Oil Search

WHEN THE PIECES COME TOGETHER

ANNUAL REPORT 2017

YOU CAN ACHIEVE SOMETHING IMPRESSIVE

During 2017, Oil Search achieved record production of 30.3 million barrels of oil equivalent and net profit after tax increased by 236%, to US$302.1 million. Significant progress was made on LNG expansion in PNG, the Muruk gas discovery was confirmed and the Company optimised its exploration portfolio. The proposed acquisition of interests in the Alaska North Slope, complementing the PNG portfolio, was also announced. The pieces are all in place to drive significant growth over the next five to seven years.

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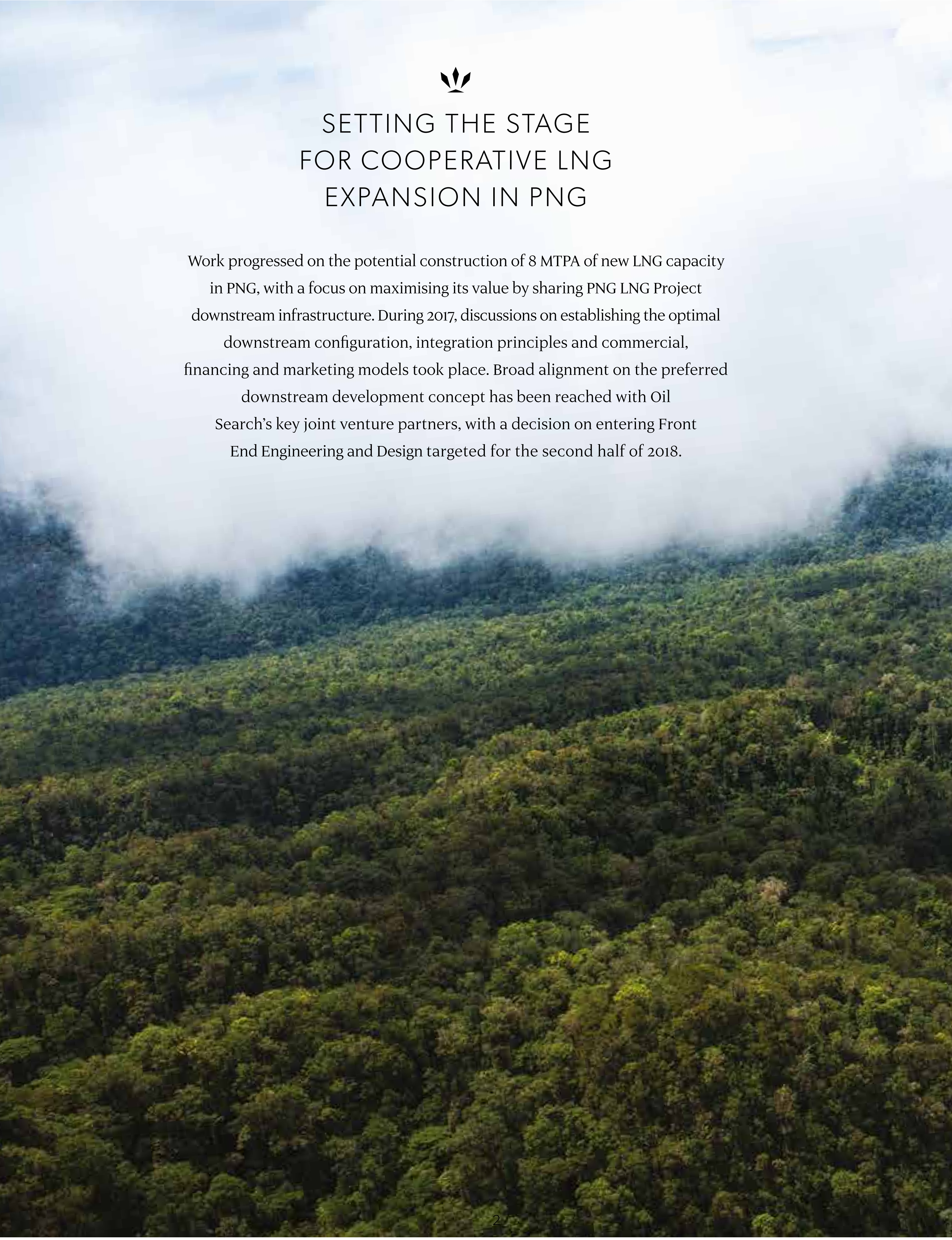


SETTING THE STAGE FOR COOPERATIVE LNG EXPANSION IN PNG

Work progressed on the potential construction of 8 MTPA of new LNG capacity in PNG, with a focus on maximising its value by sharing PNG LNG Project downstream infrastructure. During 2017, discussions on establishing the optimal downstream configuration, integration principles and commercial, financing and marketing models took place. Broad alignment on the preferred downstream development concept has been reached with Oil Search's key joint venture partners, with a decision on entering Front End Engineering and Design targeted for the second half of 2018.

EXPLORATION PORTFOLIO IN PLACE TO SUPPORT FURTHER LNG EXPANSION IN PNG

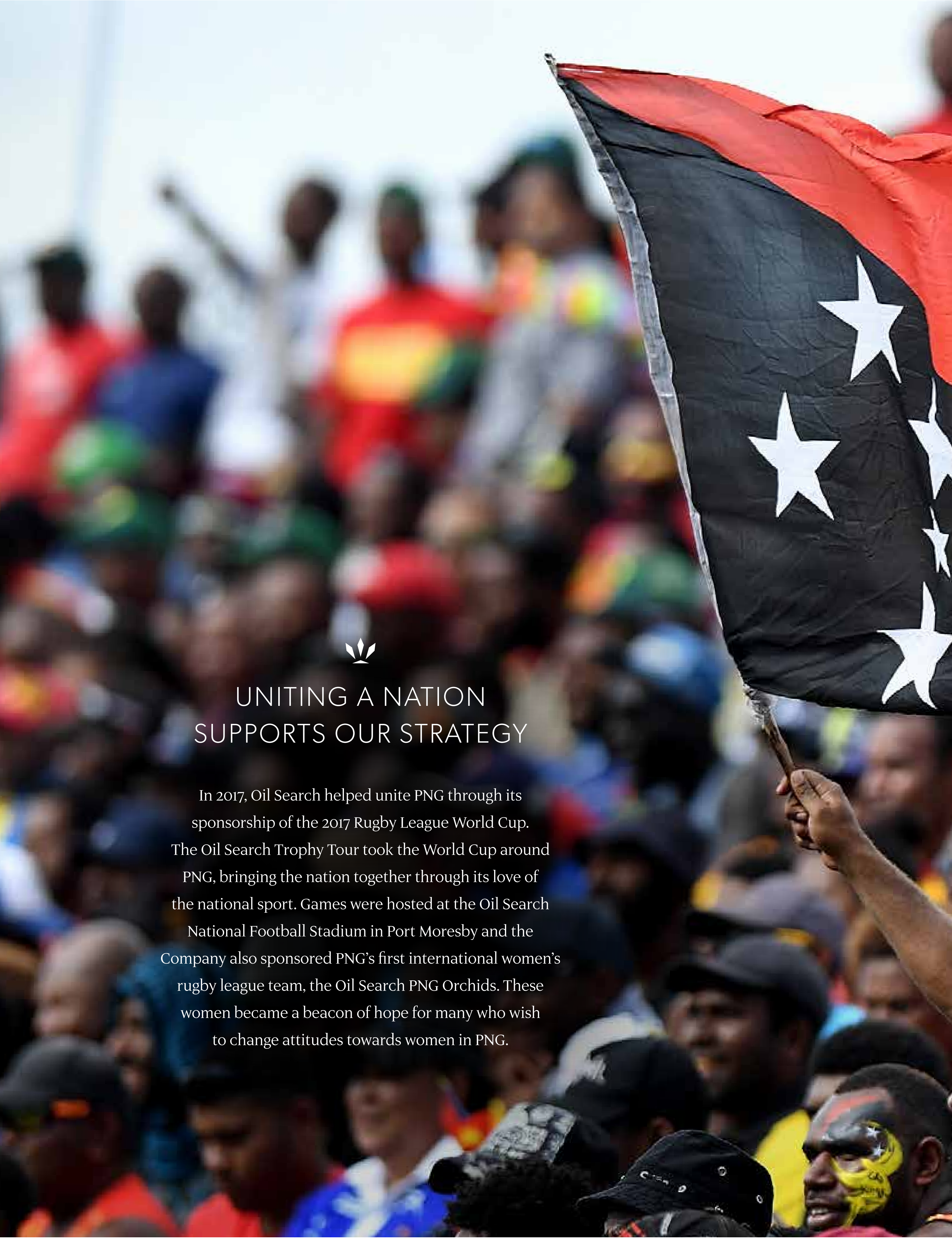
In 2017, Oil Search continued to optimise its exploration portfolio in PNG. The Company has interests in PNG's most prospective acreage, with numerous plays that can support a multi-year, high quality exploration drilling programme targeting gas resources for potential future commercialisation. In 2018, the Muruk gas discovery in the PNG Highlands, which has materially upgraded prospects along the Hides-P'nyang trend, will be appraised further and the largest seismic programme in Oil Search's history will take place.

ACQUISITION OF OIL ASSETS IN THE ALASKA NORTH SLOPE PROVIDES MATERIAL GROWTH AND BALANCES GAS-DOMINATED PORTFOLIO

In November 2017, Oil Search announced the proposed acquisition of oil interests in the Alaska North Slope for US$400 million. The purchase, which was completed in February 2018, was made on the basis of a discovered resource of 500 million barrels, compared with partner estimates of more than one billion barrels, highlighting the potential upside in the assets. There is also the opportunity to add further value through an option to double the Company's position for an additional US$450 million. Oil Search took over operatorship in March 2018 and is planning an extensive drilling campaign commencing in early 2019.

BALANCE SHEET STRENGTH AND LIQUIDITY TO SUPPORT THE COMPANY'S GROWTH PRIORITIES

During 2017, Oil Search reduced its net debt position by US$466 million and ended the year with liquidity of US$1.9 billion. Based on the Company's current strong balance sheet position and forecast cash flows from operations, Oil Search expects to have sufficient financial capacity to support LNG expansion in PNG as well as the development of its major oil field in Alaska, while retaining its current policy of returning between 35 and 50% of core net profit to shareholders by way of dividends.



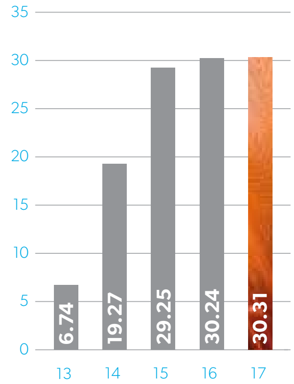
UNITING A NATION SUPPORTS OUR STRATEGY

In 2017, Oil Search helped unite PNG through its sponsorship of the 2017 Rugby League World Cup. The Oil Search Trophy Tour took the World Cup around PNG, bringing the nation together through its love of the national sport. Games were hosted at the Oil Search National Football Stadium in Port Moresby and the Company also sponsored PNG's first international women's rugby league team, the Oil Search PNG Orchids. These women became a beacon of hope for many who wish to change attitudes towards women in PNG.

