10 per barrel based on Oil Search's estimate for acquisition purposes of 500 million barrels (gross) in the Nanushuk and satellite oil fields. However, the price reduces to US\$1.30 per barrel if joint venture partner estimates of ultimate recoverable resources of 1.2 billion barrels is used, which compares very favourably with global acquisition benchmarks.

Oil Search also has an option to double its equity in these assets for US\$450 million at any time before 30 June 2019, providing the flexibility to increase ownership, subject to appraisal results, and sell down to a strategic partner to create further value. On 14 February 2018, the transaction completed after approval was received from the Committee on Foreign Investment in the US. Oil Search will subsequently assume operatorship in early 2018.

The acquisition complements the Company's existing top quartile, high returning PNG gas portfolio and, with significant growth opportunities, has the potential to become, over time, a material business for Oil Search, of a scale equivalent to its PNG assets.

3. Business Strategy and Outlook

3.1 Business Strategy

During 2017, Oil Search focused on delivering the key strategies established in the 2016 Strategy Refresh, including:

- 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.
- Maintaining Oil Search as a leading corporate citizen in PNG and promoting a stable operating environment.
- Developing options for material growth beyond the next phase of LNG expansion.
- Optimising capital and liquidity management to support investment and reward shareholders.
- Enhancing organisational capabilities to deliver the Company's strategic commitments.

In November 2017, Oil Search announced that it had agreed to acquire interests in Alaska's North Slope. The acquisition is consistent with the Company's stated strategy of developing options for material growth beyond the next phase of LNG expansion. Oil Search believes the Alaskan acquisition has been made at the optimal time in the oil price cycle and at a very competitive entry price. It also delivers Oil Search the operatorship of a Tier 1 oil field which is currently under appraisal and is located adjacent to existing infrastructure in an established oil producing province. In addition, there is significant appraisal and exploration upside within the leases. It will see Oil Search leverage its core competencies in managing local stakeholders and operating in remote locations as well as rebalancing the portfolio of the Company between oil and gas.

3.2 Outlook

Key corporate priorities for 2018 include the following:

- Finalisation of a preferred development concept for the Elk-Antelope and P'nyang gas resources and alignment with the PNG Government to enable negotiation of a Gas Agreement prior to FEED entry in the second half of 2018.
- Ongoing reliable delivery of gas from Oil Search-operated fields to the PNG LNG Project and reliable operation of the liquids export system.
- Scope and launch the Associated Gas Expansion project targeted at providing low cost gas from the Oil Search operated oil fields to underpin LNG expansion.
- Establish the organisation to support the transition to operatorship of the Alaskan assets, preparatory activities to advance appraisal drilling in 2019 and optimising the value from the option to acquire additional licence equity.
- Assess and prioritise other gas development options by defining the commercial and sequencing prioritisation for exploration and field development, together with the implications for infrastructure build and ownership.
- Continue to drive the Company's stakeholder engagement activities to address LNG expansion project activities, supporting the PNG Government where possible to address outstanding PNG LNG benefits distribution delays and delivering enhanced climate change risk disclosures.
- Build-on company capability including the implementation of the Company's new Enterprise Resource Planning system.

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. However, prices for these commodities have recovered to more sustainable levels in recent 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 27 in the financial statements. The Group's Audit and Financial Risk Committee is responsible for reviewing the policies, processes, practices and reporting systems covering the Group's exposure to financial risks.

Future operating and capital cost requirements

Future operating and capital cost requirements may be impacted by multiple external and internal factors, many of which have been identified elsewhere through this section. Unexpected changes to future cost profiles could result in Oil Search's cash requirements being over and above its available liquidity. To the extent that the Group's operating cash flows and debt facilities are insufficient to meet its requirements for ongoing operations and capital expenditure, Oil Search may need to seek additional funding, sell assets or defer capital expenditure. If Oil Search is unable to obtain additional funding on acceptable terms in these circumstances, its financial condition and ability to continue operating may be affected.

The Group's financial risk management strategy to address liquidity risk is outlined in note 27 in the financial statements. The Group 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.

Climate Change

The Group is exposed to a number of climate change related risks. Material climate-related risks include: changes in demand for our products due to regulatory and technological changes (transitional risk); increases in operating costs of assets due to carbon-pricing policies or other market mechanisms; physical damage to assets or interruption to operations from climatic changes and extreme weather events; and reputational damage driven by stakeholder activism and changing societal expectations. The occurrence of any of these risks could result in asset impairment, lost revenue and damage to brand value, amongst others. The Company undertakes climate scenario analysis to test resilience to various transition related risks, and has introduced a carbon price to assess potential cost impacts from the introduction of emissions-based market mechanisms. Technical design for major capital works projects are also required to consider the potential physical impacts on a range of climate outcomes. The Group's Climate Policy details the Company's expectations and commitments to assessing, responding and reporting climate change risks, implications and management approach.

Cyber security

The integrity, availability and reliability of data within Oil Search's information technology systems may be subject to intentional or unintentional disruption. Given the level of increasing sophistication and scope of potential cyber attacks, these attacks may lead to significant breaches of security which jeopardise the sensitive information and financial transactions of the Group.

The Group manages cyber security risks 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 relevant 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 management's investment review committee 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 project. A number of factors influence the successful delivery of projects of this scale and/or complexity in our operating contexts, 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 across its PNG, corporate and Alaskan assets. These projects include both hydrocarbon development and corporate/PNG capability building, and 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 management's investment review committee 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 risks

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. With the acquisition of the Alaskan assets completed and operatorship to commence in early 2018, Oil Search is now subject to laws and regulations under this operational jurisdiction.

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 countries in which Oil Search has interests 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. This exposure changes as the external conditions evolve and as Oil Search enters new areas, regions and countries. 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 also 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 so as to leave a positive legacy. The Group spends considerable time, effort and expense in working with government and communities, led by a dedicated Stakeholder Engagement team working in conjunction with Oil Search's Security team. The Health, Safety and Sustainability Committee oversight of the strategies and processes adopted by management and monitors the Group's performance and exposures in these areas.

Joint venture risk

Oil Search derives significant revenues and growth through its 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 DR AGU KANTSLER, 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 2017.

The purpose of this introductory letter is to summarise key remuneration outcomes for 2017, demonstrate the link to company performance, and to flag enhancements made during the year as well as future developments.

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.

Changes to fixed remuneration during 2017

Senior Management received modest increases of generally 2% in fixed remuneration during 2017, in line with the salary review budget approved for other Australian based employees.

Short Term Incentive outcome for 2017

To align with business objectives, the Short Term Incentive ('STI') 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 strong performance in 2017 in a continuing challenging environment.

During the year the focus was on:

- Ensuring that we continue to deliver safe and reliable operations to maximise oil production and meet all of our gas supply and liquids export obligations to the PNG LNG project. This resulted in good production and cost performance from our operated and non-operated assets;
- Encouraging both the PRL3 and PRL15 operators to progress cooperative LNG expansion following the integration of the InterOil assets into ExxonMobil; and
- Acquiring the Armstrong Oil & Gas Alaskan oil asset, which will provide material growth opportunities for Oil Search well into the future.

Above target performance across most elements of the scorecard produced an overall STI outcome for 2017 of 89.6% of Opportunity. A description of performance against elements on the short term incentive scorecard is set out in the body of the Remuneration Report. The Alaskan asset has not been recognised in the 2017 STI scorecard outcome.

Vesting of Long Term Incentive awards from 2015

Performance Rights granted under the 2015 Long Term Incentive awards were tested based on Total Shareholder Return ("TSR") performance over the period 1 January 2015 to 31 December 2017.

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. Oil Search's TSR against international Oil & Gas and energy companies was at the 50.62 percentile.

This meant that 25.6% of the 2015 Performance Rights vested. There are no re-testing provisions in the Long Term Incentive scheme and the remaining 74.4% of the 2015 Performance Rights awards have therefore lapsed.

Executive Reward Strategy Review

A detailed review of Oil Search's Executive Reward Strategy was conducted during 2017.

Overall the review concluded that there are no current significant drivers that would warrant an immediate significant permanent change to the Oil Search executive reward framework.

The Reward Strategy Review identified several opportunities to make incremental improvements which will be useful in helping stakeholders better understand the link between Oil Search performance and remuneration outcomes received by Executives over time and also to increase the alignment of Key Management Personnel and Non-Executive Directors with shareholders.

- Compensation outcomes were modelled over the period 2008 to 2016 to show the value of remuneration ultimately received for each performance year. The results of the analysis for the Managing Director, included in the body of the Remuneration Report, demonstrates how the Short Term Incentive scorecard (which is tightly linked to the long term strategic plan), coupled with the significant 50% deferral arrangement and the Total Shareholder Return performance conditions attaching to the Long

Term Incentive awards have, in aggregate, delivered remuneration outcomes which are strongly linked to long term shareholder returns.


- To make it easier for stakeholders to discern real movements in executive remuneration (as opposed to exchange rate movements and accounting valuations of long term incentives), Oil Search will now also include a non-statutory 'Realised Remuneration' table. This table shows (in Australian dollars) the level of Fixed Remuneration received in the year, the cash Short Term Incentive paid in respect of the year and the value of Deferred Shares and Performance Rights issued in prior years which vested in the year (valued at the date of vesting).
- The Company has also introduced a new Minimum Shareholding policy with effect from 1 January 2018. The Minimum Shareholding policy imposes a requirement that Non-Executive Directors and Key Management Personnel build over time, and then maintain, a Minimum Shareholding of Oil Search shares. The Minimum Shareholding is set as a fixed number of Oil Search shares which will be reviewed from time to time by the Board and calculated by reference to the Oil Search share price and (i) the annual base fee received by Non-Executive Directors, (ii) the annual Total Fixed Remuneration for the Managing Director and (iii) half of the average annual Total Fixed Remuneration for the Executive General Managers. Details of the Minimum Shareholding policy are available on the Oil Search website.

Future Developments

In recognition of the challenges of achieving Final Investment Decision for LNG Expansion in PNG and the value that this should deliver to shareholders, the Board has resolved to introduce a transitional hybrid incentive scheme in the 2018 year.

Achievement of Final Investment Decision is dependent on a highly complex alignment of interests and requires the combined technical, engineering, financial, geoscientific and cultural and stakeholder engagement expertise of the existing Executive team. The Board also recognises the importance of not diluting Executives' focus on the ongoing achievement of operational outcomes and ongoing business initiatives. The incentive will be delivered predominantly in equity vesting two years after the achievement of the Final Investment Decision. More information in relation to this one off incentive arrangement will be provided with the 2018 Notice of Meeting.

Thank you for taking time to review our Remuneration Report and we look forward to welcoming you to our 2018 Annual Meeting.



Agu Kantsler
Chair, People and 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 2017 to 31 December 2017. 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:
 - The release of the half year results;
 - The release of the full year results; and
 - The Oil Search Annual Meeting.

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

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.

Effective from 1 January 2018 the Company introduced a Minimum Shareholding Policy to increase alignment with the interests of Oil Search shareholders by imposing a requirement that Non-Executive Directors and other Key Management Personnel build over time, and then maintain, a Minimum Shareholding of Oil Search shares.

The Minimum Shareholding is set as a fixed number of Oil Search shares. This fixed number will be reviewed from time to time by the Board.

The Minimum Shareholding is calculated by reference to the Oil Search share price and (i) the annual base fee received by Non-Executive Directors, (ii) the annual Total Fixed Remuneration for the Managing Director and (iii) half of the average annual Total Fixed Remuneration for the Executive General Managers.

Table 2 summarises the current applicable Minimum Shareholding required under this Policy.

Table 2 – Minimum Shareholding requirements

Individual covered by this Policy	Minimum Shareholding (number of shares)
Chairman of the Board	75,000
Other Non-Executive Directors	25,000
Managing Director	320,000
Executive General Managers	52,500

Non-Executive Directors do not participate in the Company's Long Term Incentive schemes and must establish their holding by acquiring shares on market.

For the Managing Director and Executive General Managers, the Policy operates by restricting the disposal of relevant Oil Search Shares acquired under the Company's Long Term Incentive schemes. It does not require the Managing Director or Executive General Managers to whom it applies to "top-up" the minimum holding threshold by buying Oil Search shares on market.

Exceptions to the Policy are permitted (i) if approved by the Board (or its delegate) at its sole discretion or (ii) to the extent that a disposal is reasonably necessary to enable statutory obligations (for example relating to tax) to be met arising from the operation of an Oil Search equity-based incentive scheme. All Oil Search shares held by the individual will count towards the satisfaction of the Minimum Shareholding threshold including shares owned through a trust or superannuation fund or otherwise held for the benefit of the individual.

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 2017 were:

- Mr KW Spence – independent non-executive (Chair, ceased 20 October 2017)
- Dr A Kantsler – independent non-executive (Chair from 1 January 2018)
- Sir KG Constantinou OBE – independent non-executive
- Ms Fiona Harris – independent non-executive
- Mr MP Togolo – independent non-executive

In addition to the above, Ms M Johns has been serving as an Independent Member of the Committee since 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.

Dr Kantsler was appointed Chair of the Committee effective 1 January 2018.

At the Committee's invitation, the Managing Director, Executive General Manager Human Resources, and Head of Rewards 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 2017 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 3 summarises remuneration-related work undertaken by external consultants at the Committee's request in 2017 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 3 – External Consultants Engaged by the Committee in 2017

Consultant	Committee and Board Engagements	Management Engagements
Aon Hewitt	Executive remuneration benchmarking.	Various salary surveys for non-executive positions.
Ernst & Young	Market benchmarking of certain executive benefits.	Accounting and advisory services.
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.

Chart 1 – Aggregate Managing Director Realised Remuneration (non-Statutory) over the cycle

Chart 1 shows the aggregate indexed value of realised remuneration outcomes over the period 2008 to 2017 for the Managing Director, indexed against a TFR of 100 for all years. Short and Long Term Incentive outcomes have been calculated using the current framework for all years to provide consistency of analysis and show the value ultimately received in respect of a year, being the aggregate of:

- TFR (indexed to 100)
- Cash STI: Cash STI paid in relation to the year (based on Target STI multiplied by the STI scorecard outcome for the year, with 50% of the resulting STI amount being paid in cash);
- Deferred STI: The value of the Deferred STI ultimately received (the 50% deferred STI amount as adjusted for movements in the Oil Search share price between award and vesting); and
- Performance Rights: Value of the Performance Rights ultimately received in respect of the year, taking into account the amount of awards which ultimately vested based on the TSR performance condition and the movement in the Oil Search share price between award and vesting.