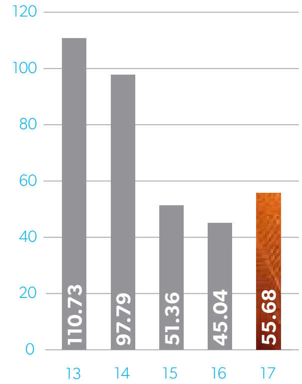
HIGHLIGHTS

2017

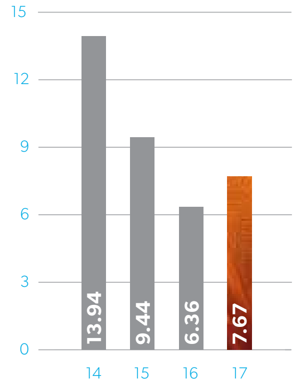
In 2017, Oil Search achieved its fourth consecutive year of record production, benefited from a recovery in oil and gas prices and maintained stable unit production costs. As a result, the Company's net profit increased 236%, to US$302.1 million.



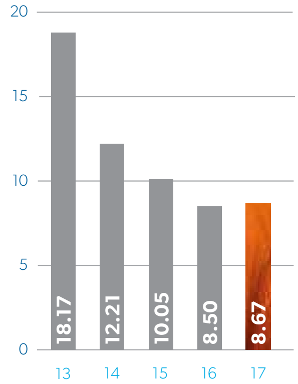
PRODUCTION
(MMBOE)



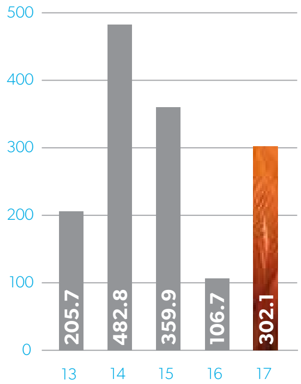
AVERAGE REALISED OIL AND CONDENSATE PRICE
(US$ PER BARREL)



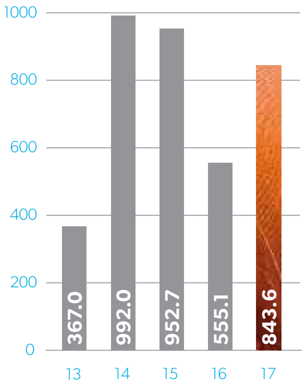
AVERAGE REALISED LNG AND GAS PRICE
(US$ PER MMBTU)



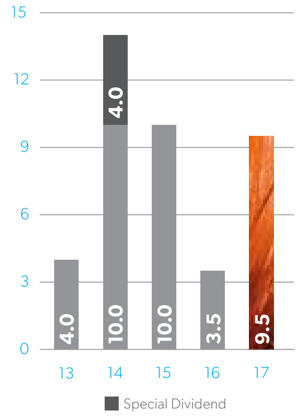
UNIT PRODUCTION COSTS
(US$ PER BOE)



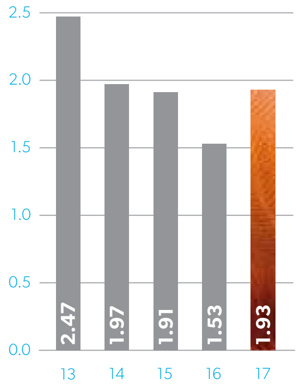
CORE PROFIT[1]
(US$ MILLION)



OPERATING CASH FLOW
(US$ MILLION)



DIVIDEND PER SHARE
(US CENTS)



TOTAL RECORDABLE INCIDENT RATE
(PER MILLION HOURS WORKED)

1. Core profit (net profit after tax before significant items) is a non-IFRS measure that is presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to audit by the group's independent auditor.

OPEN TO SEE MORE 2017 HIGHLIGHTS

73%
OPERATING MARGIN
Unit production costs a competitive US$8.67/boe

8.3 MT
PNG LNG PROJECT
Gross production in 2017, 20% above nameplate

DIVERSITY AND INCLUSION
Exceeded all goals set in 2014 - 2017 strategy

ENHANCED EXPLORATION PORTFOLIO

Five new licence applications granted, five farm-ins and four farm-downs completed

STRENGTHENED BALANCE SHEET

Net debt reduced by US$466 million and liquidity of US$1.9 billion at end 2017

ALASKA NORTH SLOPE

Acquisition of world class, Tier 1 oil assets with material growth potential

MURUK 1 ST3 WELL

confirmed good quality Toro reservoir with high deliverability

RICHARD LEE

LETTER FROM THE CHAIRMAN

Dear shareholders,

2017 was an important year for Oil Search.

We continued to make progress, together with our joint venture partners, on our globally competitive, high returning LNG expansion opportunities in PNG. Broad agreement was reached on the key aspects of the proposed construction of additional LNG capacity, in particular the importance of locating new trains at the PNG LNG plant site. The scene is now set to make a decision on entering the next phase of development, Front End Engineering and Design, in the second half of 2018.

In addition, we announced the proposed acquisition of world class oil assets in the Alaska North Slope, United States. For some time, Oil Search has been seeking to balance its gas-dominated PNG portfolio with oil, without diluting the quality of its existing asset base. The Alaskan acquisition is consistent with this strategy and delivers top tier oil assets in a well-established, prolific oil producing region, with the potential for material growth. We believe the purchase has been made at a compelling price, using conservative resource and development assumptions, at the right time in the oil price cycle and will generate substantial value for shareholders.

Operationally, Oil Search performed well in 2017, producing 30.3 million barrels of oil equivalent, the highest in the Company's history. Earnings benefited from a steady recovery in oil and LNG prices, driving a 236% increase in net profit, to US$302.1 million. The balance sheet also strengthened, with net debt reduced by US$466 million over the year. This solid financial position, together with cash flow from operations, should provide us with the financial flexibility to support our PNG and Alaskan growth opportunities, as well as continue to pay out between 35% and 50% of core net profit to shareholders by way of dividends, without having to access equity markets for additional funding.

Work continued during the year on how Oil Search should approach the global challenge of climate change. In December, the Board approved a new Climate Policy and the Company has recently released its first Climate Change Resilience Report, in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. Pleasingly, our climate scenario analysis has confirmed that our current and growth assets would perform well under most of the scenarios tested and would continue to provide positive returns to shareholders.

In late 2017, Keith Spence resigned from the Oil Search Board. During Keith's seven years as a non-Executive Board member, he made significant contributions to the Board and various Board committee deliberations, utilising his extensive knowledge of, and career experience in, the oil and gas sector. I personally have greatly valued Keith's input and thank him for his service.

In March 2018, our Executive Director, Gerea Aopi, retired from the Board after 12 years of dedicated service. During that time, Gerea's extensive knowledge on how to conduct business effectively in PNG, together with the deep relationships he maintained with key PNG stakeholders, were invaluable to the Company and to his fellow directors. Equally important was his unflagging commitment to improving the lives of his fellow PNG citizens during his time at Oil Search.

While Gerea has also decided to bring to an end his executive role with the Company in the near future, he has agreed to serve as our PNG country Chairman while the Company progresses LNG expansion to sanction. We are very fortunate to be able to continue to call on Gerea's talents during this next key phase in the Company's development.

We are well advanced in selecting replacements for Keith and Gerea. A key priority has been to seek individuals with extensive oil and gas experience and a global perspective, to assist the Board through what is expected to be a period of major project development, with an increased focus on marketing for both LNG and oil and continuing volatility in global markets.

The Oil Search Board has been saddened by the damage caused by the major earthquake that struck the PNG Highlands in February 2018. While we were relieved that no major injuries were sustained by our staff or contractors, our local communities were significantly impacted. We are working closely with Government agencies, our partners and aid agencies to assist, where possible, with relief efforts as well as undertaking repair work that will enable us to safely resume production.

While the earthquake has created some challenges, we enter 2018 with a resilient, high quality asset base and a clear strategy on how to grow the business further. While oil prices appear to have bottomed for now, we will continue to focus on controlling costs and prudent capital management. I am confident that the Company has the assets, the people and the financial strength to drive a very exciting long-term future. The focus over the next few years will be on delivery, to create value and top quartile returns for shareholders.

Thank you for your continuing support.

Richard Lee

Richard Lee
CHAIRMAN

PETER BOTTEN

UPDATE FROM THE MANAGING DIRECTOR

2017 was a significant year for Oil Search on a number of fronts. Our operations delivered record production of 30.3 million barrels of oil equivalent (mmboe), underpinned by an excellent performance by the PNG LNG Project. Global oil and gas prices strengthened while production costs remained stable, at a competitive US$8.67 per boe. This helped drive a 236% increase in net profit, to US$302.1 million, while operating cash flow increased 52% to US$843.6 million. Despite ongoing investment in value-accretive activities, the Company ended 2017 in a stronger financial position than at the beginning of the year, with net debt reduced from US$3.1 billion to US$2.6 billion and liquidity up from US$1.6 billion to US$1.9 billion.

Material progress was made toward the next phase of LNG expansion in PNG, with broad alignment reached in early 2018 on the preferred downstream development concept. The Company also acquired top tier oil assets in the Alaska North Slope, representing a measured entry into a world class, established oil province. With a robust balance sheet and two exciting, complementary and value-accretive growth opportunities in our portfolio, Oil Search is well positioned to drive shareholder returns over the next five to seven years.

SAFETY PERFORMANCE

While our financial results were strong, our safety performance was disappointing, with the total Recordable Incident Rate per million work hours increasing from 1.53 in 2016, to 1.93 in 2017. It is core to our corporate objectives to provide a safe working environment for all our staff, contractors and community stakeholders. We have initiated a number of new initiatives, led by our Board and Senior Management, including our "Plan, Do, Check" initiative focused on the basics, ensuring all work is well planned with safety as the highest priority, work is completed as per the plan and continued supervision provides excellent execution of the plan.

It is pleasing to note the Company's good process safety performance during the year and progressive maintenance programmes, which have resulted in a significant reduction in unplanned gas releases.

LNG EXPANSION PLANS COMING TOGETHER

During 2017, Oil Search continued to work with its partners in PRL 15 and PRL 3 on commercialising over 10 tcf of undeveloped 2C gas resource in the Elk-Antelope and P'nyang gas fields in PNG.

In early 2018, following the completion of extensive engineering studies, ExxonMobil, Total and Oil Search reached broad agreement on the preferred downstream development concept. This comprises the construction of three LNG trains, with total capacity of approximately 8 MTPA. These trains will be located on the existing PNG LNG plant site and will share much of the existing downstream infrastructure. Two of these trains are likely to be dedicated to Papua LNG, supplied with gas from the Elk-Antelope fields, and one train underpinned by gas from the existing PNG LNG Project foundation fields and the P'nyang field. Oil Search, Total and ExxonMobil believe this concept will be highly cost competitive given the material construction and operational synergies that result from downstream integration.

The preferred development plan will be presented to the PNG Government and the PRL 15, PRL 3 and PNG LNG joint ventures in early 2018, for formal endorsement. Work has already commenced on a range of commercial and technical issues, while discussions with the PNG Government on fiscal terms are expected to start shortly. We are targeting making a decision on entering the Front End Engineering and Design phase in the second half of 2018.

LNG from the Papua LNG Project is expected to be equity marketed. In preparation, Oil Search has established an office in Japan staffed by a highly experienced LNG team with extensive relationships in the key Asian LNG markets. With this expertise in place and with the increasing probability that demand for LNG, particularly in the Asian region, will exceed installed capacity early next decade, we are confident in our ability to secure contracts for our share of expansion volumes.

PNG EXPLORATION SUCCESS

Over the past few years, the Company's PNG exploration portfolio has been optimised, with a range of farm-ins, farm-outs and new licence awards, and we believe Oil Search now has interests in the most prospective areas of the country. As well as several prospects on the Hides-P'nyang trend, which have been upgraded by the Muruk gas discovery, that was confirmed as an exciting new gas field in early 2017, we believe there is significant potential around the Elk-Antelope fields in the onshore Gulf, in the Forelands and in the shallow and deep water areas offshore PNG. We estimate that there is some seven billion barrels of oil equivalent yet to be found in the country, of which approximately 90% is gas. Given the long lead times associated with developing gas, a key focus for the Company in 2018 will be to rank our exploration opportunities, with priority given to maturing and drilling those prospects that have a clear route to commercialisation and can add most value to shareholders.

ENTRY INTO PROLIFIC ALASKA NORTH SLOPE

In November 2017, Oil Search announced the proposed acquisition of world class oil assets in the Alaska North Slope in the US. The purchase was completed in February 2018 and we took over as operator in March 2018. The acquisition is consistent with Oil Search's stated strategy to pursue material, high-returning, international liquids opportunities to complement our high quality PNG gas assets.

The assets acquired include the Nanushuk and Alpine Fairway, one of the largest conventional oil discoveries made in the US in the last 30 years. The purchase price of US$400 million was based on conservative resource assumptions of approximately 500 million barrels, representing an entry price of just over US$3 per barrel. Our joint venture partners, Repsol and Armstrong, both believe that discovered resources are more than one billion barrels, highlighting that these assets have considerable upside potential. While geographically remote, Alaska is a well-established, prolific oil province, with extensive infrastructure, much of which has substantial ullage and open access regimes. Since the transaction price was agreed in mid-2017, the oil price has increased materially, which together with recent corporate tax changes in the US, has added substantial value to the assets acquired.

We also have the option to acquire the balance of the sellers' interests by mid-2019 for an additional US$450 million. A key objective in 2018 will be maximising the value of this option, potentially by exercising and then on-selling some or all of the additional interest to a strategic partner. We have already received approaches from a number of companies interested in acquiring stakes in these assets.

The Alaskan assets will be managed separately to our core PNG business. We have started building a highly experienced and fully integrated operational, subsurface and development team, largely based in Anchorage. An active drilling campaign is planned to commence in early 2019. We look forward to taking our unique approach to sustainable development, and our experience in working in remote locations and with local communities to the Alaska North Slope.

PNG 2017 ELECTION OUTCOME PROVIDES CONTINUITY

In August 2017, elections in PNG concluded with the Honourable Peter O'Neill returned as Prime Minister, leading a strong coalition Government. In the weeks following the elections, Oil Search delivered comprehensive briefings to the new ministerial team on our oil and gas projects and key industry issues.

The election outcome has provided continuity, particularly in terms of ongoing support for the development of Papua LNG and PNG LNG expansion trains, with both developments highlighted as priorities for the Government. Since his re-election, the Prime Minister has continued to emphasise the importance for the country of stimulating economic growth through major new resource projects.

PNG GOVERNMENT SALE OF OIL SEARCH SHARES

In September 2017, the PNG Government, which had been a substantial Oil Search shareholder since 2002, sold its shares due to budgetary issues. The transaction was executed by way of a block trade at a modest discount to the share price, with strong demand and take-up by domestic and institutional investors. The sale has not impacted the excellent and long-standing relationship between the PNG Government and Oil Search that has been built over almost 90 years. We remain strongly committed to PNG and expect our activities in PNG in partnership with the Government, in the areas of health, education, infrastructure development and power, to continue.

DISTRIBUTION OF LANDOWNER BENEFITS BY PNG GOVERNMENT

A key focus for the PNG Government is the resolution of legacy benefits distribution issues relating to the PNG LNG Project, as well as the ongoing payment of royalty and development entitlements to local landowners. During 2017, the Clan Vetting Programme for the PNG LNG plant site area was successfully completed and payments were made to local landowners. In early 2018, payments were made to landowners in the Hides area. However, the Government is yet to meet all its obligations in other project areas.

Oil Search continues to work closely with all levels of Government to assist, where it can, in the resolution of outstanding issues, to ensure the flow of benefits from the PNG LNG Project.

OUR COMMITMENT TO PNG

A key focus for Oil Search, as a company operating in a developing economy, is to improve the lives of people in PNG. We recognise the importance of strong, mutually beneficial stakeholder relationships and the role they play in our business success. In addition, we have a long-standing commitment to operating responsibly and doing what we can to make a tangible difference in our communities. This is achieved both directly and through the Oil Search Foundation (OSF) in a number of areas, including health, education, women's empowerment, infrastructure delivery and power.

During the year, OSF, in partnership with the Hela Provincial Health Authority, further improved Hela Provincial Hospital's capacity and capabilities. The impact that the hospital has made in delivering health care in Hela Province, the heartland of our gas business, has been transformational.

In 2017, the hospital was rated among the best-managed hospitals in PNG, after achieving the highest commendation of an 'Unqualified' rating from the PNG Auditor General's Office.

During the year, Oil Search project-managed US$122 million of infrastructure projects, including the construction of roads, hospitals and school redevelopments, on behalf of the PNG Government, under the Infrastructure Tax Credit Scheme (ITCS). Construction of APEC Haus in Port Moresby also commenced, ahead of the APEC Summit events that will take place in the second half of 2018.

DIVERSITY & INCLUSION

Pleasingly, the Company exceeded its 2014-2017 Diversity and Inclusion goals, with the proportion of females and PNG citizens in leadership roles increasing to 22% and 23%, respectively. Building on this success, we established a new Diversity and Inclusion strategy for the next three-year period, with clearly stated 2020 goals focused on gender diversity, citizen development and an inclusive workplace. In 2017, Oil Search also conducted its first employee engagement survey, with an organisation-wide action plan to be rolled out in 2018 focused on recognition, learning and growing, regular performance conversations and improved leadership visibility.

Hela Hospital ground breaking.

SPONSORSHIP OF THE RUGBY LEAGUE WORLD CUP

A personal highlight for me in 2017 was seeing PNG unite as a country through its love of rugby league – PNG's national sport. The Oil Search Trophy Tour took the Rugby League World Cup around the country, providing thousands of Papua New Guineans with the opportunity to be part of the competition by seeing and touching the trophy. The matches were held at the world class Oil Search National Football Stadium, a stadium constructed in 2016 by Oil Search under the ITCS, and were supported by passionate crowds, with TV coverage broadcasting the games worldwide. Oil Search was also proud to sponsor the PNG Orchids, PNG's first international women's rugby league team and hosted a function at Sydney's Opera House to welcome the Orchids to Australia. These women became a source of inspiration for many who wish to change attitudes towards women in PNG.

THE CHALLENGE OF CLIMATE CHANGE

Oil Search recognises that climate change is a significant global issue, in particular the challenge of meeting growing energy demands while ensuring supply is sustainable and affordable. In 2017, Oil Search undertook considerable work on our approach to climate change and how it impacts the Company's strategy. As well as developing a new, stand-alone Climate Policy, which was approved by the Board, the Company completed a comprehensive climate scenario analysis, which evaluates how Oil Search would be positioned in a low-carbon world.

Our portfolio was tested against International Energy Agency (IEA) New Policies and IEA 450 (2°C) scenarios and the Greenpeace Advanced Energy [R]evolution (~1.5°C) scenario. The results indicate that both our current and growth assets would be resilient in a range of scenarios, including the 2°C scenario.

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, was released in March 2018. We are pleased to be one of the first companies to voluntarily release this information.

HUMAN RIGHTS

Growing awareness and regulatory developments in Australia and globally in response to modern slavery has sharpened our focus on the important issue of human rights.

In 2017, Oil Search made significant progress against its commitment to the Voluntary Principles on Security and Human Rights (VPSHR). The Company communicated its progress publicly with the release of its voluntary VPSHR Report. A VPSHR-aligned Memorandum of Understanding was signed with the Royal PNG Constabulary and a senior management governance mechanism was introduced to oversee the Company's implementation of its VPSHR commitments. This focus has become increasingly important as law and order issues continue to escalate in PNG.

During the year, Oil Search's PNG human rights risk profile was updated. This confirmed that labour rights, particularly in terms of the Company's supply chain, continues to be a potential human rights risk for Oil Search's operations in PNG. A Responsible Supply Chain Strategy was progressed, which will shape the way the Company manages this risk to people and the business.

We also began to develop a stand-alone human rights policy. Our entry into the Alaska North Slope has made it clear that the Company needs to recognise more explicitly the rights of indigenous people, communicating what has been implicit and well understood in our engagement with Papua New Guineans.

EARTHQUAKE IN PNG HIGHLANDS, FEBRUARY 2018

On 26 February 2018, a magnitude 7.5 earthquake struck in the PNG Highlands. This earthquake inflicted substantial damage to parts of Southern Highlands, Hela and Western Provinces. As a precautionary measure, Oil Search shut-in all production at our operated oil and gas fields in the Highlands without loss of integrity to these facilities.

The Oil Search Trophy tour incorporated a trip to the Goroka Show with Peter Botten, Andrew Hill, CEO RLWC 2017, and Rugby League legend Lote Tuqiri.

ExxonMobil PNG Ltd, as operator of the PNG LNG Project, also shut down production at the Hides Gas Conditioning Plant and Hides wellpads and the PNG LNG trains were shut-in on the following day. Fortunately, all Oil Search employees and contractors were accounted for and no serious injuries reported. Non-essential staff were subsequently demobilised from the various operational sites.

The inital assessment of the impact of the earthquake on our operations indicates that, while most of the processing facilities have sustained only minor damage, our camps and associated facilites have been impacted more seriously. Reconstruction and a phased return to production for our oil fields is anticipated over the coming two months. We have been informed by the PNG LNG operator, ExxonMobil, that they presently expect to return to production in early May. Guidance on the impact on Oil Search's 2018 production will be provided when the Company has more clarity on the progress of repair works.

The impact on local communities within our operational areas has been substantial, with many deaths in the region as well as the destruction of houses, schools, roads and bridges. Many communities are without basic necessities, such as food, clean water, shelter and medical support. Oil Search has committed US$5 million in cash and kind to support disaster relief efforts in Hela and Southern Highlands Provinces. As important infrastructure in Southern Highlands and Hela has been severely impacted by the earthquake, Oil Search's Moro logistical base is being used as a hub for aid distribution. We are also managing medivacs and urgent medical support for the many injured people.

2018 will be another full year for Oil Search. We remain committed to PNG and providing assistance to local communities in the aftermath of the earthquake, resuming production operations safely and working with our joint venture partners on the next phase of LNG expansion in PNG. In addition, we are very excited about our new opportunity in Alaska. I look forward to reporting to you on our progress during the year.

Peter Botten
MANAGING DIRECTOR

2018 KEY PRIORITIES

Oil Search's highest priority is to resume safe, reliable and sustainable operations in PNG following the devastating earthquake in early 2018. Our oil and gas production provides the foundation for the Company and underpins everything we do.

The Company has six additional key strategic objectives for 2018, to deliver growth for shareholders:

1. **LNG expansion in PNG**
   Following the recent alignment between the key gas owners in PNG regarding the preferred downstream development concept, we are aiming to make a decision on entering into Front End Engineering and Design for LNG expansion, underpinned by gas from the Elk-Antelope, PNG LNG Project and P'nyang gas fields, in the second half of 2018.
2. **Accelerated oil field transition to gas production**
   With potential to provide early, low cost gas for the PNG LNG Project expansion train, we intend to progress the Accelerated Gas Expansion (AGX) opportunity.
3. **Alaska North Slope**
   In 2018, we will build a highly experienced development and operational team in Anchorage and commence planning work for the 2019 drilling campaign. A key focus will be on maximising the value of the option, with the potential to bring in a strategic partner and add value to our investment .
4. **Define future gas development options and priorities for investment**
   We plan to undertake strategic studies on the prioritisation of exploration and appraisal activities, to ensure the optimal use of capital.
5. **Enhance stakeholder management in PNG**
   Recognising that we need to address the gradual breakdown in traditional tribal structures and other societal changes in PNG, we plan to develop a revised, comprehensive plan on how Oil Search works, communicates and collaborates with key stakeholders in PNG.
6. **Organisational development and employee engagement**
   Key organisational objectives for Oil Search in 2018 include successfully implementing the new Enterprise Resource Planning system and improving employee engagement, diversity and staff development.