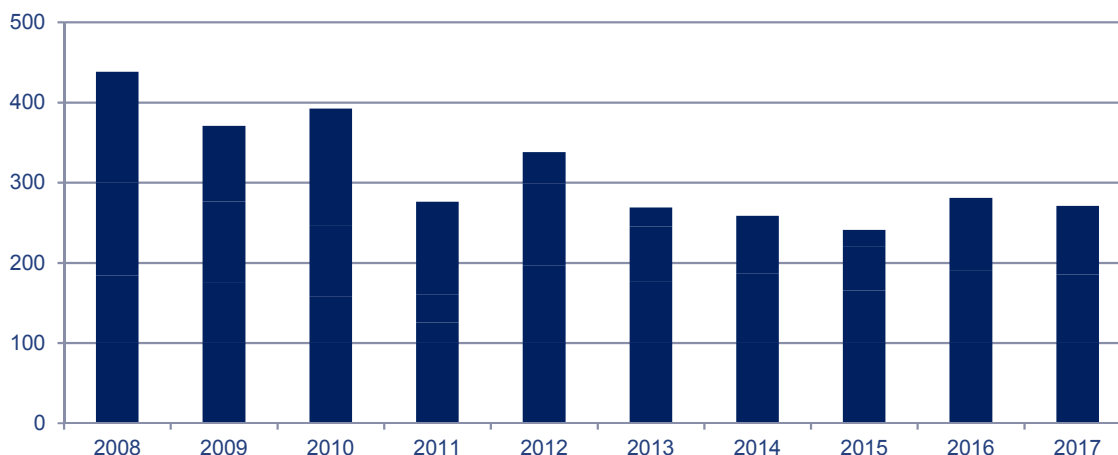


Chart 1 shows how the Short Term Incentive scorecard, which is tightly linked to the long term strategic plan, coupled with the significant 50% deferral arrangement and the Total Shareholder Return performance conditions attaching to the Long Term Incentive awards have, delivered aggregate remuneration outcomes which are strongly linked to shareholder experience.

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 are driven by the annual budget and longer term strategic plan including resource replacement objectives. Achievement of target levels of performance delivers 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 4 summarises the scorecard measures, weightings, targets and outcomes for 2017.

Table 4 – Short Term Incentive scorecard measures and outcomes

MEASURE	PERFORMANCE AND REWARD ALIGNMENT	WEIGHTING	2017 OUTCOME ⁽¹⁾	OUTCOME COMMENTARY
Operational Measures (55%)				
Safety	Rewards a continuous focus on safe and reliable operations measured through a combination of lagging (Total Recordable Injury Rate, Process Safety Events) and leading (Safety Critical Maintenance Tasks and Well Integrity Assurance) indicators.	10%		Achievement for the Safety measure was between threshold and target. The Personal Safety element was below the threshold level of performance, and Process Safety performance was above target leading to an overall outcome which was between threshold and target.
Production	Rewards the achievement of the budgeted operated and non-operated production volumes - the largest contributors to short term financial performance	20%		Achievement for the Production measure was between target and stretch reflecting overall production for 2017 that was ahead of target, with strong PNG LNG production offsetting operated production which was slightly below target.

Costs	Rewards achievement of incurring below budget controllable field and corporate costs as well as Oil Search net share of PNG LNG controllable costs.	20%	●	Achievement for the Costs measure was beyond stretch reflecting the continued focus on costs and below budgeted costs at Oil Search and the PNG LNG operator.
EBITDAX	Rewards achievement of profitability of the business against budget.	5%	◐	Achievement for the EBITDAX measure was well above target, driven by higher realised hydrocarbon prices, higher net delivered sales volumes and lower production costs.

MEASURE	PERFORMANCE AND REWARD ALIGNMENT	WEIGHTING	2017 OUTCOME ⁽¹⁾	OUTCOME COMMENTARY
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. Gas Resource additions are recognised in a phased approach over three years to smooth recognition and to provide additional opportunity to appraise and therefore increase the confidence in the size of the resource discovered.	15%	●	Achievement on the Gas Resource discovery measure was beyond stretch reflecting the Muruk discovery during 2017 as well as phased recognition of the PNG LNG gas recertification outcome from 2016.
2C Oil Resources	Rewards the discovery or acquisition of new 2C oil resources, increasing the scale of the company's oil producing activities. 2C Oil Resource additions are recognised in a phased approach over three years to smooth recognition and to provide additional opportunity to appraise and therefore increase the confidence in the size of the resource discovered.	15%	◐	Achievement on the Oil Resource discovery measure was slightly below target. Oil resources included in the 2017 result were related to Muruk as well as the phased recognition of the PNG LNG liquids recertification outcome from 2016.
Strategic and growth initiatives	Rewards the delivery of milestones that ensure the progressive achievement of strategic plan objectives.	15%	◐	Achievement on the strategic and growth initiatives was between target and stretch reflecting achievement of key milestones in relation to the maturation of material incremental oil opportunities, Kutubu Pipeline System optimisation and the expansion of the exploration portfolio in PNG.

⁽¹⁾ Performance Level achieved:

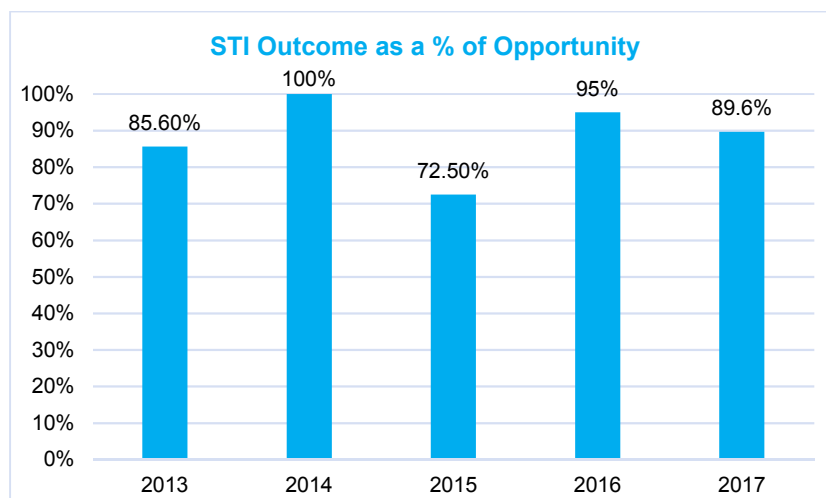
○ No achievement (below threshold) ◐ B/w threshold and target ◑ Close to target ◒ B/w target and stretch ● At or beyond stretch

Above target performance across most elements of the scorecard produced an overall STI outcome for 2017 of 89.6% of Opportunity. The Alaskan asset has not been recognised in the 2017 STI scorecard outcome.

Chart 2 illustrates the STI pool as a percentage of STI Opportunity over the period 2013 to 2017.

Chart 2 – STI Awards to Employees

Over the period 2013 to 2017 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 the achievement of pre-determined corporate performance hurdles within defined time restrictions.

The performance criteria for the vesting of PRs are based on the Company's Total Shareholder Return (TSR) over a three-year performance period against two peer groups:

- 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).

For awards made between 2012 and 2016, half of each award of PRs was tested against each peer group.

Following a review of the measures in late 2016, it was decided to increase the proportion of the LTI which is tested against the S&P Global 1200 Energy Index from one half to two thirds of awards for 2017 onwards. In part, this change also recognises the Company's changing shareholder base, which has become increasingly international. The remaining one third of awards will continue to be measured 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 on the vesting calculations, half of the award component tested against the international peer group is measured based on Oil Search's and other companies' TSR in a common currency (USD) and the other half of the award considering Oil Search's and other companies' TSR in the local currency of the country of primary listing (which for Oil Search is Australia). 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 any prior year awards.

To determine the number of awards vesting, the Company's TSR over the performance period is ranked as follows:

- as regards one third of the award, against the TSR of each of the constituents of the S&P/ASX50 Index (excluding property trusts and non-standard listings) as at the commencement of the three-year performance period; and
- as regards one third of the award, against the TSR of each of the constituents of the S&P Global 1200 Energy Index at the commencement of the three-year performance period. TSR outcomes for this part of the award are measured in a US dollar base for Oil Search and each constituent company; and
- as regards the final third of the award, against the TSR of each of the constituents of the S&P Global 1200 Energy Index at the commencement of the three-year performance period. TSR outcomes for this part of the award are measured in the local currency of the country of main listing for Oil Search and each constituent company.

If, in regard to each part of the award described above, the Company's TSR performance is:

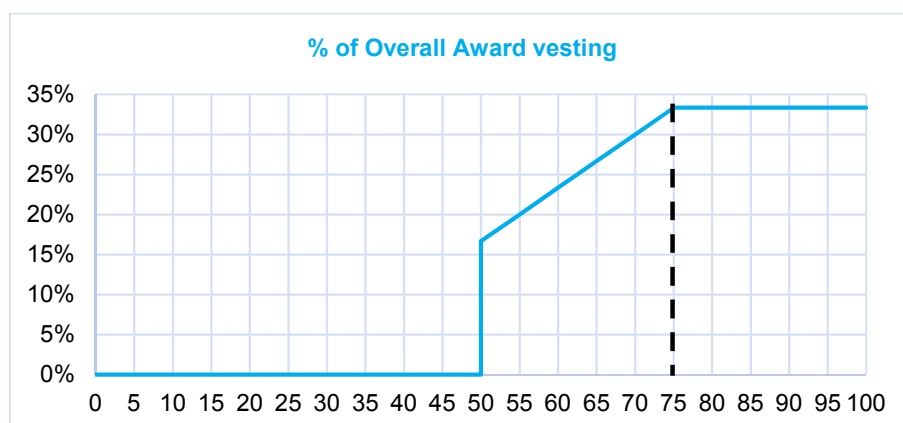
- below the median, that is, the 50th percentile, the number of PRs comprising that part of the award that vest will be zero;
- at median, the number of PRs that vest will be 50% of the total number of PRs comprised in that part of the award;

- greater than median and less than the 75th percentile, the number of PRs that vest will increase on a straight line basis from 50% to 100% of the total number of PRs comprised in that part of the award; or
- equal to or greater than the 75th percentile, the number of PRs that vest will be 100% of the total number of PRs comprised in that part of the award.

This is illustrated in Chart 3.

Oil Search's TSR performance is required to be at or above the 75th percentile against all peer groups for 100% of the Performance Rights granted to vest.

Chart 3 – Illustration of vesting outcomes vs percentile ranking against the peer group for each portion of the award



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

Table 5 details the grant and vesting of Performance Rights issued between 2013 and 2017:

Table 5 – Details of Awards of Performance Rights

	2013	2014	2015 ⁽³⁾	2016	2017
Measurement Period	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	1 Jan 2017 to 31 Dec 19
Total Rights Granted	1,635,200	948,000	1,052,876	1,154,612	1,184,700
ASX50 Peer Group					
Oil Search TSR (3 year - AUD) ⁽¹⁾	6.1%	(12.7%)	(6.85%)		
Percentile Rank	30.8	21.0	10.3		
Vesting (Maximum Vesting)	0% (50%)	0% (50%)	0% (50%)	17 May 2019	22 May 2020
S&P Global 1200 Energy Index Peer Group - USD					
Oil Search TSR (3 year - USD) ⁽²⁾	(26.4%)	(29.6%)	(16.4%)		
Percentile Rank	51.1	47.1	50.6%		
Vesting (Maximum Vesting)	26.1% (50%)	0% (50%)	25.6% (50%)	17 May 2019	22 May 2020
S&P Global 1200 Energy Index Peer Group – Local Currencies					
Oil Search TSR (3 year - AUD) ⁽⁴⁾					
Percentile Rank					
Vesting (Maximum 2/3)	N/A	N/A	N/A	N/A	22 May 2020
Total Vesting (maximum 100%)	26.1%	0%	25.6%	17 May 2019	22 May 2020

(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.

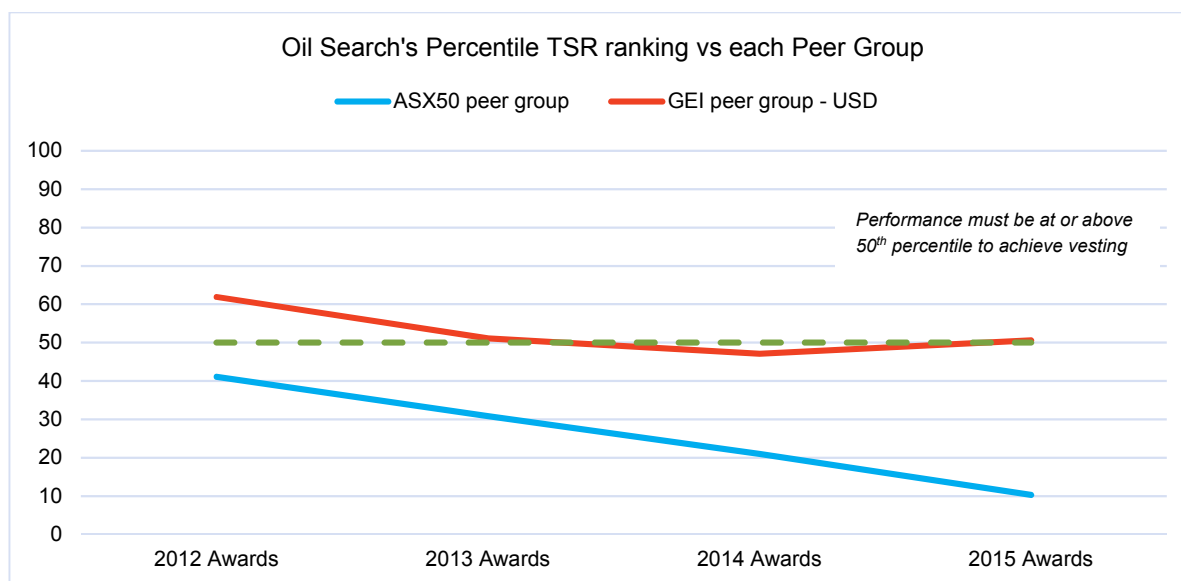
(2) TSR outcomes for the purposes of comparison against the S&P Global 1200 Energy Index peer group are measured in US dollars for Oil Search and all constituent companies.

(3) While the 2015 Performance Rights will not vest until May 2018, Oil Search's relative TSR for the period 1 January 2015 to 31 December 2017 is available.

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

Chart 4 shows Oil Search's percentile ranking against each of the two peer groups for the 2012, 2013, 2014 and 2015 awards.

Chart 4 – Oil Search's percentile ranking against each peer group



None of the 2014 Performance Rights vested as the percentile ranking against both peer groups was below the 50th percentile. The 2015 Performance Rights vested at 25.6%.

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 6 contains details of the shares awards made under the general employee share plan between 2013 and 2017.

Table 6 – Details of Share Appreciation Rights and Share Rights awards under the general employee share plan

	2013	2014	2015	2016	2017
Award Type	SARs	SRs	SRs	SRs	SRs
Grant Date	20 May 2013	19 May 2014	18 May 2015	16 May 2016	22 May 2017
Vesting Date	13 May 16	19 May 2017	18 May 2018	17 May 2019	22 May 2020
Total Award	1,873,950	611,045	682,736	677,623	717,446
Exercise/Vesting Price	\$7.82	\$nil	\$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 7 summarises STI awards as a % of TFR for Senior Executives and the Managing Director for a range STI outcomes.

Table 7 – 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 8 shows the STI outcomes for the Managing Director and Senior Executives since 2013 expressed as a percentage of Total Fixed Remuneration.

Table 8 – Senior Executive STI outcomes as a % of TFR, 2013-2017

	2013	2014	2015	2016	2017
Managing Director	85.6%	172.4%	143.6%	180.0%	171.0%
Senior Executives	68.5%	95.8%	68.1%	95.0%	89.6%

Analysis of individual Senior Executive STIs is contained in Tables 11 and 13 below.

Long Term Incentive (LTI) – Performance Rights

For 2017 the number of Performance Rights granted for the Managing Director and other senior executives was based on the following formula:

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

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 2016 annual results.

Table 9 summarises performance rights grants and vesting levels for awards made over the period 2013 to 2017 for Key Management Personnel.

Table 9 – Allocation of Performance Rights to Key Management Personnel

	2013		2014		2015		2016		2017	
	No.	Vest	No.	Vest	No.	Vest ⁽¹⁾	No.	Vest	No.	Vest
Directors										
P Botten	240,000	26.1%	222,600	0%	236,000	25.6%	326,900	2019	315,000	2020
G Aopi	52,300	26.1%	48,500	0%	51,400	25.6%	64,100	2019	61,800	2020
Executives										
P Cholakos	53,900	26.1%	50,000	0%	53,009	25.6%	66,087	2019	63,700	2020
M Drew ⁽²⁾	-	-	5,500	0%	11,660	25.6%	14,537	2019	56,300	2020
J Fowles	54,900	26.1%	51,000	0%	54,025	25.6%	67,353	2019	64,900	2020
S Gardiner	52,300	26.1%	49,700	0%	52,697	25.6%	67,300	2019	66,800	2020
M Herrett	45,200	26.1%	42,500	0%	45,081	25.6%	56,203	2019	54,200	2020
I Munro	18,700	26.1%	49,400	0%	52,331	25.6%	65,243	2019	62,900	2020
E White ⁽³⁾	15,200	26.1%	13,100	0%	9,819	25.6%	12,242	2019	40,808	2020
K Wulff	-	-	-	-	55,638	25.6%	69,365	2019	66,900	2020

- (1) The vesting date of the 2015 Performance Rights is 18 May 2018. As described above, Oil Search's TSR for the period 1 January 2015 to 31 December 2017 will result in 25.6% vesting.
- (2) Mr Drew was appointed to an Executive General Manager position effective 19 October 2016. The Performance Rights detailed above for 2016 were allocated based on the framework applying to his previous, non-Executive General Manager level, position.
- (3) Ms White was appointed to an Executive General Manager position effective 1 May 2017. The Performance Rights detailed above for 2017 were allocated based on a pro-rata basis using the frameworks applying to her positions during the year.

Corporate Financial Performance

Table 10 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 10 – Oil Search's Five Year Performance

Year Ended 31 December	2013	2014	2015	2016	2017
Net profit/(loss) after tax (US\$m)	205.7	353.2	(39.4)	89.8	302.1
Diluted Earnings per share (US cents)	15.3	23.8	(2.59)	5.89	19.77
Dividends per share (US cents)	4.0	14.0 ⁽¹⁾	10.0	3.50	9.50
Shares Closing price (A\$) ⁽²⁾	\$8.11	\$7.89	\$6.70	\$7.17	\$7.79
Oil Search Three Year TSR (AUD) ⁽³⁾	27.4%	34.7%	6.1%	(12.7%)	(6.9%)

- (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 2012) was \$7.01.
- (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 Gereia Aopi CBE – Executive General Manager Stakeholder Engagement

Incumbent for the full year

Gereia 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. Gereia plays an important role in the interface between the Company and major stakeholders in PNG.

In addition, Gereia 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.

Mr Michael Drew – Executive General Manager & General Counsel

Incumbent for the full year

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 & Marketing

Incumbent for the full year

Ian has responsibility for directing and managing Oil Search’s gas business development strategy, including LNG joint venture commercial strategy and management (PRL3, PRL15 and PNG LNG) negotiation of joint venture agreements to deliver expansion and marketing and shipping of OSH joint and equity volumes from existing and new projects.

Ms Elizabeth (Beth) White – Executive General Manager – Gas Project Delivery

Incumbent from 1 May 2017

Beth is responsible for the development of gas resources in PNG including the delivery of state (gas) agreements, development of PNG gas resources and technical delivery of LNG expansion, commercialisation of smaller gas fields, domestic gas strategy and in-country project interface, coordination and JV management for gas assets.

Dr Keiran Wulff – Executive General Manager – Exploration & New Business

Incumbent for the full year

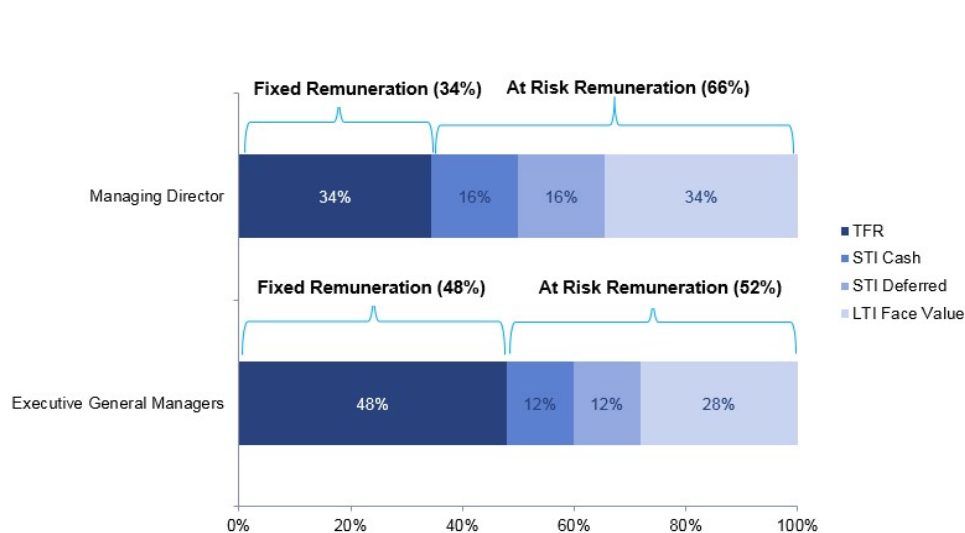
Keiran has responsibility for Oil Search’s exploration programs to grow Shareholder value through exposure to quality exploration projects on a risked basis. Keiran also leads teams in the technical and commercial evaluation of new ventures and business development opportunities.

The remuneration philosophy outlined above is applied consistently to the Company’s Key Management Personnel. The following chart shows the remuneration breakdown for current Key Management Personnel.

2017 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 Chart 5.

Chart 5 – 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.

Realised Remuneration of Key Management Personnel Remuneration (Australian Dollars)

Table 11 below sets out the ‘Realised Remuneration’ of Key Management Personnel for 2016 and 2017 in Australian Dollars. It is included to complement the Statutory Remuneration disclosure and to better illustrate the remuneration received by Executives.

As Oil Search benchmarks (and for all but one Executive) pays remuneration in Australian Dollars, it is difficult for the reader to distinguish annual movements in fixed remuneration from exchange rate movements in the Statutory Remuneration table.

In Table 11, Fixed Remuneration represents the level of Base Pay, Superannuation and expatriate allowances paid to the Executive. The Cash Short Term Incentive is the cash Short Term Incentive earned to the Executive in respect of the year (even though it is paid to the Executive in the March following the year). Deferred STI from Prior Years shows the value on the vesting date of Restricted Shares granted in lieu of Deferred Short Term Incentives from two years prior. The Long Term Incentive vesting in the year is the value of Performance Rights vesting in the year reflecting (a) the portion of awards which satisfies the Total Shareholder Return performance condition and (b) the Oil Search share price on the date of vesting.

These amounts are non-statutory but have been audited.

Table 11 – Realised Remuneration Key Management Personnel Remuneration (Australian Dollars)

	Year	Fixed Remuneration	Cash Short Term Incentive in respect of the Year	Deferred STI from Prior Years	Long Term Incentive vesting in the Year	Other	Total
Directors							
P Botten Managing Director	2017	2,233,168	1,909,359	1,620,728	-	-	5,763,255
	2016	2,189,380	1,970,442	666,382	422,820	-	5,249,024
G Aopi EGM Stakeholder Engagement	2017	729,603	294,012	283,882	-	-	1,307,497
	2016	715,297	339,766	174,173	92,138	-	1,321,374
Executives							
P Cholakos EGM Technical Services	2017	752,547	303,258	304,768	-	-	1,360,573
	2016	737,791	350,451	179,647	94,952	-	1,362,841
M Drew ⁽¹⁾ EGM & General Counsel	2017	665,101	327,579	224,063	-	-	1,216,743
	2016	126,985	60,260	-	-	-	187,245
J Fowles EGM PNG Business Unit	2017	1,456,790 ⁽²⁾	309,070	298,423	-	389,500 ⁽³⁾	2,453,783
	2016	1,428,228	357,167	183,091	96,714	-	2,065,200
S Gardiner Chief Financial Officer & Group Secretary	2017	788,908	388,557	314,863	-	-	1,492,328
	2016	751,341	356,887	174,421	92,138	-	1,374,787
M Herrett EGM Human Resources, Health &	2017	640,003	286,562	259,188	-	-	1,185,753
	2016	627,454	298,041	150,263	79,630	-	1,155,747
I Munro EGM Gas & Marketing	2017	742,932	332,648	312,684	-	-	1,388,264
	2016	728,365	345,974	330,029	32,940	-	1,437,308
E White ⁽³⁾ EGM Gas Project Delivery	2017	432,600	194,490	-	-	-	627,090
	2016	-	-	-	-	-	-
K Wulff EGM Exploration & New Business	2017	789,876	389,033	-	-	-	1,178,909
	2016	774,388	367,835	-	-	-	1,142,223

(1) Remuneration disclosed for Mr Drew for 2016 is for the period 19 October 2016 to 31 December 2016.

(2) Remuneration for Dr Fowles includes a Foreign Service Premium whilst his role is based in PNG

(3) Relates to the vesting of a special award of Restricted Shares on 31 December 2017.

(4) Remuneration disclosed for Ms White for 2017 is for the period 1 May 2017 to 31 December 2017.

For all remuneration reporting stated in US Dollars, the exchange rates set out in Table 12 have been used:

Table 12 – Exchange rates used in the remuneration tables where disclosure is in US Dollars

EXCHANGE RATE	2017	2016
AUD/USD	0.7667	0.7439
PGK/USD	0.3135	0.3193

Table 13 sets out the remuneration of Key Management Personnel for the 2017 Financial Year 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 13 – 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	Restrictd Shares	Sign on / termination benefits	
Directors										
P Botten Managing Director	2017	1,868,510	300,268	1,463,906	15,205	52,460	831,147	1,314,957	-	5,846,453
	2016	1,783,626	206,218	1,465,812	14,478	54,804	776,050	1,206,454	-	5,507,442
G Aopi EGM Stakeholder Engagement	2017	353,166	155,210	225,419	35,380	16,060	169,534	221,378	-	1,176,146
	2016	370,474	154,982	252,752	35,347	16,799	165,082	206,891	-	1,202,327
Executives										
P Cholakos EGM Technical Services	2017	578,299	156,909	232,508	15,205	10,866	174,788	228,353	-	1,396,928
	2016	554,433	171,540	260,700	14,478	10,429	171,667	218,999	-	1,402,246
M Drew ⁽⁷⁾ EGM & General Counsel	2017	481,364	3,407	251,155	18,381	-	66,495	81,157	-	901,959
	2016	97,408	-	44,827	4,237	-	6,027	14,956	-	167,456
J Fowles EGM PNG Business Unit	2017	981,345	-	236,964	-	84,332	178,145	342,190	-	1,822,977
	2016	1,062,459	-	265,697	-	-	174,999	324,290	-	1,827,445
S Gardiner Chief Financial Officer & Group Secretary	2017	603,873	-	297,907	15,205	16,230	177,773	231,004	-	1,341,992
	2016	547,033	-	265,488	14,478	14,578	170,929	224,160	-	1,236,666
M Herrett EGM Human Resources	2017	466,395	-	219,707	20,031	43,735	148,654	198,535	-	1,097,057
	2016	443,575	-	221,713	23,188	-	155,644	188,916	-	1,033,036
I Munro EGM Gas & Marketing	2017	568,339	-	255,041	19,693	-	172,586	225,622	-	1,241,281
	2016	525,709	-	257,370	19,008	-	152,927	254,437	-	1,209,451
E White ⁽⁸⁾ EGM Gas Project Delivery	2017	334,220	1,503	149,115	10,192	31,409	42,796	-	-	569,235
	2016	-	-	-	-	-	-	-	-	-
K Wulff EGM Exploration & New Business	2017	579,745	295,861	298,272	15,205	-	155,192	247,188	-	1,591,463
	2016	584,401	233,528	273,632	14,478	-	80,157	84,537	-	1,270,733

(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 for 2016 is for the period 19 October 2016 to 31 December 2016.