FINANCIAL OVERVIEW

2017

In 2017, Oil Search delivered a 236% increase in net profit, a 52% increase in operating cash flow and reduced its net debt position by US$466 million. At year end, the Company held liquidity of US$1.9 billion. Together with continued strong cash flows from its producing assets, Oil Search is in a robust financial position.

FINANCIAL PERFORMANCE

Oil Search reported a 2017 net profit after tax of US$302.1 million, more than three times 2016 net profit of US$89.8 million.

Reflecting the strength in global energy prices, the Company's average realised oil and condensate price increased by 24%, to US$55.68/bbl, and the average realised LNG and gas price rose by 21%, to US$7.67/mmBtu. This more than offset a slight decline in sales volumes and drove a 17% increase in total revenue, to US$1,446.0 million.

Production costs on a per barrel of oil equivalent (boe) basis remained largely stable, at US$8.67 per boe, delivering a competitive operating margin of 73%. Other operating costs, including selling and distribution costs, royalties and levies, gas purchase costs, power expenses, corporate and other expenses, totalled US$141.1 million, 7% higher than the previous year, reflecting the impact of higher royalties and levies resulting from higher LNG sales, higher gas purchase costs and a provision for redundant warehouse stock.

Unit depreciation and amortisation charges fell 13% to US$11.95 per boe, largely reflecting higher 2P Proved and Probable PNG LNG Project Reserves, following the recertification of Project fields in 2016.

US$35.9 million of exploration costs were expensed in 2017, primarily related to the Antelope Deep well in PRL 15 and seismic acquisition in PNG and Alaska. Net finance charges totalled US$194.7 million, similar to 2016 levels. No impairment charges against Oil Search's assets were recorded in 2017.

The effective tax rate was 31.5%, close to the PNG statutory tax rate of 30% for oil and gas, compared to 51.5% in 2016. The 2016 tax rate was impacted by a one-off, non-cash restatement of deferred tax balances following PNG legislative changes in late 2016, which reduced the oil field tax rate from 50% to 30%, effective from 1 January 2017.

CASH FLOWS

Operating cash flow for 2017 was US$843.6 million, 52% higher than in 2016, largely reflecting higher realised oil and gas prices. Capital expenditure increased 16.8% to US$267.3 million, with the major items of expenditure including the P'nyang South 2 appraisal and Muruk 1 exploration wells, Markham Valley Biomass Project FEED studies, work on the proposed gas fired power station in Port Moresby and the initial implementation phase of the Company's new Enterprise Resource Planning system.

↑236%
Net Profit After Tax

↓US$ 466M
Net Debt

↑9.5 US cents
Total Dividend Per Share

LIQUIDITY AND CAPITAL MANAGEMENT

Oil Search ended 2017 in a strong financial position, with lower net debt and higher liquidity, reflecting strong cash flows from its producing assets over the year. The Company's cash balance increased from US$862.7 million to US$1.0 billion and US$314 million of PNG LNG project finance debt was repaid. Net debt at the end of the year was US$2.6 billion.

In June 2017, the Company successfully arranged a US$600 million five year, non-amortising, revolving credit facility. This replaced a US$500 million corporate facility and was upsized due to strong support from the bank market, reflected by the attractive terms offered.

At the end of 2017, the Company had liquidity of US$1.9 billion, comprising US$1.0 billion in cash and US$850 million in undrawn corporate credit facilities. In February 2018, the Company completed its US$400 million Alaska North Slope acquisition. The consideration was paid from Oil Search's existing cash balances, resulting in liquidity of US$1.6 billion post-completion.

FUNDING FOR GROWTH PRIORITIES

Oil Search is in an enviable position, with major growth opportunities in both PNG and Alaska. While capital intensive, these value accretive developments have the potential to be optimised through cooperation with existing nearby operators, reducing overall development costs. In addition, funding for these projects is planned through project financing and utilising Oil Search's cash balance and corporate funding capacity.

The Company has run multiple scenarios, with its liquidity and funding capacity stress-tested at conservative oil prices. Based on the Company's current view on oil prices, Oil Search expects that it will have sufficient financial capacity to fund these growth projects, as well as scheduled debt repayments and future dividends.

DIVIDEND

A 2017 final unfranked dividend of 5.5 US cents per share was declared, taking the total unfranked dividend for 2017, including the 4.0 US cent per share interim dividend, to 9.5 US cents per share. This represents a dividend payout ratio of 48%, in line with the Company's policy to pay out between 35-50% of core net profit after tax.

Taxation amendments in the PNG 2017 Budget, including the removal of an exemption from withholding taxes on earnings sourced from PNG petroleum operations, resulted in the 2017 interim dividend being subjected to a 15% withholding tax. However, taxation amendments in the PNG 2018 Budget have confirmed that dividends paid from PNG LNG-sourced profits are exempt from 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.

OBJECTIVES FOR 2018

During 2018, Oil Search's key financial aims are as follows:

- Work with the Company's joint venture partners to establish a project finance structure and Oil Search-specific financing requirements to fund LNG expansion in PNG.
- Commence financing activities to support the development of the Nanushuk and Alpine Fairway in the Alaska North Slope.
- Help define the relative financial attractiveness of further exploration activities in PNG, to ensure fiscal discipline in capital allocation.
- Continue to actively manage costs, to allow the Company to fund all its committed expenditures from operating cash flows, existing cash and debt facilities.

PRODUCTION

2017

Total production in 2017 was 30.3 million barrels of oil equivalent (mmboe), the highest in the Company's history. This result was driven by an excellent performance from the PNG LNG Project, with gross LNG production reaching 8.3 million tonnes (MT), 5% higher than in 2016 and 20% above nameplate capacity. Including liquids, the PNG LNG Project contributed 24.4 mmboe net to Oil Search, comprising 81% of total production. The 5% increase in PNG LNG production more than offset a 14% decline in operated oil and gas production, due to the maturity of the oil fields and planned facilities downtime.

In 2017, the PNG LNG Project produced 8.3MT of LNG and sold 110 LNG cargoes.

PNG LNG PROJECT

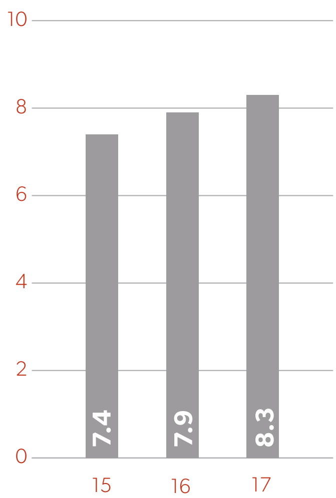
PNG LNG Project production

The PNG LNG Project contributed 24.4 mmboe net to Oil Search production in 2017, comprising 20.9 mmboe of LNG and 3.5 mmboe of liquids (condensate and naphtha).

The Project produced 8.3 MT (gross) of LNG in 2017, up 5% on 2016 levels. The increase reflected strong upstream deliverability and high levels of reliability from the PNG LNG Project infrastructure, including the Hides wells, the Oil Search-operated Associated Gas (AG) fields, the Hides Gas Conditioning Plant (HGCP), the pipeline and the two LNG trains located near Port Moresby. This excellent result was achieved despite the operator undertaking two phases of compressor upgrades at the LNG plant site, in May and October. These upgrades should enable future production rates to be maintained at or above 8.5 MTPA, before normal levels of downtime.

PNG LNG Project sales

During the year, the PNG LNG Project sold 110 LNG cargoes, with two further cargoes on the water at the end of the year. 86 cargoes were sold under long-term contract to the Project's long-term contract



PNG LNG PROJECT GROSS PRODUCTION RATE (MTPA)

PNG LNG PROJECT PARTNERS

PNG LNG PROJECT CO-VENTURERS	% Interest
ExxonMobil (operator)	33.2
Oil Search	29.0
Kumul Petroleum (PNG Government)	16.8
Santos	13.5
JX Nippon	4.7
MRDC (PNG Landowners)	2.8

CONTRACT CUSTOMERS	Offtake (MTPA)
Sinopec (China)	2.0
Jera, (TEPCO) (Japan)	1.8
Osaka Gas (Japan)	1.5
CPC (Taiwan)	1.2

customers, who continued to take their full contracted volumes of 6.6 MTPA. 24 cargoes, comprising 21% of total LNG production, were sold on the spot market to customers in Asia. Demand for spot cargoes remained strong due to PNG LNG's high heating value, PNG's proximity to key markets, with shorter shipping distances than other sources of LNG supply, and the Project's excellent record of reliability. Of the 24 spot cargoes sold during the year, more than half were sold to contract and non-contract customers in Japan.

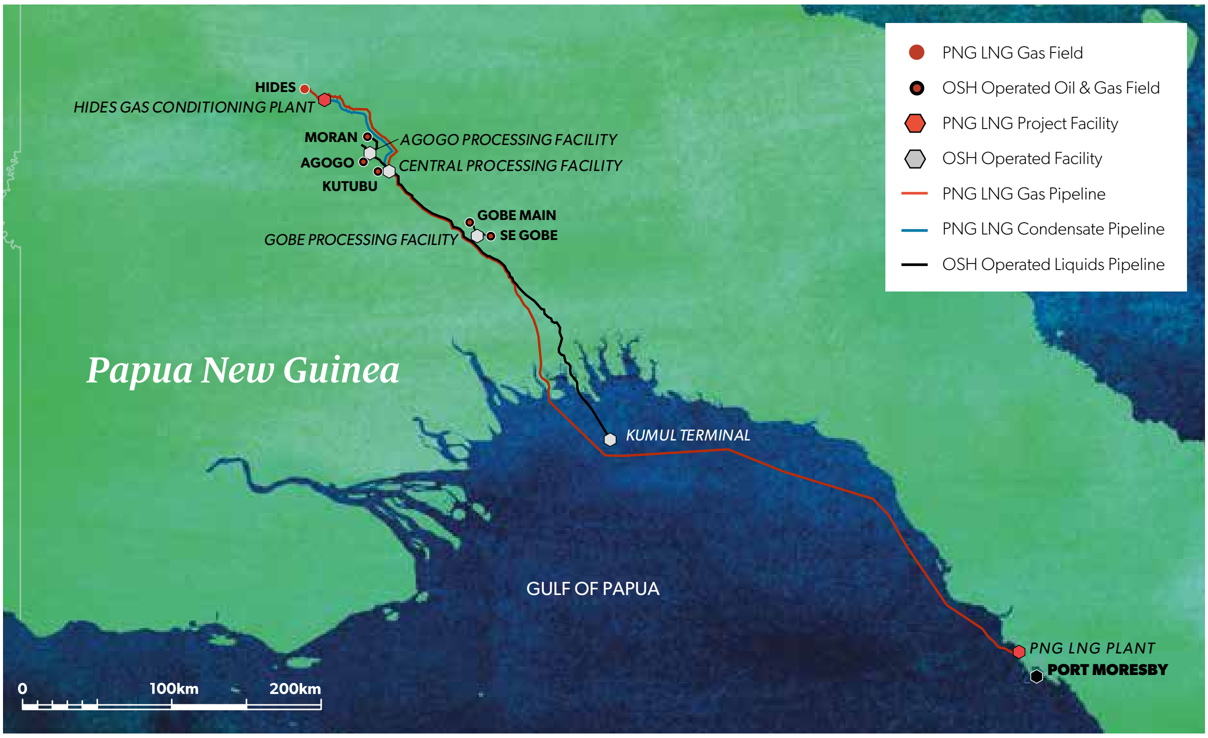
28 cargoes of Kutubu Blend, comprising oil production from the Oil Search-operated PNG oil fields and condensate from the PNG LNG Project, and 11 cargoes of naphtha from the PNG LNG Project, were sold during 2017.