(8) Remuneration disclosed for Ms White for 2017 is for the period 1 May 2017 to 31 December 2017.

Table 14 details the vesting profile of the Short Term Incentives awarded as remuneration to each Director of Oil Search and the Key Management Personnel for 2017. Percentages of STI are based on assuming STI awards at 100% of opportunity.

Table 14 – Analysis of STI Included in Remuneration

	Included in remuneration (US\$) ⁽¹⁾	% of STI Opportunity	Cash	Deferred
Directors				
P Botten	2,927,811	95%	1,463,906	1,463,905
G Aopi	450,838	81%	225,419	225,419
Executives				
P Cholakos	465,015	81%	232,508	232,507
M Drew	502,309	99%	251,155	251,154
J Fowles	473,927	81%	236,963	236,963
S Gardiner	595,813	99%	297,907	297,906
M Herrett	439,413	90%	219,707	219,706
I Munro	510,082	90%	255,041	255,041
E White	298,231	90%	149,116	149,115
K Wulff	596,543	99%	298,272	298,272

(1) The value includes 50% of the STI award paid as cash (as reported in Table 13) as well as the 50% to be deferred via the allocation of Restricted Shares that will vest on 1 January 2019.

7. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

Table 15 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 15 – 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 16 provides details of Performance Rights over ordinary shares in the Company that were granted as remuneration to Key Management Personnel during 2017 and details of Performance Rights that vested during 2017.

Table 16– Details of Performance Rights Granted during 2017

	Number of Rights granted during 2017	Grant Date	Fair value per right (A\$)	Exercise price per right (A\$)	Expiry date
Directors					
P Botten	315,000	22 May 2017	4.68	nil	22 May 2020
G Aopi	61,800	22 May 2017	4.68	nil	22 May 2020
Executives					
P Cholakos	63,700	22 May 2017	4.68	nil	22 May 2020
M Drew	56,300	22 May 2017	4.68	nil	22 May 2020
J Fowles	64,900	22 May 2017	4.68	nil	22 May 2020
S Gardiner	66,800	22 May 2017	4.68	nil	22 May 2020
M Herrett	54,200	22 May 2017	4.68	nil	22 May 2020
I Munro	62,900	22 May 2017	4.68	nil	22 May 2020
E White ⁽¹⁾	40,808	22 May 2017	4.68	nil	22 May 2020
K Wulff	66,900	22 May 2017	4.68	nil	22 May 2020

(1) Ms White was appointed to an Executive General Manager position effective 1 May 2017. The Performance Rights detailed above were allocated based on a pro-rata basis using the frameworks applying to her positions during the year.

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 2017 the earliest exercise date is 22 May 2020.

The deferred component of the 2016 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain Key Management Personnel in 2017. Table 17 sets out the number of Restricted Shares granted during 2017:

Table 17 – Details of Deferred STI granted as Restricted Shares

	Number granted during 2017	Grant Date	Fair value (A\$)	Exercise price (A\$)	Vesting date
Directors					
P Botten ⁽¹⁾	277,966	19 May 2017	7.25	nil	1 January 2019
G Aopi ⁽¹⁾	47,930	19 May 2017	7.25	nil	1 January 2019
Executives					
P Cholakos	49,437	19 May 2017	7.25	nil	1 January 2019
M Drew ⁽²⁾	8,501	19 May 2017	7.25	nil	1 January 2019
J Fowles	50,385	19 May 2017	7.25	nil	1 January 2019
S Gardiner	50,345	19 May 2017	7.25	nil	1 January 2019
M Herrett	42,044	19 May 2017	7.25	nil	1 January 2019
I Munro	48,806	19 May 2017	7.25	nil	1 January 2019
K Wulff	51,890	19 May 2017	7.25	nil	1 January 2019

(1) The allocations for P Botten and G Aopi were approved at the 2017 Annual Meeting.

(2) Mr Drew was appointed to an Executive General Manager position effective 19 October 2016. The Deferred STI granted as Restricted Shares detailed above relates to the STI awarded for the period from 19 October 2016 to 31 December 2016.

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 18 summarises the number of Performance Rights exercised during 2017 and 2016.

Table 18 – Details of the Exercise of Performance Rights

Exercised in 2017	Number of Rights Exercised	Amount paid per share (A\$)
Directors		
P Botten	0	nil
G Aopi	0	nil
Executives		
P Cholakos	0	nil
M Drew	0	nil
J Fowles	0	nil
S Gardiner	0	nil
M Herrett	0	nil

Exercised in 2017	Number of Rights Exercised	Amount paid per share (A\$)
I Munro	0	nil
E White	0	nil
K Wulff	0	nil

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

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 19 and Table 20.

Table 19 – Details of movements of Performance Rights during 2017

Movements during the year									
	Grant Date	Balance at 1 Jan 2017	Rights Granted	Rights Exercised	Rights Lapsed	Balance at 31 Dec 2017	% vested in the year	% forfeited in the year	Financial Year of Vesting
Directors									
P Botten	19/5/14	222,600	-	-	(222,600)	-	-	100%	2017
	18/5/15	236,000	-	-	-	236,000	-	-	2018
	16/5/16	326,900	-	-	-	326,900	-	-	2019
	22/5/17	-	315,000	-	-	315,000	-	-	2020
	Total	785,500	315,000	-	(222,600)	877,900			
G Aopi	19/5/14	48,500	-	-	(48,500)	-	-	100%	2017
	18/5/15	51,400	-	-	-	51,400	-	-	2018
	16/5/16	64,100	-	-	-	64,100	-	-	2019
	22/5/17	-	61,800	-	-	61,800	-	-	2020
	Total	164,000	61,800	-	(48,500)	177,300			
Executives									
P Cholakos	19/5/14	50,000	-	-	(50,000)	-	-	100%	2017
	18/5/15	53,009	-	-	-	53,009	-	-	2018
	16/5/16	66,087	-	-	-	66,087	-	-	2019
	22/5/17	-	63,700	-	-	63,700	-	-	2020
	Total	169,096	63,700	-	(50,000)	182,796			
M Drew	13/10/14	5,500	-	-	(5,500)	-	-	100%	2017
	18/5/15	11,660	-	-	-	11,660	-	-	2018
	16/5/16	14,537	-	-	-	14,537	-	-	2019
	22/5/17	-	56,300	-	-	56,300	-	-	2020
	Total	31,697	56,300	-	(5,500)	82,497			
J Fowles	19/5/14	51,000	-	-	(51,000)	-	-	100%	2017
	18/5/15	54,025	-	-	-	54,025	-	-	2018
	16/5/16	67,353	-	-	-	67,353	-	-	2019
	22/5/17	-	64,900	-	-	64,900	-	-	2020
	Total	172,378	64,900	-	(51,000)	186,278			
S Gardiner	19/5/14	49,700	-	-	(49,700)	-	-	100%	2017
	18/5/15	52,697	-	-	-	52,697	-	-	2018
	16/5/16	67,300	-	-	-	67,300	-	-	2019
	22/5/17	-	66,800	-	-	66,800	-	-	2020
	Total	169,697	66,800	-	(49,700)	186,797			
M Herrett	19/5/14	42,500	-	-	(42,500)	-	-	100%	2017

Movements during the year

	Grant Date	Balance at 1 Jan 2017	Rights Granted	Rights Exercised	Rights Lapsed	Balance at 31 Dec 2017	% vested in the year	% forfeited in the year	Financial Year of Vesting
	18/5/15	45,081	-	-	-	45,081	-	-	2018
	16/5/16	56,203	-	-	-	56,203	-	-	2019
	22/5/17	-	54,200	-	-	54,200	-	-	2020
	Total	143,784	54,200		(42,500)	155,484			
I Munro	19/5/14	49,400	-	-	(49,400)	-	-	100%	2017
	18/5/15	52,331	-	-	-	52,331	-	-	2018
	16/5/16	65,243	-	-	-	65,243	-	-	2019
	22/5/17	-	62,900	-	-	62,900	-	-	2020
	Total	166,974	62,900		(49,400)	180,474			
E White	19/5/14	13,100	-	-	(13,100)	-	-	100%	2017
	18/5/15	9,819	-	-	-	9,819	-	-	2018
	16/5/16	12,242	-	-	-	12,242	-	-	2019
	22/5/17	-	40,808	-	-	40,808	-	-	2020
	Total	35,161	40,808		(13,100)	62,869			
K Wulff	18/5/15	55,638	-	-	-	55,638	-	-	2018
	16/5/16	69,365	-	-	-	69,365	-	-	2019
	22/5/17	-	66,900	-	-	66,900	-	-	2020
	Total	125,003	66,900			191,903			

Table 20 – Details of movements of Restricted Shares

	Grant Date	Balance at 1 Jan 2017	Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Balance at 31 Dec 2017	% vested in the year	% forfeited in the year	Financial Year of Vesting
Directors									
P Botten	18/5/15	226,043	-	(226,043)	-	-	100%	0%	2017
	13/5/16	228,875	-	-	-	228,875	-	-	2018
	19/5/17	-	277,966	-	-	277,966	-	-	2019
	Total	454,918	277,966	(226,043)		506,841			
G Aopi	18/5/15	39,593	-	(39,593)	-	-	100%	0%	2017
	13/5/16	37,766	-	-	-	37,766	-	-	2018
	19/5/17	-	47,930	-	-	47,930	-	-	2019
	Total	77,359	47,930	(39,593)		85,696			
Executives									
P Cholakos	18/5/15	42,506	-	(42,506)	-	-	100%	0%	2017
	13/5/16	38,953	-	-	-	38,953	-	-	2018
	19/5/17	-	49,437	-	-	49,437	-	-	2019
	Total	81,459	49,437	(42,506)		88,390			
M Drew	2/11/15	31,250	-	(31,250)	-	-	100%	0%	2017
	19/5/17	-	8,501	-	-	8,501	-	-	2019
	Total	31,250	8,501	(31,250)		8,501			
J Fowles	2/3/15	50,000	-	(50,000)	-	-	100%	0%	2017
	18/5/15	41,621	-	(41,621)	-	-	100%	0%	2017
	13/5/16	39,700	-	-	-	39,700	-	-	2018
	19/5/17	-	50,385	-	-	50,385	-	-	2019
	Total	131,321	50,385	(91,621)		90,085			
S Gardiner	18/5/15	43,914	-	(43,914)	-	-	100%	0%	2017
	13/5/16	39,178	-	-	-	39,178	-	-	2018
	19/5/17	-	50,345	-	-	50,345	-	-	2019
	Total	83,092	50,345	(43,914)		89,523			
M Herrett	18/5/15	36,149	-	(36,149)	-	-	100%	0%	2017
	13/5/16	34,499	-	-	-	34,499	-	-	2018
	19/5/17	-	42,044	-	-	42,044	-	-	2019
	Total	70,648	42,044	(36,149)		76,543			

Movements during the year

	Grant Date	Balance at 1 Jan 2017	Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Balance at 31 Dec 2017	% vested in the year	% forfeited in the year	Financial Year of Vesting
I Munro	18/5/15	43,610	-	(43,610)	-	-	100%	0%	2017
	13/5/16	38,509	-	-	-	38,509	-	-	2018
	19/5/17	-	48,806	-	-	48,806	-	-	2019
	Total	82,119	48,806	(43,610)	-	87,315			
K Wulff	13/5/16	43,395	-	-	-	43,395	-	-	2018
	19/5/17	-	51,890	-	-	51,890	-	-	2019
	Total	43,395	51,890	-	-	95,285			

Analysis of Movements in Performance Rights and Restricted Shares

Table 21 summarises the movement in value of Performance Rights and Restricted Shares held by each Key Management Personnel during 2017.

Table 21 – 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	2,679,626	226,043	5.54	1,253,011	222,600	5.57	1,240,752
G Aopi	488,905	39,593	5.54	219,474	48,500	5.57	270,335
Executives							
P Cholakos	504,123	42,506	5.54	235,621	50,000	5.57	278,695
M Drew	249,397	31,250	5.66	176,820	5,500	5.57	30,656
J Fowles	513,713	91,621	5.78	529,345	51,000	5.57	284,269
S Gardiner	520,307	43,914	5.54	243,426	49,700	5.57	277,023
M Herrett	428,827	36,149	5.54	200,383	42,500	5.57	236,891
I Munro	497,735	43,610	5.54	241,741	49,400	5.57	275,351
E White	146,425	-	-	-	13,100	5.57	73,018
K Wulff	529,278	-	-	-	-	-	-

(1) The value for awards granted is the fair value at the time of grant for Performance Rights and the closing 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 closing market price of Oil Search shares on the date of trade on the vesting date, or the opening price on the next trading day where the market is closed 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 22 summarises the movements in the numbers of Oil Search Limited shares held by Executive KMP and their personally related entities during 2017.

Table 22– Movements in Executive KMP shareholdings

	Balance at 1 January 2017	Net movement during 2017	Balance at 31 December 2017
Directors			
P Botten	2,368,039	-	2,368,039
G Aopi	474,317	22,906	497,223
Executives			
P Cholakos	271,297	42,506	313,803
M Drew	-	-	-
J Fowles	82,061	24,073	106,134
S Gardiner	387,167	43,914	431,081
M Herrett	46,742	36,239	82,981
I Munro	-	-	-
E White	75,421	-	75,421
K Wulff	8,590	-	8,590

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 which was set by shareholders at the 2013 Annual Meeting.

Remuneration Payable

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

Table 23 sets out the fee structure which has applied since 1 January 2017.

Table 23 – 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 24 outlines the remuneration received by Oil Search Limited directors in 2016 and 2017.

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

Table 24 – 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	2017	1,868,510	300,268	1,463,906	15,205	52,460	831,147	1,314,957	-	5,846,453
Managing Director	2016	1,783,626	206,218	1,465,812	14,478	54,804	776,050	1,206,454	-	5,507,442
G Aopi	2017	353,166	155,210	225,419	35,380	16,060	169,534	221,378	-	1,176,146
EGM Stakeholder Engagement	2016	370,474	154,982	252,752	35,347	16,799	165,082	206,891	-	1,202,327
Non-Executive Directors										
R Lee	2017	418,043	-	-	-	-	-	-	-	418,043
	2016	405,611	-	-	-	-	-	-	-	405,611
KG Constantinou	2017	186,116	-	-	-	-	-	-	-	186,116
	2016	180,582	-	-	-	-	-	-	-	180,582
EJ Doyle	2017	201,450	-	-	-	-	-	-	-	201,450
	2016	158,971	-	-	-	-	-	-	-	158,971
FE Harris	2017	188,800	-	-	-	-	-	-	-	188,800
	2016	-	-	-	-	-	-	-	-	-
A Kantsler	2017	207,201	-	-	-	-	-	-	-	207,201
	2016	201,039	-	-	-	-	-	-	-	201,039
MP Togolo	2017	188,800	-	-	-	-	-	-	-	188,800
	2016	45,796	-	-	-	-	-	-	-	45,796
Former Non-Executive Directors										
KW Spence	2017	165,639	-	-	-	-	-	-	-	165,639
	2016	192,856	-	-	-	-	-	-	-	192,856

Equity Participation for Non-Executive Directors

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

Table 25 summarises the movements in shareholdings of Non-Executive Directors including their personally related entities for the 2017 financial year.

Table 25 – Non-Executive Director shareholdings

	Balance at 1 January 2017	Net movement during 2017	Balance at 31 December 2017
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
MP Togolo	-	-	-
Former Non-Executive Directors			
KW Spence	25,000	-	25,000

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

19 February 2018

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 2017, 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


Matthew Donaldson
Partner
Chartered Accountants

Statements of comprehensive income for the year ended 31 December 2017

	Note	Consolidated		Parent	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Revenue	3	1,446,001	1,235,908	-	-
Cost of sales	4	(715,048)	(770,953)	-	-
Gross profit		730,953	464,955	-	-
Other income		9,969	53,120	-	48,000
Other expenses	5	(105,320)	(137,044)	(13,738)	(677,038)
Profit/(loss) from operating activities		635,602	381,031	(13,738)	(629,038)
Net finance costs	6	(194,728)	(195,999)	(513)	(11)
Profit/(loss) before income tax		440,874	185,032	(14,251)	(629,049)
Income tax (expense)/benefit	7	(138,782)	(95,237)	3,612	(9)
Net profit/(loss) after tax		302,092	89,795	(10,639)	(629,058)
Other comprehensive income					
<i>Items that may be reclassified to profit or loss:</i>					
Foreign currency translation differences for foreign operations		488	1,096	-	-
Total comprehensive income/(loss) for the year		302,580	90,891	(10,639)	(629,058)
		Cents	Cents		
Basic earnings per share	8	19.83	5.90		
Diluted earnings per share	8	19.77	5.89		

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

Statements of financial position as at 31 December 2017

	Note	Consolidated		Parent	
		2017	Restated *	2017	2016
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash and cash equivalents	20(a)	1,015,246	862,748	-	-
Receivables	10	156,315	152,712	582,243	697,389
Inventories	11	95,018	106,817	-	-
Prepayments		20,781	11,761	171	582
Current tax receivable		-	-	1,411	1,411
Total current assets		1,287,360	1,134,038	583,825	699,382
Non-current assets					
Other assets	12	81,157	71,782	-	-
Other financial assets	13	52,045	45,181	-	-
Exploration and evaluation assets	14	1,672,352	1,521,371	83,543	66,017
Oil and gas assets	15	6,535,743	6,646,293	-	-
Other plant and equipment	15	205,701	186,669	-	-
Investments	26	-	-	2,294,804	2,294,804
Deferred tax assets	7	678,140	520,795	27,034	23,827
Total non-current assets		9,225,138	8,992,091	2,405,381	2,384,648
Total assets		10,512,498	10,126,129	2,989,206	3,084,031
Current liabilities					
Payables	16	199,154	161,647	22,275	24,470
Provisions	17	29,033	17,912	486	-
Borrowings	18	334,130	315,875	-	-
Current tax payable		64,459	56,403	-	-
Total current liabilities		626,776	551,837	22,761	24,470
Non-current liabilities					
Payables	16	24,787	19,717	-	-
Provisions	17	584,720	384,299	10,406	2,435
Borrowings	18	3,424,776	3,758,906	-	-
Deferred tax liabilities	7	913,685	686,054	-	385
Total non-current liabilities		4,947,968	4,848,976	10,406	2,820
Total liabilities		5,574,744	5,400,813	33,167	27,290
Net assets		4,937,754	4,725,316	2,956,039	3,056,741
Shareholders' equity					
Share capital	19	3,152,443	3,147,340	3,152,443	3,147,340
Reserves	19	(6,434)	(10,769)	4,691	843
Retained earnings/(losses)		1,791,745	1,588,745	(201,095)	(91,442)
Total shareholders' equity		4,937,754	4,725,316	2,956,039	3,056,741

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

* Relates to a reclassification between non-current assets. Refer to note 13 to the financial statements.

Statements of cash flows for the year ended 31 December 2017

	Note	Consolidated		Parent	
		2017	2016	2017	2016
		Restated*			
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers and third parties		1,465,420	1,203,846	-	48,199
Payments to suppliers and employees		(361,206)	(397,512)	(6,900)	(35,036)
Interest received		13,028	6,986	-	152
Borrowing costs paid		(199,326)	(193,986)	(512)	(163)
Income tax paid		(59,749)	(41,301)	-	-
Payments for exploration and evaluation - seismic, G&A, G&G		(13,987)	(20,955)	(479)	(269)
Payments for site restoration		(598)	(1,962)	-	-
Net cash from/(used in) operating activities	20(b)	843,582	555,116	(7,891)	12,883
Cash flows from investing activities					
Payments for other plant and equipment		(38,120)	(11,958)	-	-
Payments for exploration and evaluation		(157,292)	(142,869)	(5,894)	(6,611)
Payments for oil and gas development assets		(21,117)	(34,779)	-	-
Payments for producing assets		(38,226)	(35,687)	-	-
Payments made in respect of power asset		(10,231)	-	-	-
Advances made to third party in respect of investing activities		(2,340)	(3,480)	-	-
Net cash used in investing activities		(267,326)	(228,773)	(5,894)	(6,611)
Cash flows from financing activities					
Dividend payments		(99,014)	(76,135)	(99,014)	(76,135)
Purchase of treasury shares		-	(4,722)	-	(4,722)
Contributions received for employee share schemes		1,821	1,051	-	-
Repayment of borrowings		(313,918)	(289,255)	-	-
Loan provided to third party		(2,340)	(3,480)	-	-
Establishment fee on credit facility		(8,350)	-	-	-
Finance lease payments		(1,957)	(1,533)	-	-
Loans from/(to) related entities		-	-	112,799	(28,875)
Net cash (used in)/from financing activities		(423,758)	(374,074)	13,785	(109,732)
Net increase/(decrease) in cash and cash equivalents		152,498	(47,731)	-	(103,460)
Cash and cash equivalents at the beginning of the year		862,748	910,479	-	103,460
Cash and cash equivalents at the end of the year	20(a)	1,015,246	862,748	-	-

The statements of cash flows should be read in conjunction with the accompanying notes.

*Relates to a reclassification of cash flows from investing activities to cash flows from financing activities in relation to the item presented in note 13 to the financial statements.

Statements of changes in equity for the year ended 31 December 2017

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 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
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	-	1,096	-	-	-	1,096
Total comprehensive loss 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
Balance at 1 January 2017	3,147,340	(17,645)	(250)	7,126	1,588,745	4,725,316
Dividends provided for or paid	-	-	-	-	(99,014)	(99,014)
Total comprehensive income for the year						
Net profit after tax for the year	-	-	-	-	302,092	302,092
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	-	488	-	-	-	488
Total comprehensive profit for the year	-	488	-	-	302,092	302,580
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	9,016	(9,016)	-	-
Employee share-based remuneration	-	-	-	8,950	-	8,950
Shares issued for the share purchase plan	5,103	-	(5,103)	-	-	-
Trust distribution	-	-	-	-	(78)	(78)
Total transactions with owners	5,103	-	3,913	(66)	(78)	8,872
Balance at 31 December 2017	3,152,443	(17,157)	3,663	7,060	1,791,745	4,937,754

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 2017 (continued)

Parent	Share capital \$'000	Amalgamation reserve \$'000	Reserve for treasury shares \$'000	Employee equity compensation reserve \$'000	Retained earnings/ (losses) \$'000	Total \$'000
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 income 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
Balance at 1 January 2017	3,147,340	(2,990)	2,370	1,463	(91,442)	3,056,741
Dividends provided for or paid	-	-	-	-	(99,014)	(99,014)
Total comprehensive income for the year						
Net loss after tax for the year	-	-	-	-	(10,639)	(10,639)
Total comprehensive loss for the year	-	-	-	-	(10,639)	(10,639)
Transactions with owners, recorded directly in equity						
Transfer of vested shares	-	-	9,016	(9,016)	-	-
Employee share-based remuneration	-	-	-	8,950	-	8,950
Shares issued for the share purchase plan	5,103	-	(5,103)	-	-	-
Net exchange differences	-	-	-	1	-	1
Total transactions with owners	5,103	-	3,913	(65)	-	8,951
Balance at 31 December 2017	3,152,443	(2,990)	6,283	1,398	(201,095)	2,956,039

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 2017 comprises the parent entity and its controlled entities (together, 'the Group').

The financial statements were authorised for issue by the Board of Directors on 19 February 2018.

(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

Amendments to IAS 7 Statement of Cash Flows was adopted from 1 January 2017. Additional disclosures were added to enable users of the financial statements to evaluate changes in liabilities and financial assets from financing activities.

There have been no other new standards or amendments that were mandatory for adoption for the year ended 31 December 2017.

(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 2018 or later:

• 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.

• IFRS 16 Leases – effective 1 January 2019

IFRS 16 Leases supersedes existing accounting guidance contained under IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease and related interpretations. IFRS 16 provides a single lessee accounting model requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. New disclosures are also introduced.

IFRS 16 is effective for annual reporting periods commencing on or after 1 January 2019, making it will be effective for the Group's financial statement for half year ending 30 June 2019.

During 2017, the Group conducted a comprehensive review across all company contracts for any unidentified lease arrangements and has commenced the same across its joint operations that are operated by others.

The Group has not yet determined the extent its lease commitments will result in the recognition of an asset and a liability for future payments and the impact this will have on the Group's financial statements. Upon completion of this assessment the Group will decide on the transition method it will adopt.

(b) Principles of consolidation

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

(i) Business combinations

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

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

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

(ii) Subsidiaries

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

(iii) Joint arrangements

Exploration, development and production activities of the Group are primarily carried on through joint arrangements with

other parties. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they comprise investments in joint operations.

Joint operations

The Group has accounted for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 26.

(c) Currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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 and 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 expensed in the relevant year, with any excess consideration received accounted for as a reduction to the previously capitalised amounts. If the consideration received is in excess of current year expense and capitalised amounts, the excess is recorded 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, excluding rigs, 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%

The depreciation on rigs is computed using drilling days based on a ten 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 or capitalised against a qualifying project over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

(q) Critical accounting estimates and assumptions

In applying the Group's accounting policies, management regularly evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All

judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from those judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Impairment of assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Market values are also referenced where appropriate. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment is disclosed in notes 14 to 15.

Restoration obligations

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

The carrying amount of the provision for restoration is disclosed in note 17.

Reserve estimates

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

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 Securities Exchange Listing Rules.

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(i). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having

capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income.

The carrying amount of exploration and evaluation assets is disclosed in note 14.

Classification of joint arrangements

Exploration, development and production activities of the Group are conducted primarily through arrangements with other parties. Each arrangement has a contractual agreement which provides the participating parties rights to the assets and obligations for the liabilities of the arrangement. Under certain agreements, more than one combination of participants can make decisions about the relevant activities and therefore joint control does not exist. Where the arrangement has the same legal form as a joint operation but is not subject to joint control, the Group accounts for its interest in accordance with the contractual agreement by recognising its share of jointly held assets, liabilities, revenues and expenses of the arrangement.

The Group's interest in joint operations is disclosed in note 26(b). The Group's interest in other arrangements with same legal form as a joint operation but that are not subject to joint control are disclosed in note 26(c).

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.

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 mainly in Papua New Guinea.

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.

\$'000	PNG BU		Exploration		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
External revenues	1,426,719	1,208,350	-	-	19,282	27,558	1,446,001	1,235,908
Costs of production	(294,385)	(296,046)	-	-	-	-	(294,385)	(296,046)
Selling and distribution costs	(45,071)	(41,820)	-	-	(1,018)	(966)	(46,089)	(42,786)
Rig operating costs	-	-	-	-	(1,656)	(4,314)	(1,656)	(4,314)
Corporate	-	-	-	-	(28,988)	(41,962)	(28,988)	(29,628)
Foreign currency gains/(losses)	-	-	-	-	(7)	1,287	(7)	1,287
Power costs expensed	-	-	-	-	(6,097)	(8,326)	(6,097)	(8,326)
Loss on obsolescence and disposal of asset	(7,402)	-	-	-	(856)	(44)	(8,258)	(44)
Other income ¹	2,915	3,641	-	-	7,054	1,479	9,969	5,120
Other expenses ²	(123)	-	-	-	(18,266)	3,366	(18,389)	(8,968)
EBITDAX	1,082,653	874,125	-	-	(30,552)	(21,922)	1,052,101	852,203
Depreciation and amortisation	(369,273)	(419,793)	-	-	(11,298)	(16,909)	(380,571)	(436,702)
Proposed InterOil acquisition ³	-	-	-	-	-	18,694	-	18,694
Exploration costs expensed	-	-	(35,928)	(53,164)	-	-	(35,928)	(53,164)
EBIT	713,380	454,332	(35,928)	(53,164)	(41,850)	(20,137)	635,602	381,031
Net finance costs	(184,394)	(179,502)	-	-	(10,334)	(16,497)	(194,728)	(195,999)
Profit/(loss) before income tax							440,874	185,032
Income tax expense							(138,782)	(95,237)
Net profit/(loss) after tax							302,092	89,795
Capital expenditure								
Exploration and evaluation assets	-	-	169,522	151,761	-	-	169,522	151,761
Oil and gas assets - development and production	70,756	47,861	-	-	-	-	70,756	47,861
Other plant and equipment	-	-	-	-	37,341	17,927	37,341	17,927
	70,756	47,861	169,522	151,761	37,341	17,927	277,619	217,549

¹ Excludes the break-fee related to the InterOil transaction of \$48.0 million in 2016.