Oil Search-operated PNG LNG Project activities

The Oil Search-operated AG and SE Gobe fields delivered gas to the Project at an average rate of 147 million standard cubic feet per day (mmscf/day) during 2017, representing approximately 13% of the total gas delivered to the LNG plant. The Kutubu, Gobe Main and SE Gobe fields contributed an average of 74 mmscf/day, 33 mmscf/day and 40 mmscf/day, respectively, to the Project in 2017.

The Kumul Marine Terminal handled 10.9 mmbbl (29,826 bbl/d) of condensate from the PNG LNG Project during 2017. The safety and uptime performance of the facility and its associated 270 kilometres of pipeline from the Highlands to the terminal remained high.

OIL AND GAS ASSETS IN PRODUCTION



OPERATED OIL AND GAS FIELD PARTNERS*

% Interests	Kutubu (PDL 2)	Moran (PDL 2 and PDL 5)	Gobe Main (PDL 4)	SE Gobe (PDL 3 and PDL 4)
Oil Search	60%	49.4%	10%	22.3%
ExxonMobil	14.5%	26.8%	14.5%	7.7%
Barracuda Limited (Santos)	–	–	–	7.5%
Merlin Petroleum Company (JX Nippon)	18.7%	8.4%	73.5%	39.1%
Southern Highlands Petroleum Co (JX Nippon)	–	–	–	18.8%
PNG Government	–	11.3%	–	2.6%
Landowner interests	6.8%	4.1%	2.0%	2.0%
	100%	**100%**	**100%**	**100%**

*Numbers may not add due to rounding

PNG LNG development activities

During 2017, the Hides F1 well was successfully tied in to Project infrastructure and the well came on-stream in the second quarter of 2017. Having completed Front End Engineering and Design (FEED) in 2016, construction of pipeline and surface facilities for the Angore project commenced in 2017. The project comprises the tie-in of the Angore A1 and A2 wells to existing PNG LNG infrastructure and is expected to be completed in 2019.

Marketing additional volumes of PNG LNG gas

Given the strong production performance from the Project, which is sustainably producing volumes well in excess of those committed under long-term contracts, and the material increase in 1P reserves following recertification of Project gas fields during 2016, in 2017, ExxonMobil commenced marketing up to 1.3 MTPA of LNG on behalf of the Project participants. Proposals were received from a number of good quality LNG end users and LNG traders, with considerable interest from buyers to secure contracts for terms of up to five years. It is anticipated that binding contracts will be signed with offtakers in 2018, taking total contracted volumes from the Project to 7.9 MTPA.

PNG LNG beneficiary identification and ownership

During 2017, landowners from PNG LNG Project host communities called on the Government to progress

Oil Search's Central Processing Facility, located in the Southern Highlands of PNG, underwent a 17 day scheduled maintenance outage in 2017, to help ensure ongoing safe and reliable operations.

equity entitlements and royalty payments and address various benefits distribution issues.

Oil Search, drawing on its long history and experience in PNG, helped to facilitate communication between the PNG Government and local landowner groups during the year. In September, the PNG Government began paying royalties to local landowners from the PNG LNG plant site and have since made payments to landowners around the Hides field. However, there are still significant payments outstanding and this remains a matter of urgency for the PNG Government to address.

PNG OPERATED OIL AND GAS PRODUCTION

In 2017, Oil Search's net operated production (excluding gas production from the AG fields) was 5.88 mmboe, produced at a gross average rate of 31,559 boepd. This was 14% lower than in 2016, primarily reflecting natural decline from the Company's mature oil fields and planned downtime for maintenance activities.

2017 net crude oil production was 3.97 mmbbl, compared to 5.02 mmbbl in 2016, with the Kutubu field contributing 66% and Moran 32% of total oil produced. Operated gas and liquids production was 5% higher than in 2016, at 1.90 mmboe. The Hides Gas-to-Electricity (GTE) Project contributed 1.26 mmboe, up from 1.21 mmboe, reflecting higher offtake from the Porgera Gold Mine, while SE Gobe gas sales to the PNG LNG Project rose from 0.60 mmboe to 0.64 mmboe.

Oil

Production from the Kutubu complex of fields decreased by 20% during the year. This mainly reflected a 17 day planned maintenance outage at the Central Processing Facility (CPF) and Agogo Processing 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 at the Kumul Marine Terminal. This was partly offset by good performance from the Agogo and Usano Main fields and strong production from the UDT8 well following its conversion to production and the successful re-perforation of the Toro intervals in the IDT 23 ST2 well.

Moran production decreased by 23% in 2017 due to planned and unplanned downtime at the CPF and APF, reduced gas injection capability from the Moran 4 well and the short weather-related curtailment mentioned above. With higher oil prices in the second half of the year positively impacting field economics, in December 2017, Oil Search commenced a workover of the Moran 4 well to reinstate gas injection. A controlled shutdown of Moran 4 drilling operations took place in January 2018, due to landowner issues. Due to damage sustained to the Moran 4, 6, 9 wellpad in the February 2018 earthquake, the feasibility of resuming this workover, as well as a workover of the Moran 9 ST4 well, will be re-assessed during 2018 once repairs to the wellpad are completed.

Crude oil production from the Gobe Main and SE Gobe fields decreased by 18% and 25%, respectively, reflecting natural decline and constraints due to water handling capacity at the Gobe Processing Facility.

Gas

The SE Gobe and Gobe Main fields continued to provide a steady supply of gas to the PNG LNG Project, exporting 26.7 billion cubic feet (bcf) of gas (gross), to the Project during the year.

Gas sales from the Hides GTE Project to the Porgera Gold Mine increased 5% to 5.84 bcf in 2017, due to consistent offtake from the mine.

Associated Gas, a potential source of low cost gas for LNG expansion

Associated Gas Expansion (AGX) opportunity

In 2015, Oil Search commenced work on the Associated Gas Acceleration (AGA) project. This project involved increasing the capacity of the CPF and APF, accelerating the volume of gas delivered from the Kutubu, Agogo and Moran fields to support higher levels of LNG production from the PNG LNG Project. The recertification of the PNG LNG Project fields in 2016 and the resultant material uplift in Project reserves eliminated the immediate requirement to execute the AGA strategy.

However, as work has progressed on LNG expansion, the AGA project (now known as AGX) is being re examined. Recent studies indicate that AGX feedstock gas could provide a very cost effective source of gas to front end the expansion of PNG LNG, assist in minimising overall project costs and provide flexibility in field phasing for the expansion project.

Implementation of, and monitoring compliance with, Oil Search's Process Safety Management Framework and Behaviours remained a focus in 2017.

2017 PRODUCTION SUMMARY[1]

YEAR TO 31 DECEMBER	2017	2016	% Change
GAS PRODUCTION	mmscf	mmscf	Net to OSH
PNG LNG Project LNG[2]	106,266	101,827	+4
PNG LNG gas to power[3]	665	–	N.M.
Hides GTE gas[4]	5,843	5,573	+5
SE Gobe gas to PNG LNG[5]	3,265	3,060	+7
Total gas	**116,038**	**110,460**	**+5**
OIL AND LIQUIDS PRODUCTION	mmbbl	mmbbl	
Kutubu	2,630	3,279	-20
Moran	1,267	1,643	-23
Gobe Main	20	24	-18
SE Gobe	57	76	-25
Total Oil	**3,973**	**5,022**	**-21**
PNG LNG Project liquids	3,470	3,451	+1
Hides GTE liquids[4]	118	113	+5
Total liquids	**7,561**	**8,586**	**-12**
TOTAL PRODUCTION[6]	mmboe	mmboe	
	30.31	**30.25**	**+0.2**

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. Gas to power had previously been accounted for as losses within the PNG LNG Plant.
4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides GTE Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
5. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
6. 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.

Process Safety

During 2017, Oil Search continued to implement and monitor compliance with its Process Safety Management Framework and Behaviours. Process Safety indicators, including measures for process safety events, the achievement of safety-critical preventative maintenance tasks and well integrity assurance, were also included in the short-term incentive scorecard for eligible employees.

In 2017, the Company recorded one Tier 1 and zero Tier 2 Process Safety Events (PSE) compared to zero Tier 1 and two Tier 2 PSEs in 2016. The Tier 1 PSE involved an unplanned release from the high-pressure compressor seal gas filter system at the Agogo Processing Facility resulting from a failure of the flange seal. Following this incident, the Company has worked to improve the design and location of gas detection systems in its facilities as well as its flange management processes.

During the year, there was also a particular focus on documentation and implementation of performance standards for the Company's in-field assets. The scheduled maintenance shutdowns at the CPF and APF and the major maintenance campaign at the Kumul Marine Terminal allowed the Company to implement identified risk reduction measures to continue lowering its facility risk profiles. These measures are designed to maintain and, where necessary, upgrade safety equipment to ensure that Oil Search remains industry leading in its ability to reduce process safety risk. As other facilities undergo scheduled maintenance, the Company will accelerate its ongoing programme of testing, documenting and, where appropriate, improving the safety performance of its in-field assets as it continues to reduce risk and deliver safe and reliable operations.

HIGHLANDS EARTHQUAKE, FEBRUARY 2018

Following the 7.5 magnitude earthquake in the PNG Highlands on 26 February, Oil Search shut-in all production at its operated oil and gas fields in the Highlands and demobilised non-essential personnel as a precautionary measure and to ensure the safety of all staff and contractors. The wellpads at Hides, the Hides Gas Conditioning Plant and LNG trains in Port Moresby were also shut-in by ExxonMobil, the operator of the PNG LNG Project.

At the time of this report, the initial review of Oil Search-operated wells, gathering systems, production facilities and other infrastructure indicates that:

- There has been minimal impact on the Gobe production facilities and the liquids export pipeline and offshore facilities are undamaged.
- There has been minor damage to Oil Search's Central Processing Facility, with production from the Kutubu field expected to be progressively restored over March and April 2018, subject to rehabilitation work on the Oil Search-operated Ridge and Moro camps and associated facilities, which is required before the Company's production workforce can return to site.
- The APF and Moran field, the facilities most impacted by the earthquake, require repairs to a number of the control systems, wellpads, flow lines and fire water tank prior to production recommencing from this area.

ExxonMobil has advised that they presently estimate that production from the PNG LNG Project will resume in early May.

The Company will provide revised guidance on 2018 production once the full impact of the earthquake is better quantified.

OBJECTIVES FOR 2018

- Safe resumption of production operations, following evaluation of Oil Search operated wells and facilities and remedial work post the February 2018 earthquake.
- Target improvements in all safety metrics by studying actual incidents, near misses and high potential incidents as well as further embed a culture of safety through the entire organisation.
- Undertake well work activities, which were previously uneconomic due to the weak oil price environment, on the Oil Search-operated oil fields, subject to the impacts of the February 2018 earthquake. These activities are expected to help mitigate the natural decline in production from these mature fields.
- Examine opportunities to utilise innovative drilling technology for both in-field and near-field oil exploration. With access to existing infrastructure and by using technology to minimise drilling costs, there may be opportunities to access oil reservoirs previously considered uneconomic, supporting incremental oil production.
- Undertake tie-in work for the Angore A1 and A2 wells into PNG LNG infrastructure and modifications to the HGCP.
- Evaluate the potential for AGX gas to front-end LNG expansion.

GAS DEVELOPMENT

2017

During 2017, the PRL 15 and PRL 3 Joint Ventures continued to make progress towards commercialising the material undeveloped 2C gas resource in the Elk-Antelope and P'nyang fields in PNG. Oil Search believes that the gas resources in these fields, combined with undedicated reserves in the PNG LNG Project Foundation fields, are sufficient to underpin 8 MTPA of additional, globally competitive, LNG capacity. In early 2018, broad alignment on the preferred downstream development concept for expansion was reached with Oil Search's key joint venture partners. This was a significant step forward, paving the way for discussions with the PNG Government on project gas agreements and a decision on entering into Front End Engineering and Design.

PNG LNG Project jetty near Port Moresby, PNG.

SETTING THE STAGE FOR COOPERATIVE LNG EXPANSION

During 2017, work progressed on determining the optimal plan for developing the 10 tcf of 2C gas resource within the Elk-Antelope gas fields in PRL 15 (the Papua LNG Project) and the P'nyang field in PRL 3. The key focus remained on how to maximise value for all stakeholders, by integrating the additional LNG capacity with the existing PNG LNG Project facilities and operations.

Following the completion of its acquisition of InterOil in early 2017, ExxonMobil became an equity partner in PRL 15. This resulted in greater alignment of interests between the key gas holders in PNG and enabled a more cooperative and integrated approach to the LNG expansion talks.

During the year, discussions took place on establishing integration principles, including capacity and cost sharing, and the optimal commercial model for asset ownership and financing, as well as on LNG marketing and on aligning interests in nearby exploration acreage. Engineering studies undertaken by a third party to evaluate downstream development options for processing Elk-Antelope and P'nyang gas were completed and provided to ExxonMobil, Total and Oil Search in December. The expansion scenarios studied involve the sharing of downstream infrastructure, through the co-location of additional LNG processing capacity at the existing PNG LNG Project plant site.

Based on these studies, the partners have reached broad agreement on the preferred development concept, which will likely comprise the construction of three LNG trains, with total capacity of approximately 8 MTPA. Two of these trains would be dedicated to Papua LNG, supplied with gas from the Elk-Antelope fields, with another expansion train underpinned by gas from the foundation project fields and the P'nyang field. There are considerable benefits in processing gas on the same site as existing infrastructure, which will deliver material construction and operational synergies.

This preferred development concept will be presented to the PRL 15, PNG LNG and PRL 3 joint venture partners and the PNG Government for formal endorsement. Discussions regarding cost sharing arrangements and the principles governing integration have commenced, which will enable the completion of remaining downstream and upstream technical studies. Negotiations with the PNG Government on project gas agreements, outlining fiscal and other terms to apply to the additional LNG capacity, will commence shortly, with a decision on entry into FEED targeted for the second half of 2018.

Oil Search believes that LNG from the additional capacity supported by P'nyang, the PNG LNG Project Foundation fields and from the Papua LNG Project will be globally cost competitive and that these developments are well positioned, both geographically and in the expected timing of first gas, to satisfy the growing demand for LNG in North Asian markets. They also benefit from having two top-tier operators, ExxonMobil and Total, augmented by Oil Search's almost 90 years of in-country experience and PNG's reputation as a reliable producer and exporter of energy rich LNG.

ELK-ANTELOPE (PRL 15)

Appraisal drilling on the Antelope 7 well (Oil Search – 22.835%), which spudded in November 2016, continued into the first half of 2017. Located west-south-west of Antelope 5, the well was designed to provide better definition of the western flank of the field. In line with Oil Search's pre-drill expectations, there was no carbonate reservoir at this location.

The well was subsequently deepened to test a secondary exploration objective, Antelope Deep. The well encountered a tight carbonate which contained gas but was deemed

SOURCES OF GAS FOR LNG EXPANSION IN PNG

LNG EXPANSION WORK STREAMS IN 2017 AND 2018

2017		2018		
Finalise location of Elk-Antelope CPF ✓	Commence technical studies and commercial discussions on integration ✓	Complete P'nyang South well ✓	Complete certification of P'nyang Resource	FEED ENTRY
Completion of Elk-Antelope appraisal ✓	ExxonMobil – Total certification of Elk-Antelope ✓	Complete integration studies and commencement of commercial discussions ✓	Commencement of financing and LNG marketing activities	
ExxonMobil entry into PRL15 ✓	Engaging with new Government on expansion ✓	Present LNG Expansion to Government	Complete Pre-FEED	
Commence P'nyang South 2 pad construction ✓	Spud P'nyang South 2 well (4Q17) ✓	Complete Gas Agreement discussions with Government	Sign binding downstream integration agreements	

sub-commercial. The well was plugged and abandoned, as planned.

The operator of PRL 15, Total, continued to optimise the upstream development concept for Elk-Antelope during the year, including the in-field facilities. Detailed surveys for the location of the upstream gas processing facility and the export pipeline were also advanced. No significant technical work on an independent downstream site was undertaken, based on the assumption that the facilities will be located within the PNG LNG plant site.

P'NYANG (PRL 3)

During 2017, the P'nyang South 2 well pad, located south-east of the P'nyang field, was constructed and drilling commenced in October. Oil Search managed the construction of the well pad and drilling on behalf of the PRL 3 joint venture (Oil Search – 38.5%). The primary objective of the P'nyang South 2 well was to migrate 2C gas resource volumes to the 1C category, to support marketing and financing activities for development as part of LNG expansion.

Broad alignment reached on the preferred development concept for LNG expansion, underpinned by gas from the Elk-Antelope, P'nyang and PNG LNG Project fields.

In January 2018, P'nyang South 2 ST1 reached a total depth of 2,725 metres. The well encountered gas in good quality Toro and Digimu sands, which confirmed the extension of the P'nyang field to the south-east. However, the Emuk Formation was largely water-bearing. The PRL 3 joint venture is currently evaluating the well results, including the implications for 1C and 2C gas resource volumes. A joint venture recertification of the field's gas resources by an independent expert is expected to be completed in the second quarter of 2018. Oil Search believes that it is likely that both 1C and 2C certified resource estimates will increase.

The joint venture continued to work with the Department of Petroleum through the year, to progress the offer of a Petroleum Development Licence over P'nyang, currently subject to an application (APDL 13).

LNG MARKET OUTLOOK

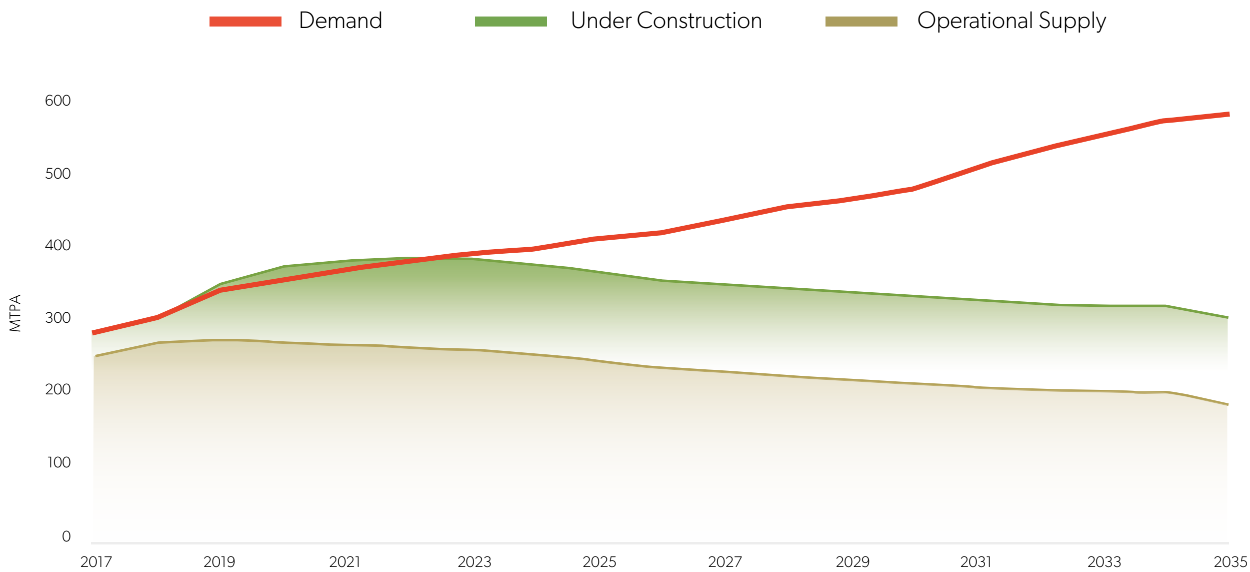
The spot LNG price in Asia was very volatile during 2017, falling from US$9/mmBtu at the beginning of 2017 to US$5.50/mmBtu by mid year, before rallying sharply to over US$11/mmBtu by year end, driven by strong seasonal demand from China. Global demand for LNG grew by 11% year-on-year, with Chinese LNG imports increasing by almost 50%. The strength in Chinese demand was largely policy led, with the Chinese Government

P'nyang South 2 has confirmed the extension of the P'nyang field to the south-east.

mandating a switch from coal to gas-fired boilers to improve air quality. China is targeting an increase in the proportion of natural gas in its energy mix from 6% currently, to 10% in 2020 and 15% by 2030. Governments in other key North Asian markets, including South Korea and Taiwan, have also begun prioritising natural gas and renewables over coal and nuclear power for their energy requirements.

The number of countries and buyers importing LNG has increased, with some traditional exporters becoming importers for domestic requirements. In 2017, there were 37 LNG importing countries, nearly twice as many as ten years ago, and this is expected to grow to more than 40 countries by 2020.

GLOBAL LNG SUPPLY AND DEMAND



Source: Wood Mackenzie, 4Q 2017

In addition to new buyers, more than 70 MTPA of existing Japanese, Korean and Chinese contracts are expected to expire between 2018 and 2025. A large proportion of the LNG being delivered under these contracts is being sourced from projects that are experiencing production declines. As a result, new supply sources will be required, as a number of North Asian customers seek further supply source diversification.

In the short term, most industry experts are forecasting that there will be surplus capacity in the global LNG market. However, with only 7.2 MTPA of new capacity sanctioned in 2016 and 2017 and strong demand growth from existing and new customers, new LNG capacity is expected to be required in the early 2020s.

LNG expansion from PNG is well positioned, geographically and time-wise, to meet the growing North-East Asian demand.

LNG expansion from PNG, underpinned by gas resources from the Elk-Antelope and P'nyang fields, is targeting first production in this market window. With its globally competitive breakeven cost, Oil Search believes that LNG expansion from PNG represents one of very few projects that are well positioned to meet this supply-demand gap.

Antelope 7, Elk-Antelope field, PRL15.

Campsite at Barikewa gas field, a potential option for small scale LNG.

SMALL SCALE LNG

Oil Search believes that small scale LNG (0.5 – 1.5 MTPA) may be a commercialisation pathway for a number of the Company's smaller gas fields in the Gulf, Western and Highlands Provinces. Small scale LNG represents a potential competitive source of fuel for both regional markets in PNG and for other countries in the Pacific region that are currently dependent on diesel and/or heavy fuel oil. Appraisal work is expected to take place in 2018 and 2019 on the Kimu, Barikewa and Uramu gas fields, to test the upside resource base of these fields and assess whether small scale LNG is a commercial development option.