² Excludes InterOil acquisition-related costs of US\$29.3 million in 2016.

³ Break-fee related to the InterOil transaction of US\$48.0 million net of acquisition related costs of US\$29.3 million in 2016.

The difference between capital expenditure above for the year ended 31 December 2016 and asset additions in note 15 relate to finance leased assets recognised 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.

\$'000	Revenue		Non-current assets ⁽¹⁾	
	2017	2016	2017	2016
PNG	1,446,001	1,235,908	8,364,394	8,328,635
Australia	-	-	54,886	26,435
Other	-	-	127,718	116,226
Total	1,446,001	1,235,908	8,546,998	8,471,296

(1) Non-current assets exclude deferred taxes of \$678.1 million (2016: \$520.8 million).

Major customers

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

Revenue from one customer represents approximately \$260.0 million or 18% of the Group's total revenue (2016: \$236.5 million, 19%).

Revenue from one customer represents approximately \$233.7 million or 16% of the Group's total revenue (2016: \$100.9 million, 8%).

Revenue from one customer represents approximately \$225.4 million or 15% of the Group's total revenue (2016: \$198.9 million, 16%).

Revenue from one customer represents approximately \$206.3 million or 14% of the Group's total revenue (2016: \$132.5 million, 11%).

Revenue from one customer represents approximately \$186.3 million or 13% of the Group's total revenue (2016: \$143.1 million, 12%).

3 Revenue

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Liquefied natural gas sales	952,629	759,034	-	-
Oil and condensate sales	394,944	383,136	-	-
Gas sales	40,444	33,841	-	-
Other revenue	57,984	59,897	-	-
Total revenue	1,446,001	1,235,908	-	-

4 Cost of sales

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<i>Costs of production:</i>				
Production costs	(262,813)	(257,104)	-	-
Royalties and levies	(10,535)	(5,432)	-	-
Gas purchases	(18,157)	(14,652)	-	-
Inventory movements	(2,880)	(18,858)	-	-
	(294,385)	(296,046)	-	-
Selling and distribution costs	(46,089)	(42,786)	-	-
Rig operating costs	(1,656)	(4,314)	-	-
<i>Depreciation and amortisation</i>				
Oil and gas assets	(362,221)	(413,791)	-	-
Marine assets	(7,051)	(6,002)	-	-
Rig assets	(3,646)	(8,014)	-	-
Total cost of sales	(715,048)	(770,953)	-	-

5 Other expenses

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Corporate ⁽¹⁾	(28,988)	(29,628)	(5,660)	(7,754)
Exploration costs expensed	(35,928)	(53,164)	(479)	(269)
Power costs expensed	(6,097)	(8,326)	-	-
Acquisition related expenses	-	(29,306)	(28)	(29,394)
Impairment	-	-	(6,580)	(640,965)
Depreciation	(7,653)	(8,895)	-	-
Loss on obsolescence and disposal of assets	(8,258)	(44)	-	-
Donations	(13,207)	(12,334)	-	-
Other	(5,182)	3,366	(991)	90
Foreign currency gain/(loss)	(7)	1,287	-	1,254
Total other expenses	(105,320)	(137,044)	(13,738)	(677,038)

⁽¹⁾ Includes business development costs of \$3.2 million (2016: \$6.8 million) on a consolidated basis.

6 Net finance costs

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Interest income	17,495	10,837	-	152
Finance leases	(17,975)	(15,232)	-	-
Borrowing costs	(184,135)	(181,467)	(513)	(163)
Unwinding of discount on site restoration	(10,113)	(10,137)	-	-
Net finance costs	(194,728)	(195,999)	(513)	(11)

7 Income tax

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
The major components of tax expenses are:				
Current tax expense	(18,127)	(9,766)	-	-
Adjustments for current tax of prior periods	(419)	5,084	(135)	548
Deferred tax (expense)/income	(120,236)	(90,555)	3,747	(557)
Income tax (expense)/benefit	(138,782)	(95,237)	3,612	(9)
Reconciliation of income tax expense to prima facie tax payable:				
Profit/(loss) before tax	440,874	185,032	(14,251)	(629,049)
Tax at PNG rate for gas and non-oil (30%)	(132,263)	(55,510)	4,276	188,715
Remeasurement of deferred tax balances	-	(34,964)	-	-
Additional Profits Tax payable	(16,880)	-	-	-
Effect of differing tax rates across tax regimes	1,643	(8,363)	-	-
	(147,500)	(98,837)	4,276	188,715
Tax effect of items not tax deductible or assessable:				
Over provisions in prior periods	15	5,084	(135)	548
Non-deductible expenditure	(2,528)	(7,499)	(2,570)	(193,450)
Non-assessable income	244	1,818	-	210
Reinstatement of deferred tax assets	10,987	4,187	2,041	3,968
Exempt dividends	-	10	-	-
Income tax (expense)/benefit	(138,782)	(95,237)	3,612	(9)
Deferred tax (expense)/income recognised in net profit/(loss) for each type of temporary difference:				
Exploration, development and production	(191,815)	(89,943)	(2,159)	220
Other assets	1,973	3,364	-	-
Provisions and accruals	59,413	(844)	2,671	156
Other items	(1,035)	(2,236)	386	(933)
Tax losses	11,228	(896)	2,849	-
Deferred tax (expense)/income	(120,236)	(90,555)	3,747	(557)

7 Income tax (continued)

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Deferred tax assets				
Temporary differences:				
Exploration, development and production	229,312	197,366	20,981	23,160
Other assets	3,488	1,205	-	-
Provisions	226,265	168,203	3,204	667
Other differences	29	7	-	-
Tax losses recognised	12,885	7	2,849	-
Tax credits	206,161	154,007	-	-
	678,140	520,795	27,034	23,827
Deferred tax liabilities				
Temporary differences:				
Exploration, development and production	870,679	645,153	-	-
Prepayments and receivables	-	95	-	385
Other assets	42,913	40,420	-	-
Other differences	93	386	-	-
	913,685	686,054	-	385

8 Earnings per share

	Consolidated	
	2017 cents	2016 cents
Basic earnings per share	19.83	5.90
Diluted earnings per share	19.77	5.89
	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	1,523,268,608	1,522,692,587
Employee share rights	1,504,143	1,092,703
Employee performance rights	3,163,920	1,978,847
Diluted earnings per share	1,528,303,040	1,525,764,137

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of \$302.1 million (2016: \$89.8 million). There are 1,504,143 share rights (2016: 1,092,703) and 3,163,920 performance rights (2016: 1,978,847) 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 2017, the Restricted Share Plan Trust held 347 (2016: 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.

9 Dividends paid or proposed

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividend ⁽²⁾	83,800	38,067	83,800	38,067
	83,800	38,067	83,800	38,067
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	38,067	60,908	38,067	60,908
Ordinary – current year interim ⁽³⁾	60,947	15,227	60,947	15,227
	99,014	76,135	99,014	76,135

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

⁽²⁾ On 19 February 2018, the Directors declared a final unfranked dividend of US 5.5 cents per ordinary share for the current year (2016: US 2.5 cents final dividend) to be paid on 29 March 2018. The proposed final dividend for 2017 is payable to all holders of ordinary shares on the Register of Members on 7 March 2018 (record date). The proposed final dividend has not been included as a liability in these financial statements.

⁽³⁾ On 21 August 2017, the Directors declared an interim unfranked dividend of US 4 cents per ordinary share (2016: US 1 cent interim dividend), paid to the holders of ordinary shares on 6 September 2017.

10 Receivables

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Trade debtors ⁽¹⁾⁽²⁾	119,536	117,312	-	-
Other debtors ⁽¹⁾	36,779	35,400	-	-
Amounts due from subsidiary entities ⁽³⁾	-	-	582,243	697,389
	156,315	152,712	582,243	697,389

(1) During 2017, no current receivables have been determined to be impaired and no related impairment loss has been charged to the statement of comprehensive income (2016: nil).

(2) Credit sales are on payment terms between 8 and 30 days.

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

11 Inventories

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Materials and supplies	82,537	91,455	-	-
Petroleum products	12,481	15,362	-	-
	95,018	106,817	-	-

12 Other Assets

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Non-current				
Deposits	2,570	2,025	-	-
Prepayments - other	6,941	451	-	-
Prepayments made to third party ⁽¹⁾	71,646	69,306	-	-
	81,157	71,782	-	-

(1) Refer to note 13 Other financial assets for further explanation.

13 Other financial assets

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Non-current				
Loan receivable	52,045	45,181	-	-

The loan receivable relates to cash advanced by Oil Search to an Exploration and Production (E&P) company under a farm-in arrangement in respect of an exploration licence containing discovered oil resources. The farm-in remains subject to government approvals and confidentiality. Interest on the loan is calculated at the lesser of 10% per annum or LIBOR plus 7.5%. The loan receivable is payable out of future production cash flows from the licence.

The asset is not past due or impaired at the end of the reporting period.

As at 31 December 2017, the group has reclassified advances made to the E&P company as non-current prepayments under Other Assets to more appropriately reflect the nature of the funding arrangements. The future classification of these prepayments is subject to either government approval for Oil Search to farm-in to the exploration licence or the exercise of an option permitting Oil Search to acquire an equity interest in the issued share capital of the E&P company. The comparatives as a result of this reclassification have also been restated.

The reclassification resulted in a decrease in non-current other financial assets by \$69.3 million with a corresponding increase to non-current other assets as at 31 December 2016.

As at 31 December 2015 the reclassification would result in a decrease in non-current other financial assets of \$65.3 million with a corresponding increase to non-current other assets.

There are no other changes to balances as reported in 2015 and 2016.

14 Exploration and evaluation assets

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
At cost	2,318,816	2,167,835	107,336	89,810
Less impairment	(646,464)	(646,464)	(23,793)	(23,793)
	1,672,352	1,521,371	83,543	66,017
Balance at start of year	1,521,371	1,420,651	66,017	60,260
Additions	169,522	151,761	9,548	6,009
Exploration costs expensed	(35,928)	(53,164)	(479)	(269)
Changes in restoration obligations	16,748	2,205	8,457	17
Net exchange differences	639	(82)	-	-
Impairment	-	-	-	-
Balance at end of year	1,672,352	1,521,371	83,543	66,017

Exploration and evaluation assets include \$1,054.5 million (2016: \$1,055.9 million) of licence acquisition costs that are classified as intangible assets.

15 Property, plant and equipment

	Consolidated Oil and gas			Consolidated Other plant and equipment			
	Development \$'000	Producing \$'000	Total \$'000	Marine \$'000	Rigs \$'000	Corporate \$'000	Total \$'000
2017							
At cost	28,961	9,139,795	9,168,756	138,020	88,198	177,209	403,427
Accumulated amortisation, depreciation and impairment	-	(2,633,013)	(2,633,013)	(17,033)	(69,495)	(111,198)	(197,726)
	28,961	6,506,782	6,535,743	120,987	18,703	66,011	205,701
Balance at 1 January 2017	-	6,646,293	6,646,293	128,038	18,630	40,001	186,669
Additions	30,103	40,653	70,756	-	4,153	33,188	37,341
Transfers	(1,142)	1,142	-	-	-	-	-
Disposals	-	-	-	-	(434)	(509)	(943)
Changes in restoration obligations	-	180,915	180,915	-	-	61	61
Net exchange differences	-	-	-	-	-	923	923
Amortisation and depreciation	-	(362,221)	(362,221)	(7,051)	(3,646)	(7,653)	(18,350)
Balance at 31 December 2017	28,961	6,506,782	6,535,743	120,987	18,703	66,011	205,701
2016							
At cost	-	8,917,085	8,917,085	138,020	84,479	143,546	366,045
Accumulated amortisation, depreciation and impairment	-	(2,270,792)	(2,270,792)	(9,982)	(65,849)	(103,545)	(179,376)
	-	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

16 Payables

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Payables and accruals ⁽¹⁾	194,160	156,921	22,275	24,470
Deferred lease liability	4,994	4,726	-	-
	199,154	161,647	22,275	24,470
Non-current				
Other payables	11,636	7,643	-	-
Deferred lease liability	13,151	12,074	-	-
	24,787	19,717	-	-

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

17 Provisions

		Consolidated		Parent	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current					
Employee entitlements	(i)	6,908	5,882	-	-
Site restoration	(ii)	21,915	11,822	486	-
Other provisions		210	208	-	-
		29,033	17,912	486	-
Non-current					
Employee entitlements	(i)	11,952	10,183	-	-
Site restoration	(ii)	572,242	373,432	10,406	2,435
Other provisions		526	684	-	-
		584,720	384,299	10,406	2,435

(i) Movement in employee entitlements provision

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance at start of year	16,065	16,734	-	-
Additional provision recognised	11,808	10,742	-	-
Provision utilised	(9,013)	(11,411)	-	-
Balance at end of year	18,860	16,065	-	-

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 and PNG and MENA. These amounts are payable in the normal course of business, either when leave is taken or on termination of employment.

(ii) Movement in site restoration provision

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance at start of year	385,254	391,315	2,435	2,418
Change in provision	202,204	(8,795)	8,457	17
Provision utilised	(598)	(1,990)	-	-
Excess provision released	(2,816)	(5,413)	-	-
Unwinding of discount	10,113	10,137	-	-
Balance at end of year	594,157	385,254	10,892	2,435

These provisions are related to the estimated costs of restoring wells, facilities and infrastructure 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.

18 Borrowings

	Consolidated		Parent	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Current				
Finance lease	2,229	1,957	-	-
Secured loan from joint operation ⁽¹⁾	331,901	313,918	-	-
	334,130	315,875	-	-
Non-current				
Finance lease	131,219	133,448	-	-
Secured loan from joint operation ⁽¹⁾	3,293,557	3,625,458	-	-
	3,424,776	3,758,906	-	-

⁽¹⁾ Details regarding borrowings are contained in Note 27(f).

19 Share capital and reserves

	Consolidated		Parent	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Issued 1,523,631,192 (2016: 1,522,692,587) Ordinary shares, fully paid (no par value)	3,152,443	3,147,340	3,152,443	3,147,340
Reserves at the end of the year				
Foreign currency translation reserve	(17,157)	(17,645)	-	-
Amalgamation reserve	-	-	(2,990)	(2,990)
Reserve for treasury shares	3,663	(250)	6,283	2,370
Employee equity compensation reserve	7,060	7,126	1,398	1,463
	(6,434)	(10,769)	4,691	843

- ⁽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.