OBJECTIVES FOR 2018

During 2018, Oil Search intends to continue working closely with its partners towards expanding LNG capacity in PNG, using gas sourced from the North-West Highlands and onshore Gulf, in a way that maximises the economic and social benefits to all stakeholders.

Key activities will include:

- Receiving formal endorsement of the preferred development concept from the PRL 15, PRL 3 and the PNG LNG joint ventures.
- Presentation of the preferred development concept for LNG expansion to the PNG Government.
- Negotiations with the PNG Government of project gas agreements for LNG expansion volumes from the Elk-Antelope and P'nyang fields.
- Completion of upstream and downstream technical studies.
- Continuation of financing and LNG marketing activities.
- Completion of the independent recertification of P'nyang, providing updated 1C and 2C gas resource estimates for the field.
- Entry into FEED for LNG expansion.
- Completion of appraisal drilling of Kimu and Barikewa in the PNG Forelands, to delineate resource size and assist in selecting the optimal commercialisation concept.

EXPLORATION AND NEW VENTURES

Oil Search continued the process of optimising its exploration portfolio during 2017. In PNG, the Company strengthened its acreage position in the NW Highlands and onshore Papuan Gulf through a series of strategic farm-ins, farm-outs and licence acquisitions, aligning itself with strategic partners in areas with the potential for significant gas resources and a clear path to commercialisation. The Company also acquired oil assets in the prolific Alaska North Slope, marking its entry into an established oil province with the potential to grow materially.

Oil Search has reassessed the exploration prospectivity in its PNG licences, ranking and prioritising licences based on their potential to deliver shareholder value.

EXPLORATION STRATEGY

Over the past three years, Oil Search has enhanced its PNG licence portfolio materially, consolidating its acreage position in four hubs - the North-West Highlands, Gulf/Forelands, Shallow Water Offshore Gulf and Deep Water Gulf - which have the potential for LNG-scale gas discoveries. During 2017, five new licences were granted by the PNG Government and five farm-ins were successfully completed. The Company also completed four farm-downs to a strategic partner during the year, reducing its interests in these licences to more appropriate levels. Negotiations continue on a number of other licence applications and farm-ins, which are expected to be completed in 2018. The optimisation of the PNG portfolio is in line with Oil Search's strategic approach to exploration, which involves working with selected partners to create strategically aligned joint ventures in areas that have the potential to support further LNG growth in PNG.

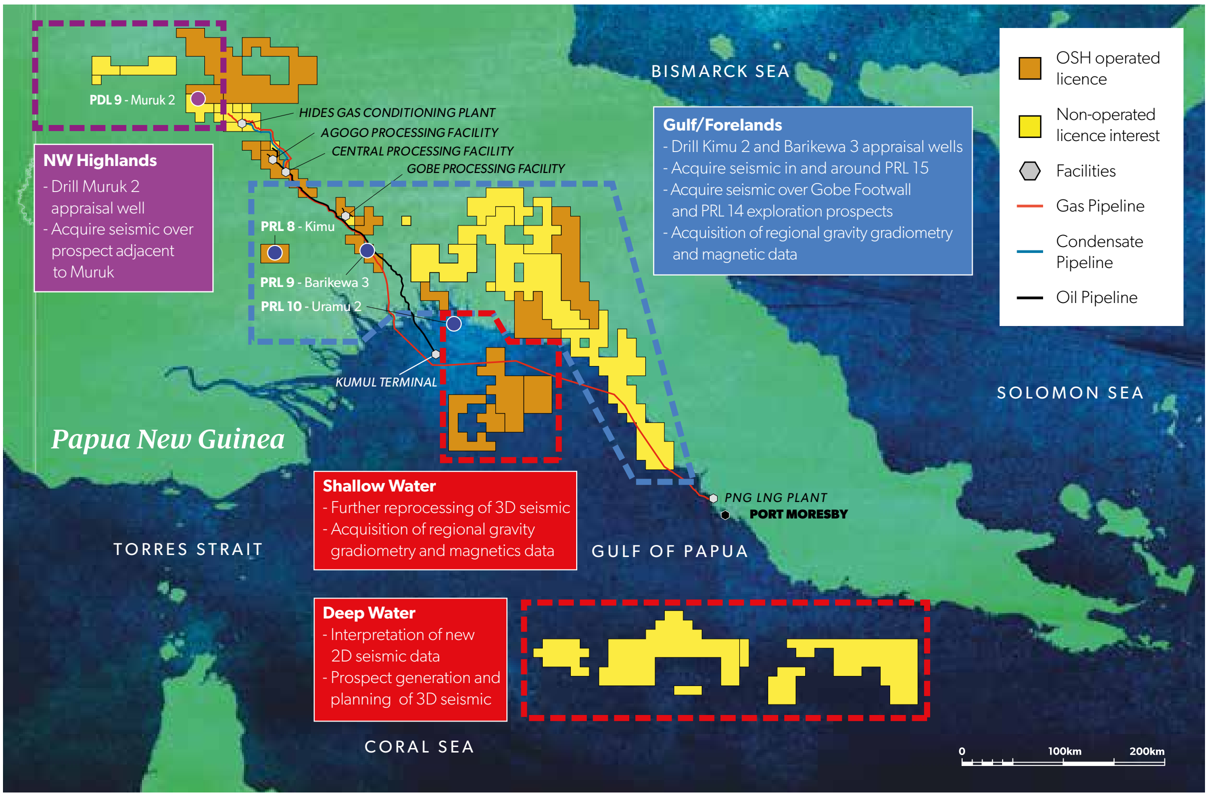
During 2017, the Company also undertook a complete re-assessment of exploration prospectivity in its PNG licences, to allow prospects to be ranked and prioritised based on their potential to deliver shareholder value. This analysis has matured more than five prospects for potential drilling, subject to timing and capital programmes.

EXPLORATION ACTIVITIES

North-West (NW) Highlands

During 2017, exploration activity in the NW Highlands was focused on the Muruk gas discovery and on

2018 PLANNED EXPLORATION ACTIVITY



delineating the gas fairway between Hides and P'nyang.

Following the Muruk 1 gas discovery in PPL 402 (Oil Search – 37.5%[1]) in December 2016, sidetrack drilling took place in the first half of 2017, to constrain the configuration of the structure and determine the down-dip extent of hydrocarbons within the Toro formation. After gaining information to the north-east from the first two sidetracks, a third sidetrack, Muruk 1 ST3, was drilled in the second quarter and proved the presence of a gas bearing Toro reservoir in a separate, deeper fault block, south-west of the original hole. Production testing confirmed a good quality reservoir with high deliverability, consistent with Toro reservoirs in the existing fields. No gas:water contact was penetrated.

The Muruk gas discovery was an exciting exploration result for Oil Search. It identified a potentially significant new gas field, 21 kilometres north-west of the Hides facilities and immediately north of the Juha gas field. The gas discovery also 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 unrisked gas[2]. Importantly, any discoveries made along this trend offer optionality for sourcing gas to support LNG development and, due to the proximity to infrastructure, could improve expansion economics.

Site preparation for the Muruk 2 appraisal well commenced in the third quarter of 2017. Subject to the weather and any impacts from the earthquake in February, the well is expected to be drilled in 2018. Located approximately 11 kilometres north-west of the discovery well, Muruk 2 has two key objectives: to

Muruk gas discovery has materially upgraded prospectivity along the Hides-P'nyang trend

define how far the structure extends and to determine the gas:water contact, both of which will provide valuable information to help narrow resource estimates.

In addition, the Company commenced a two-phase seismic acquisition programme over the Hides-P'nyang trend focused on maturing prospects for potential drilling, should there be commercial justification. The first phase, comprising seismic acquisition over prospects

1. Oil Search interest post farm-in by Santos for a 20% interest in PPL 402, approved in the second quarter of 2017.
2. Best estimate is ~4.9 tcf. Numbers are based on Oil Search's 2016 internal analysis. All estimates are unrisked.

ONSITE HEALTHCARE

Drilling activities on the high altitude Muruk site, located approximately 9,000 feet above sea-level, continued during the year. To ensure appropriate management of the health risks associated with operating at altitude, the Company introduced a new fitness-for-work programme for employees and contractors on site. This contributed to zero altitude related illnesses reported at Muruk in 2017.

near P'nyang, was completed in the second quarter of 2017. The second phase, to acquire seismic data over another prospect, north-east of Muruk, commenced in late 2017.

Towards the end of 2017, Oil Search completed the farm-down of a 12.5% interest in four licences, PPLs 395, 464, 487 and 507, in the NW Highlands, to Santos, which also acquired a 7.5% interest in each licence from ExxonMobil subsidiaries. In November, Oil Search, ExxonMobil and Santos were granted exploration licence PPL 545. All these licences are located along the Hides-P'nyang trend. Santos' entry into these licences brings joint venture alignment to this highly prospective area and builds on the existing relationship within the PNG LNG Project. Oil Search's farm-down and the PPL 545 licence grant represents the conclusion of a two year programme to optimise Oil Search's position along the NW Highlands trend.

Gulf and Forelands

During 2017, Oil Search continued to evaluate the contingent gas resource potential in and around the existing Kimu, Barikewa and Uramu gas discoveries in the Gulf and Forelands region.

Construction of the Barikewa 3 and Kimu 2 appraisal well pads in PRL 9 (Oil Search – 45.1%, operator) and PRL 8 (Oil Search – 60.7%, operator), respectively, commenced in 2017. Both wells are expected to be drilled during 2018. Oil Search decided to defer the planned drilling of Uramu 2 in PRL 10 (Oil Search – 100%, operator) until 2019. The Company has been in discussion with operators in adjacent licences in the shallow water offshore Gulf regarding the potential to share a rig for the drilling campaign, in order to reduce costs. Kimu 2, Barikewa 3 and Uramu 2 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. Small scale LNG represents a potential competitive source of fuel for domestic and regional markets, which are currently dependent on diesel and/or heavy fuel oil.

In the first half of 2017, the Company agreed to acquire a 30% interest in five licences, PPLs 474, 475, 476, 477 and PRL 39, located in the Eastern Foldbelt in the onshore Papuan Gulf Basin, from ExxonMobil affiliates[1]. Completion of the transaction is still under negotiation. The licences are adjacent to the Elk-Antelope fields and contain the Triceratops, Bobcat and Raptor discoveries. As part of the farm-in arrangements, Oil Search, on behalf of ExxonMobil, commenced a 200 kilometre seismic and magnetotellurics acquisition programme over PPLs 475, 476 and PRL 39 in the fourth quarter of 2017. Preparations also took place to acquire approximately 100 kilometres of seismic data in PRL 15 (Oil Search – 22.835%) in 2018. This data acquisition programme will also be operated by Oil Search on behalf of the PRL 15 joint venture, generating material synergies and cost savings for all the joint venture partners.

Offshore Papuan Gulf

During the year, Oil Search focused on optimising offshore Gulf datasets and re-evaluating the prospectivity of its licences.

Reprocessing of existing 3D data over the shallow water Gulf licences resulted in a significant improvement in data quality, revealing several new opportunities. The Company now intends to reprocess more of the available 3D data prior to refreshing its assessment of the acreage's prospectivity. In addition, discussions commenced with parties who have expressed interest in farming-in to Oil Search's shallow water licences.

3 appraisal wells are planned to be drilled in 2018 – Muruk 2, Barikewa 3, Kimu 2

In the deep water Gulf, interpretation of 2D data progressed and identified prospects were risked, ranked and prioritised. A 3D seismic acquisition programme is being considered for 2018, to further constrain prospectivity.