20 Statement of cash flows

	Consolidated		Parent	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
(a) Cash and cash equivalents				
Cash at bank and on hand ⁽¹⁾⁽²⁾	383,219	104,769	-	-
Share of cash in joint operations	11,627	24,258	-	-
Interest-bearing short-term deposits	620,400	733,721	-	-
	1,015,246	862,748	-	-

⁽¹⁾ Includes \$275.4 million (2016: \$261.7 million) escrowed in the PNG LNG Project account. Refer to Note 27 for further details.

⁽²⁾ Includes \$12.0 million (2016: \$10.1 million) in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the \$600 million revolving facility agreement.

20 Statement of cash flows (continued)

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
(b) Reconciliation of cash flows from operating activities				
Net profit/(loss) after tax	302,092	89,795	(10,639)	(629,058)
Add/(deduct):				
Exploration costs expensed ⁽¹⁾	21,941	32,209	-	-
Impairment expense	-	-	6,580	640,965
Stock obsolescence and disposal of assets	8,258	44	-	-
Depreciation and amortisation	380,571	436,702	-	-
Unwinding of site restoration discount	10,113	10,137	-	-
Employee share-based remuneration	8,950	5,831	-	-
Exchange (gain)/losses - unrealised	(1,074)	1,219	-	-
Movement in tax provisions	78,342	53,776	(3,592)	583
(Increase)/decrease in receivables	(4,118)	(76,156)	(39)	809
(Increase)/decrease in inventories	395	14,990	-	-
Increase/(decrease) in payables	42,649	(4,714)	(130)	(668)
(Increase)/decrease in current and non-current assets	(8,792)	(1,154)	(71)	252
Increase/(decrease) in provisions	4,255	(7,563)	-	-
	541,490	465,321	2,748	641,941
Net cash from/(used in) operating activities	843,582	555,116	(7,891)	12,883

⁽¹⁾ Exploration costs expensed totalled \$35.9 million (2016: \$53.2 million), of which \$21.9 million (2016: \$32.2 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	
	2017 \$'000	2016 \$'000
Acquisition of marine assets by means of finance lease	-	62,919

(d) Changes in liabilities and financial assets from financing activities

Consolidated	2016 \$'000	Cash (outflows) / inflows \$'000	Non-cash changes			2017 \$'000
			Acquisition \$'000	Fair value changes \$'000	Other changes \$'000	
Liabilities with cash flows from financing activities						
Borrowings	3,939,376	(313,918)	-	-	-	3,625,458
Lease liabilities	135,405	(1,957)	-	-	-	133,448
	4,074,781	(315,875)	-	-	-	3,758,906
Financial assets with cash flows from financing activities						
Loan receivable	(45,181)	(2,340)	-	-	(4,524)	(52,045)
Contributions receivable for employee share scheme	(3,492)	1,821	-	-	(2,894)	(4,565)
	(3,492)	1,821	-	-	(2,894)	(4,565)
Parent						
Financial assets with financing activities cash flows						
Loans (to)/from related entities	(672,919)	112,799	-	-	(1,378)	(559,968)
	(672,919)	112,799	-	-	(1,378)	(559,968)

21 Employee benefits and share-based payments

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Salaries and short-term benefits	145,221	133,579	-	-
Post-employment benefits	4,473	4,256	-	-
Employee share-based payments	8,950	5,831	-	-
Total	158,644	143,666	-	-

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 924 (2016: 876) employees participating in the Employee Share Rights.

	2017	2016	2015	2014	2013
Grant date	22 May 2017	16 May 2016	18 May 2015	19 May 2014	20 May 2013
Share price at grant date	A\$7.38	A\$6.70	A\$8.15	A\$9.04	A\$8.04
Fair value	A\$7.14	A\$6.61	A\$6.86	A\$8.46	A\$1.67
Exercise date	17 May 2020	17 May 2019	18 May 2018	19 May 2017	13 May 2016
Exercise price	A\$nil	A\$nil	A\$nil	A\$nil	A\$7.82
Number of awards					
Balance as at 1 Jan 2017	-	648,396	474,597	374,716	-
Granted during year	717,446	-	-	-	-
Forfeited during year	(29,356)	(55,102)	(45,173)	(16,693)	-
Exercised during year	-	-	-	(358,023)	-
Balance at 31 Dec 2017	688,090	593,294	429,424	-	-
Avg. share price at date of exercise	-	-	-	A\$7.25	-
Balance 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	-	-	-	-	-

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

	2017	2016	2015	2014	2013
Volatility	28%	30%	30%	20%	25%
Dividend yield	1.1%	0.70%	2.2%	2.2%	0.48%
Risk-free interest rate	1.76%	1.57%	2.1%	2.85%	2.53%

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.

From 2017 onwards, the portion of awards tested against Global Energy Index increased to 66% (2016: 50%), while the portion of the awards tested against the ASX 50 decreased to 33% (2016: 50%)

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, 50% of the performance rights granted will vest;
- greater than median and less than the 75th percentile, the number of PRs that vest will increase on a straight line basis from 50% to 100% of the total number of PRs comprised in that part of the award; or
- equal to or greater than the 75th percentile, the number of PRs that vest will be 100% of the total number of PRs comprised in that part of the award.

21 Employee benefits and share-based payments (continued)

Performance Rights Plan (continued)

The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 49 (2016: 44) employees participating in the Performance Rights Plans.

	2017	2016	2015	2014	2013
Grant date	22 May 2017	16 May 2016	18 May 2015	19 May 2014	24 May 2013
Share price at grant date	A\$7.38	A\$6.75	A\$8.15	A\$9.04	A\$8.16
Fair value	A\$4.68	A\$3.59	A\$3.00	A\$5.59	A\$5.28
Exercise date	22 May 2020	17 May 2019	18 May 2018	19 May 2017	20 May 2016
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of rights					
Balance at 1 January 2017	-	1,142,370	917,384	797,600	-
Granted during year	1,184,700	-	-	-	-
Forfeited during year	-	(15,054)	(28,312)	(797,600)	-
Exercised during year	-	-	-	-	-
Balance at 31 December 2017	1,184,700	1,127,316	889,072	-	-
Average share price at date of exercise	-	-	-	-	-
Balance at 1 January 2016	-	-	1,020,494	876,265	1,525,484
Granted during year	-	1,154,612	-	-	-
Forfeited during year	-	(12,242)	(102,110)	(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
Volatility					
	28%	30%	30%	20%	25%
Dividend yield					
	1.1%	0.70%	2.2%	2.2%	0.48%
Risk-free interest rate					
	1.76%	1.57%	2.1%	2.85%	2.60%

21 Employee benefits and share based-payments (continued)

Restricted Share Plan

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

Restricted shares are granted under the plan in two situations. Firstly, 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 10 (2016: 12) employees participating in the Restricted Share Plan.

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

Executives	2017	2016	2016	2016	2016	2015	2015	2015	2014	2014
Grant date	19 May 2017	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
Share price at grant date	A\$7.25	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
Exercise date	1 Jan 2019	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
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 2017	-	13,380	20,070	33,450	539,331	31,250	513,752	50,000	-	-
Granted during year	627,304	-	-	-	-	-	-	-	-	-
Forfeited during year	-	-	-	-	-	-	-	-	-	-
Vested during year	-	(13,380)	-	-	-	(31,250)	(513,752)	(50,000)	-	-
Balance at 31 December 2017	627,304	-	20,070	33,450	539,331	-	-	-	-	-
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	-	-
Executives	2014	2014	2014							
Grant date	19 May 2014	19 May 2014	10 Jan 2014							
Share price at grant date	A\$8.80	A\$7.92	A\$7.72							
Exercise date	1 Jan 2016	1 Jan 2016	24 Feb 2016							
Exercise price	\$A nil	\$A nil	\$A nil							
Number of shares										
Balance at 1 January 2017	-	-	-							
Granted during year	-	-	-							
Forfeited during year	-	-	-							
Vested during year	-	-	-							
Balance at 31 December 2017	-	-	-							
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	-	-	-							

22 Key management personnel remuneration

Directors' and executive remuneration

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

	Directors'		Executives	
	2017 \$	2016 \$	2017 \$	2016 \$
Short-term benefits	5,922,528	5,751,568	6,991,929	6,640,175
Long-term benefits	68,520	71,603	186,572	42,011
Post-employment benefits	50,585	49,825	113,912	126,036
Share-based payments	2,537,016	2,354,477	2,670,478	2,496,204
Termination benefits	-	-	-	541,831
	8,578,649	8,227,473	9,962,891	9,846,257

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	-	-	-	-
\$130,000 – \$139,999	-	1	-	-
\$150,000 – \$159,999	-	1	-	-
\$160,000 – \$169,999	1	-	-	1
\$170,000 – \$179,999	-	-	-	-
\$180,000 – \$189,999	3	1	-	-
\$190,000 – \$199,999	-	2	-	-
\$200,000 – \$209,999	2	1	-	-
\$390,000 – \$399,999	-	-	-	-
\$400,000 – \$409,999	-	1	-	-
\$410,000 – \$419,999	1	-	-	-
\$560,000 – \$569,999	-	-	1	-
\$900,000 – \$909,999	-	-	1	-
\$960,000 – \$969,999	-	-	-	-
\$970,000 – \$979,999	-	-	-	-
\$1,030,000 – \$1,039,999	-	-	-	1
\$1,090,000 – \$1,099,999	-	-	1	-
\$1,130,000 – \$1,139,999	-	-	-	-
\$1,140,000 – \$1,149,999	-	-	-	-
\$1,170,000 – \$1,179,999	1	-	-	-
\$1,200,000 – \$1,209,999	-	1	-	1
\$1,230,000 – \$1,239,999	-	-	-	1
\$1,240,000 – \$1,249,999	-	-	1	-
\$1,270,000 – \$1,279,999	-	-	-	1
\$1,340,000 – \$1,349,999	-	-	1	-
\$1,380,000 – \$1,389,999	-	-	-	-
\$1,390,000 – \$1,399,999	-	-	1	-
\$1,400,000 – \$1,409,999	-	-	-	1
\$1,590,000 – \$1,599,999	-	-	1	-
\$1,670,000 – \$1,679,999	-	-	-	1
\$1,820,000 – \$1,829,999	-	-	1	1
\$4,680,000 – \$4,689,999	-	-	-	-
\$5,800,000 – \$5,809,999	-	1	-	-
\$5,840,000 – \$5,849,999	1	1	-	-

23 Key management personnel transactions

The directors and other key management personnel of Oil Search Limited during the year to 31 December 2017 and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares		No. of performance rights ⁽¹⁾		No. of restricted shares ⁽¹⁾	
	2017	2016	2017	2016	2017	2016
Peter Botten	2,368,039	2,368,039	877,900	785,500	506,841	454,918
Gerea Aopi	497,223	474,317	177,300	164,000	85,696	77,359
Kostas Constantinou	-	-	-	-	-	-
Eileen Doyle	30,800	30,800	-	-	-	-
Fiona Harris	31,961	-	-	-	-	-
Agu Kantsler	45,736	45,736	-	-	-	-
Richard Lee	96,829	96,829	-	-	-	-
Keith Spence ⁽²⁾	25,000	25,000	-	-	-	-
Melchior Togolo	-	-	-	-	-	-
Other key management personnel						
Paul Cholakos	313,803	271,297	182,796	169,096	88,390	81,459
Julian Fowles	106,134	82,061	186,278	172,378	140,085	131,321
Stephen Gardiner	431,081	387,167	186,797	169,697	89,523	83,092
Michael Herrett	82,981	-	155,484	143,784	76,543	70,648
Ian Munro	-	-	180,474	166,974	87,315	82,119
Keiran Wulff	8,590	8,590	191,903	125,003	95,285	43,395
Michael Drew	-	-	82,497	31,697	8,501	31,250
Elizabeth White ⁽³⁾	75,421	75,421	62,869	35,161	-	-

⁽¹⁾ Refer to note 21 for key terms.

⁽²⁾ Resigned as a director effective 20th October 2017.

⁽³⁾ Appointed an Executive General Manager during 2017.

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	
	2017 \$'000	2016 \$'000
Airways Hotel and Apartments Limited ⁽¹⁾	335	164
Airways Residence Limited ⁽¹⁾	-	90
Alotau International Hotel ⁽¹⁾	2	1
Lamana Hotel Port Moresby ⁽¹⁾	11	82

⁽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.

24 Commitments

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Finance lease commitments				
Payable within 12 months	19,931	19,933	-	-
Payable 1 to 5 years	79,724	79,724	-	-
Payable greater than 5 years	245,429	265,358	-	-
	345,084	365,015	-	-
Future finance charges	(211,636)	(229,610)	-	-
Finance lease liability	133,448	135,405	-	-
Operating lease commitments				
Payable within 12 months	39,368	25,618	-	-
Payable 1 to 5 years	119,594	92,201	-	-
Payable greater than 5 years	131,510	148,424	-	-
	290,472	266,243	-	-
Expenditure commitments				
Capital expenditure commitments	112,369	113,019	28,109	16,220
Other expenditure commitments	118,348	125,362	-	-
	230,717	238,381	28,109	16,220

25 Auditor's remuneration

	Consolidated		Parent	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Amounts paid or due and payable in respect of:				
Audit and review of the Group's financial report	301	282	108	101
Other services	90	43	-	-
	391	325	108	101

The audit fees are in Australian dollars and are translated at 0.7800 (2016: 0.7439).

26 Subsidiaries and interests in joint arrangements

(a) Subsidiaries

	Ownership interest % 2017	Ownership interest % 2016	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	100	100	PNG
Markham Valley Power Limited	100	100	PNG
Oil Search (PNG) Limited	100	100	PNG
Oil Search (Drilling) Limited	100	100	PNG
Oil Search (Exploration) Inc.	100	100	Cayman Is.
Oil Search (LNG) Limited	100	100	PNG
Oil Search Finance Limited	100	100	British Virgin Is.
Oil Search Power Holdings Limited	100	100	PNG
Markham Valley Biomass Limited	100	100	PNG
Oil Search Foundation Limited ⁽¹⁾	100	100	PNG
Papuan Oil Search Limited	100	100	Australia
Oil Search (Uramu) Pty Limited	100	100	Australia
Oil Search (USA) Inc.	100	-	USA
Oil Search (Alaska) LLC	100	-	USA
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⁾ 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.

26 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:

(i)	Exploration licences	Principal place of business	% Interest	
			2017	2016
	PPL 339 ⁽¹⁾	PNG	37.50 ⁽⁵⁾	70.00
	PPL 277 ⁽²⁾	PNG	50.00	50.00
	PPL 374 ⁽⁶⁾	PNG	40.00	-
	PPL 375 ⁽⁶⁾	PNG	40.00	-
	PPL 487 ⁽⁸⁾	PNG	37.50	50.00
	PPL 395 ⁽⁸⁾	PNG	37.50	50.00
	PPL 507 ⁽⁸⁾	PNG	37.50	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:

(i)	Production assets and other arrangements	Principal place of business	% Interest	
			2017	2016
	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	22.34
	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 233 ⁽²⁾	PNG	100.00	100.00
	PPL 234 ⁽¹⁾	PNG	100.00	100.00
	PPL 244 ⁽¹⁾	PNG	100.00	100.00
	PPL 545 ⁽¹⁾⁽⁷⁾	PNG	40.00	40.00
	PPL 269 ⁽⁸⁾	PNG	-	10.00
	PPL 385	PNG	100.00	100.00
	PPL 402 ⁽¹⁾	PNG	37.50	37.50
	PPL 464 ⁽⁹⁾	PNG	37.50	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

⁽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⁾ 32.5% interest farmed out to Total in 2017.

⁽⁶⁾ License granted in February 2017.

⁽⁷⁾ PPL 260 was renamed PPL 545 when the new license was granted in 2017.

⁽⁸⁾ Licence expired and not renewed.

⁽⁹⁾ 12.5% interest farmed out to Barracuda Ltd in 2017.

27 Financial and capital risk management

Financial risk exposures arise in the course of the day-to-day operating activities of the Group, primarily due to the impact of oil price movements on revenue items and exchange rate and interest rate impacts on expenditure and statement of financial position items. The management of borrowings, 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 dollars (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 2017, there were no foreign exchange hedge contracts outstanding (2016: 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 2017, there was no interest rate hedging in place (2016: nil). Cash was invested in short-term instruments with an average maturity of 1 to 3 months.

Interest rate sensitivity

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

At the reporting date, if interest rates had been 25 basis points (2016: 25 basis points) higher or lower and all other variables were held constant, the Group's net profit after tax would decrease/increase by \$4.8 million (2016: \$5.6 million).

At the reporting date, if interest rates had been 25 basis points (2016: 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 nil (2016: nil).

27 Financial and capital risk management (continued)

(b) Interest rate risk (continued)

Consolidated	Floating Interest Rate \$'000	Fixed interest rate maturing in:			Non-interest bearing \$'000	Total carrying amount in the statement of financial position \$'000
		1 year or less \$'000	1-5 years \$'000	More than 5 years \$'000		
Financial Instruments						
2017						
Financial assets						
Cash and cash equivalents	394,846	620,400	-	-	-	1,015,246
Trade debtors	-	-	-	-	119,536	119,536
Other debtors	-	-	-	-	36,779	36,779
Loan receivable	52,045	-	-	-	-	52,045
Non-current deposits	-	-	-	-	2,570	2,570
Total financial assets	446,891	620,400	-	-	158,885	1,226,176
Financial liabilities						
Payables and accruals	-	-	-	-	194,160	194,160
Other payables	-	-	-	-	11,636	11,636
Finance leases	-	2,229	10,956	120,263	-	133,448
Secured loan from Joint operations	2,947,135	-	-	678,323	-	3,625,458
Total financial liabilities	2,947,135	2,229	10,956	798,586	205,796	3,964,702
2016						
Financial assets						
Cash and cash equivalents	129,027	733,721	-	-	-	862,748
Trade debtors	-	-	-	-	117,312	117,312
Other debtors	-	-	-	-	35,400	35,400
Loan receivable	45,181	-	-	-	-	45,181
Non-current receivables	-	-	-	-	2,025	2,025
Total financial assets	174,208	733,721	-	-	154,737	1,062,666
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
Parent						
Financial Instruments						
2017						
Financial assets						
Amounts due from subsidiary entities	-	-	-	-	582,243	582,243
Total financial assets	-	-	-	-	582,243	582,243
Financial liabilities						
Payables and accruals	18,585	-	-	-	3,690	22,275
Total financial liabilities	18,585	-	-	-	3,690	22,275
2016						
Financial assets						
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

27 Financial and capital risk management (continued)

(c) Commodity price risk

The Group has exposure to commodity price risk associated with the production and sale of oil, condensate, 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 2017, there was no oil price hedging in place (2016: 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 13).

At 31 December 2017 there was no significant concentration of credit risk exposure to any single counterparty (2016: nil).

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

	Note	Consolidated		Parent	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current					
Cash at bank and on hand	20(a)	383,219	104,769	-	-
Share of cash in joint operations	20(a)	11,627	24,258	-	-
Interest-bearing short-term deposits	20(a)	620,400	733,721	-	-
Receivables	10	156,315	152,712	582,243	697,389
		1,171,561	1,015,460	582,243	697,389
Non-current					
Other assets - receivables	12	2,570	2,025	-	-
Loan receivable	13	52,045	45,181	-	-
		54,615	47,206	-	-

27 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 2017, the Group has cash of \$1,015.2 million (2016: \$862.7 million), of which \$620.4 million was invested in short-term instruments (2016: \$733.7 million) and undrawn loan facilities of \$850.0 million (2016: \$750.0 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.

	Carrying amount \$'000	Contractual cash flows			
		Total \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000
Non-derivative financial liabilities					
2017					
Payables and accruals	194,160	194,160	194,160	-	-
Other payables	11,636	11,636	11,636	-	-
Secured loan from joint operation	3,625,458	4,519,981	496,282	2,069,824	1,953,875
Finance leases	133,448	344,165	19,931	79,724	244,510
Total	3,964,702	5,069,942	722,009	2,149,548	2,198,385
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	265,359
Total	4,239,345	5,464,519	665,872	2,032,688	2,765,959

(f) Financing facilities

Syndicated revolving credit facility

The Group entered into a five year non-amortising syndicated financing facility effective 22 June 2017 for US\$600 million, which remains undrawn at 31 December 2017. This facility replaced Oil Search's previous US\$500 million corporate facility that was due to expire at the end of October 2017. As part of the terms and conditions of this new facility, Oil Search (PNG) Limited has provided a charge over the Debt Service Reserve Account and Offshore Receivable Account held in Singapore 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 US\$125 million each. As part of the terms and conditions of these facilities, OSP provided a charge over the Debt Service Reserve Account and Offshore Receivable Account held in Singapore 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 2017 is 29.0% (December 2016: 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 8.5 years remaining on the facility as at 31 December 2017.

27 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.

28 Events occurring after the reporting period

Subsequent to balance date, the Directors declared an unfranked final dividend of US 5.5 cents per share, to be paid on 29 March 2018. The proposed final dividend for 2017 is payable to all holders of ordinary shares on the Register of Members on 7 March 2017.

On 14 February 2018, Oil Search completed the acquisition of a 25.5% interest in the Pikka Unit and adjacent acreage and 37.5% in the Horseshoe Block, which contain the discovered Nanushuk and satellite oil fields, from Armstrong Energy LLC and GMT Exploration Company LLC, on the Alaska North Slope, for US\$400 million. The acquisition includes an option to acquire Armstrong's remaining equity interests by mid-2019 for a fixed price of US\$450 million. Oil Search will assume operatorship in early 2018 and plans to undertake an active drilling appraisal campaign are targeted for late 2018/early 2019.

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 2017, 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 2017.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



.....
RJ LEE

Chairman



.....
PR BOTTEN

Managing Director

Sydney, 19 February 2018

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

Report on the Audit of the Financial Statements

Opinions

We have audited the consolidated financial statements of Oil Search Limited and its subsidiaries (the Group) and the financial statements of Oil Search Limited (the Company) which comprise the statements of financial position as at 31 December 2017, the statements of comprehensive income, the statements of cash flows and the statements 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.

In our opinion

- (i) the accompanying financial statements give a true and fair view of the Group and the Company's financial position as at 31 December 2017 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 Group and the Company.

Basis for Opinions

We conducted our audit in accordance with International Standards on 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 and the Company 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 have no interest in the Group or the Company or any relationship other than that of the auditor of the Group and the Company.

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

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	Applicable to The Group How the scope of our audit responded to the Key Audit Matter
<p>Carrying Value of Exploration and Evaluation Assets</p> <p>The carrying value of Exploration and Evaluation assets at 31 December 2017 is \$1,672 million. See note 14 for further details. The Group's accounting policy in respect of Exploration and</p>	<p>Our procedures included, but were not limited to the following:</p>

Evaluation assets is outlined in note 1(i).

The assessment as to whether there are indicators of impairment 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.

- evaluating and testing the key controls management has 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, the reasonableness of management's 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.
- evaluating the adequacy of the disclosures in note 14.

Carrying value of Producing and Development Assets

The carrying value of Producing and Development assets at 31 December 2017 is \$6,536 million. See note 15 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.

Our procedures included, but were not limited to the following:

- evaluating and testing the key controls management have in place to assess indicators of impairment for Producing and Development assets.
- in conjunction with our valuation specialists challenging management's oil and gas price assumptions against external data, to determine whether they indicate that there has been a significant change with an adverse effect on the recoverable amount.
- comparing actual operating costs for Producing and Development assets during the year to budget, to determine whether they indicate that there has been a significant change with an adverse effect on the recoverable amount.
- 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 recoverable amount.
- assessing reserve estimates adopted by the Group during the year to determine whether they indicate there has been a significant change with an adverse effect on the recoverable amount. This included holding discussions with management's internal experts to understand field operational performance in the year, any significant reserve upgrades or downgrades and to assess their competency and objectivity and the significant assumptions, methods and source data used in estimating reserves.
- evaluating the adequacy of the disclosures in note 15.

Accounting for Income Tax

The income tax expense for the year ended 31 December 2017 is \$139 million and the balances of deferred tax assets and deferred tax liabilities at 31 December 2017 are \$678 million and \$914 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

Our procedures included, but were not limited to the following:

- 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-fenced asset level. This included evaluating whether the assumptions included in management's forecasts were consistent

application of tax legislation, as well as to assess the recoverability of deferred tax assets.

- with board approved assumptions and prevailing PNG tax legislation.
- assessing the impact on current and deferred tax of changes to local tax laws enacted during the year.
- assessing tax returns and tax reconciliations for compliance with local tax laws.
- reconciling opening tax carrying values against tax returns lodged with tax authorities.
- evaluating the adequacy of the disclosures in note 7.

Key Audit Matter	Applicable to The Parent Only How the scope of our audit responded to the Key Audit Matter
<p>Carrying Value of Exploration and Evaluation Assets</p> <p>The carrying value of Exploration and Evaluation assets at 31 December 2017 is \$84 million. See note 14 for further details. The Company's accounting policy in respect of Exploration and Evaluation assets is outlined in note 1(i).</p> <p>The assessment of the carrying value of Exploration and Evaluation assets requires management to exercise significant judgement including in respect of the Company'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.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • evaluating and testing the key controls management has 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, the reasonableness of management's 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. • evaluating the adequacy of the disclosures in note 14.
<p>Carrying value of investments in subsidiaries</p> <p>The Company has investments in subsidiaries at 31 December 2017 of \$2,295 million. See note 26 for further details.</p> <p>The assessment of the recoverable amount of investments in subsidiaries requires management to exercise judgement in respect of the performance of the underlying assets held in each of the subsidiaries.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • evaluating management's assessment of indicators of impairment for investments at 31 December 2017, including: <ul style="list-style-type: none"> ◦ for subsidiaries which include assets that are producing oil and/or gas or generating other income, comparing the carrying value of the investment to the net assets of the subsidiaries. ◦ for subsidiaries that primarily hold exploration and evaluation assets, evaluating management's assessment of whether indicators of impairment exist for the underlying exploration and evaluation assets. • evaluating the adequacy of the disclosures note 26.
<p>Recoverability of loans receivable from related entities</p> <p>The Company has loans receivable from related entities as at 31 December 2017 of \$582 million.</p> <p>Assessing the recoverability of these loans requires management to exercise judgement including in respect of the performance of the underlying assets held in each of the related entities.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • evaluating management's assessment of objective evidence of impairment indicators for loans receivable at 31 December 2017, including: <ul style="list-style-type: none"> ◦ determining whether the related entity has positive net assets, inclusive of the loan payable to the Company.

- where the related entity has negative net assets and an interest in an exploration and evaluation asset, evaluating management's assessment of whether indicators of impairment exist for the underlying exploration and evaluation asset.
- evaluating the adequacy of the disclosures in note 10.

Other Information

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: 2017 Highlights, Letter from the Chairman, Update from Managing Director, Financial Performance, Production, Gas Growth, Exploration and New Ventures, Promoting a Stable Operating Environment, Organisational Capability, Licence Interests, Licence Interest map, Licence Interest table, Climate Change, Corporate Governance, Shareholder information, Ten-year Summary table, Corporate Directory and About Oil Search which are expected to be made available to us after that date.

Our opinion on the financial statements 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 statements, 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 statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 2017 Highlights, Letter from the Chairman, Update from Managing Director, Financial Performance, Production, Gas Growth, Exploration and New Ventures, Promoting a Stable Operating Environment, Organisational Capability, Licence Interests, Licence Interest map, Licence Interest table, Climate Change, Corporate Governance, Shareholder information, Ten-year Summary table, Corporate Directory and About Oil Search, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

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 and the Company to continue as going concerns, 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 the Company or to cease operations, or have 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 on 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 these financial statements.

As part of an audit in accordance with the International Standards on 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 or the Company'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 and the Company's ability to continue as going concerns. 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 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 or the Company 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 15 to 37 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Oil Search Limited for the year ended 31 December 2017, 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*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Standards on Auditing.



DELOITTE TOUCHE TOHMATSU



Matthew Donaldson
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 19 February 2018



DELOITTE TOUCHE TOHMATSU



Benjamin Lee
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 19 February 2018