Step up in seismic data acquisition

In 2018, Oil Search will undertake the largest operated onshore seismic programme in the Company's history. This will apply recent advances in seismic acquisition, processing technology and cost efficiencies to enhance the imaging of high-value prospects located in close proximity to existing or planned infrastructure that can be readily tied-in and commercialised.

In the first half of 2018, subject to the February 2018 earthquake, a 2D seismic acquisition programme

1. Oil Search's acquisition of the licence interests is subject to due diligence, execution of binding agreements, conditions precedent and regulatory approvals.

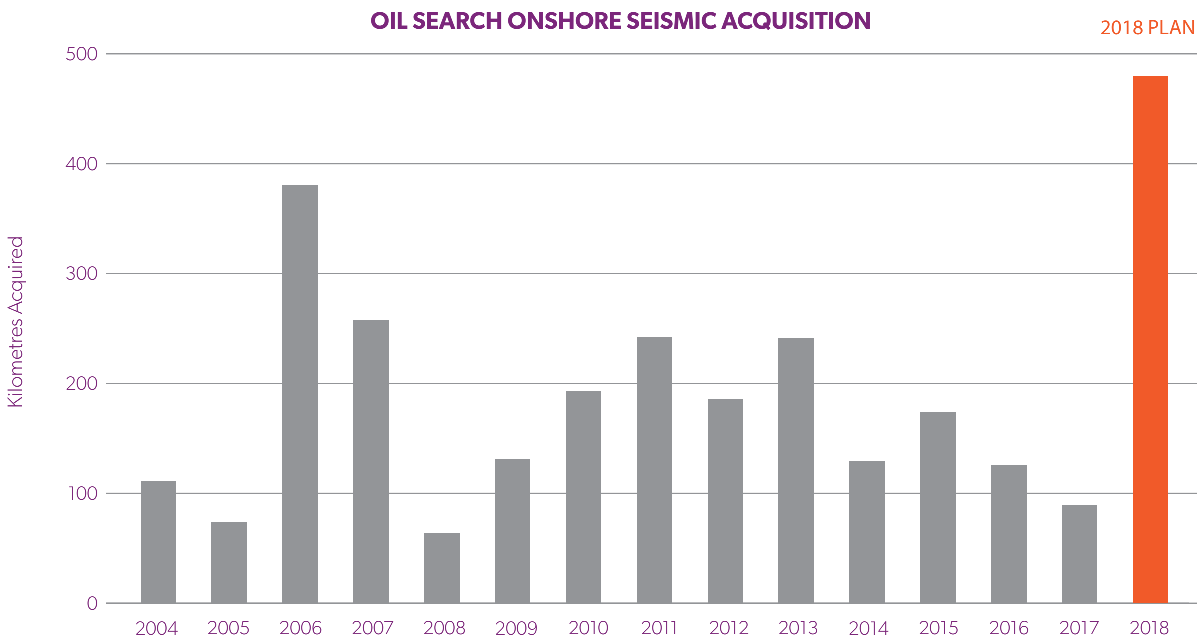
Acquiring seismic in Eastern Foldbelt in the onshore Papuan Gulf Basin.

covering approximately 75 kilometres over a prospect located adjacent to Muruk in the NW Highlands will take place. A further approximately 50 kilometres may be acquired, depending on the results of the Muruk 2 appraisal well. This will supplement seismic data previously acquired over prospects to the north-west near P'nyang in 2017 and help delineate targets for potential drilling. The Company will also acquire approximately 300 kilometres of 2D seismic in the onshore Papuan Gulf Basin, comprising a 200 kilometre programme over licences adjacent to the Elk-Antelope fields on behalf of ExxonMobil and a 100 kilometre programme in PRL 15, on behalf of Total. Both programmes will be operated by Oil Search, reflecting its partners' confidence in the Company's ability to operate in PNG's challenging terrain as well as in its processes and procedures to safely and efficiently acquire seismic and geological data. The surveys will be conducted concurrently, to benefit from material synergies and cost savings.

PNG Power

As part of the Company's commitment to creating a stable operating environment in PNG, during 2017, in partnership with key PNG energy companies, Oil Search continued to seek opportunities to provide gas and biomass-fueled power, to support economic, health and educational development in the country.

During the year, Oil Search and Kumul Petroleum established NiuPower Ltd, an Independent Power Producer, to develop 58MW of new gas



Oil Search's Port Moresby-based exploration team, focused on operating and maximising the value of the Company's exploration portfolio.

fired power generation for the Port Moresby grid. Construction of the plant, which will use gas from the PNG Highlands delivered through PNG LNG Project infrastructure, has begun and supply of power to the Port Moresby market is planned to commence in early 2019. Located adjacent to the PNG LNG facility, the plant will deliver electricity at a substantially lower cost than other hydrocarbon fuel sources and will significantly reduce sulphur and greenhouse gas emissions.

Oil Search and Kumul Petroleum also agreed to establish an energy distribution company, NiuEnergy Limited, to supply locally produced LNG as fuel for key PNG industrial markets and population centres. It is believed that small scale LNG is a potentially competitive source of fuel for domestic and regional markets that are currently dependent on diesel and/or heavy fuel oil.

After entering Front End Engineering and Design on the Markham Valley Biomass Project during 2016, in 2017 Oil Search undertook detailed analysis of both the technical and commercial aspects of the project. Discussions with PNG Power Limited and the PNG Government are being finalised, prior to a Final Investment Decision being considered by the Oil Search Board in mid-2018.

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.

Port Moresby exploration team

During 2017, Oil Search established a Port Moresby-based exploration team to ensure the right people and resources are committed to operating and maximising the value of the Company's exploration portfolio. In early 2018, recruitment of additional PNG nationals, to complete the team, was underway.

A key focus for the local exploration team will be continuing to build strong working relationships with the Department of Petroleum (DP), to facilitate the timely and efficient processing of licence applications. Technical work will initially focus on building digital interpretative datasets, managing the Company's geological surveys and seismic acquisition programmes as well as managing the technical work in new licence areas.

Oil Search is committed to developing PNG's in-country geoscience capability. During the year, the Company delivered regular specialist petroleum geosciences courses to the DP and the University of PNG (UPNG) as well as local oil and gas companies. The Company also supported secondments from in-country partners seeking field experience and offered two third year UPNG students a three-month internship, which was required to complete their degree.

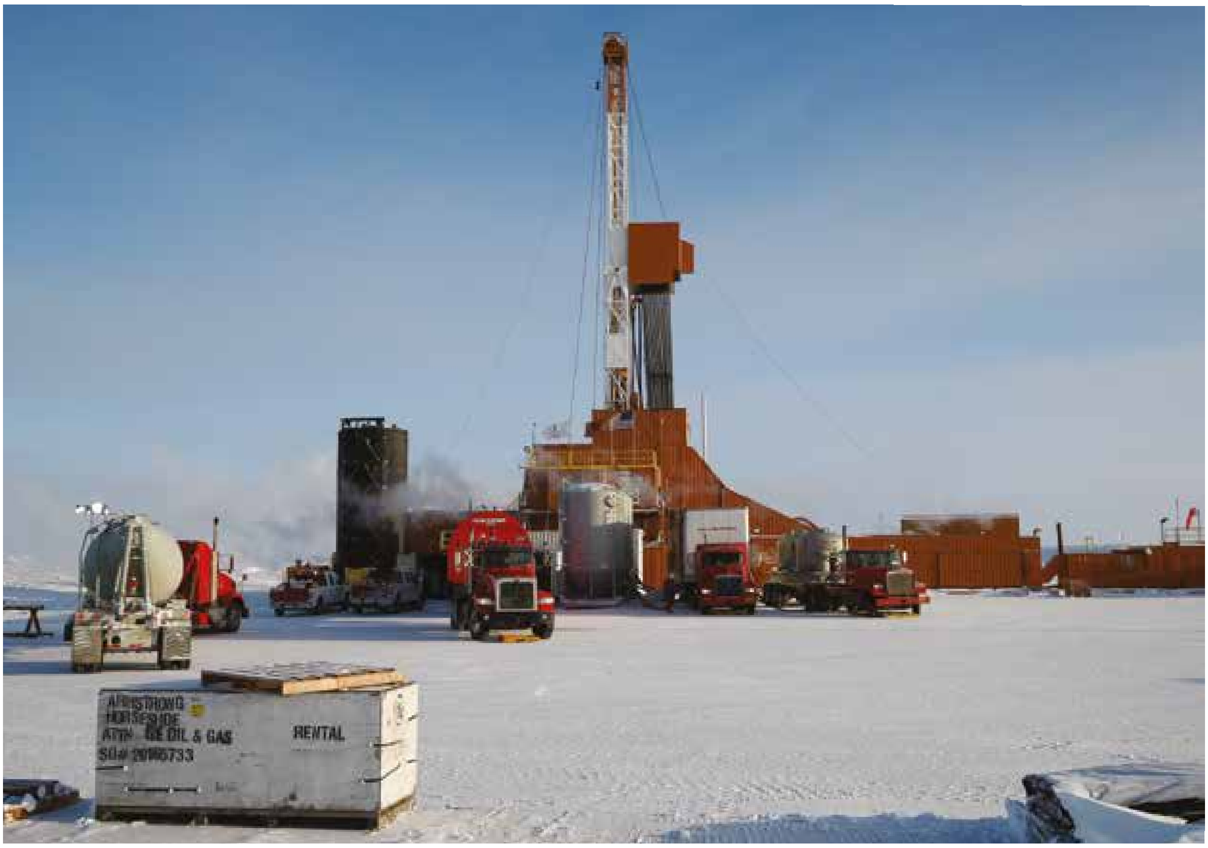
INTERNATIONAL EXPLORATION

Alaska North Slope

In November 2017, Oil Search announced the proposed acquisition of world class oil assets in the Alaska North Slope in the United States (US) for US$400 million. The acquisition was approved by the Committee on Foreign Investment in the US in February 2018 and Oil Search assumed operatorship in March 2018. Assets acquired include a 25.5% interest in the Pikka Unit and adjacent exploration acreage and a 37.5% interest in the Horseshoe Block. These leases contain the undeveloped Nanushuk and Alpine discovery, one of the largest conventional oil discoveries made in the United States in the last 30 years and one of the largest globally in the last three years. The acquisition was made on the basis that the Nanushuk and Alpine fairway in the Pikka Unit contains a discovered resource of 500 million barrels, with upside in the continuation of the fairway into the Horseshoe block to the south of the Pikka Unit. Oil Search's joint venture partners, Armstrong Energy and Repsol, estimate that ultimate recoverable volumes could be more than one billion barrels. This substantial upside will be tested through a comprehensive exploration and appraisal programme, which is planned to take place in early 2019.

The Company also has an option to double its equity in these assets for US$450 million, at any time before 30 June 2019. The option provides the Company with the flexibility to increase its ownership, subject to appraisal results, and then on-sell to a strategic partner to create further value.

The acquisition is consistent with Oil Search's long-term strategic objective to seek material international growth opportunities. Alaska provides Oil Search with world class oil assets with significant upside, immediately adjacent to existing infrastructure, in an established, prolific, oil producing province with an attractive fiscal regime. The assets complement the Company's existing top quartile, high returning PNG gas assets and, being largely oil focused, create a more balanced portfolio that is less exposed to one commodity and one country. Through operatorship,



The substantial upside of the newly acquired Alaskan assets will be tested through a comprehensive exploration and appraisal programme starting in early 2019.

Oil Search will also have greater control over the development of these assets.

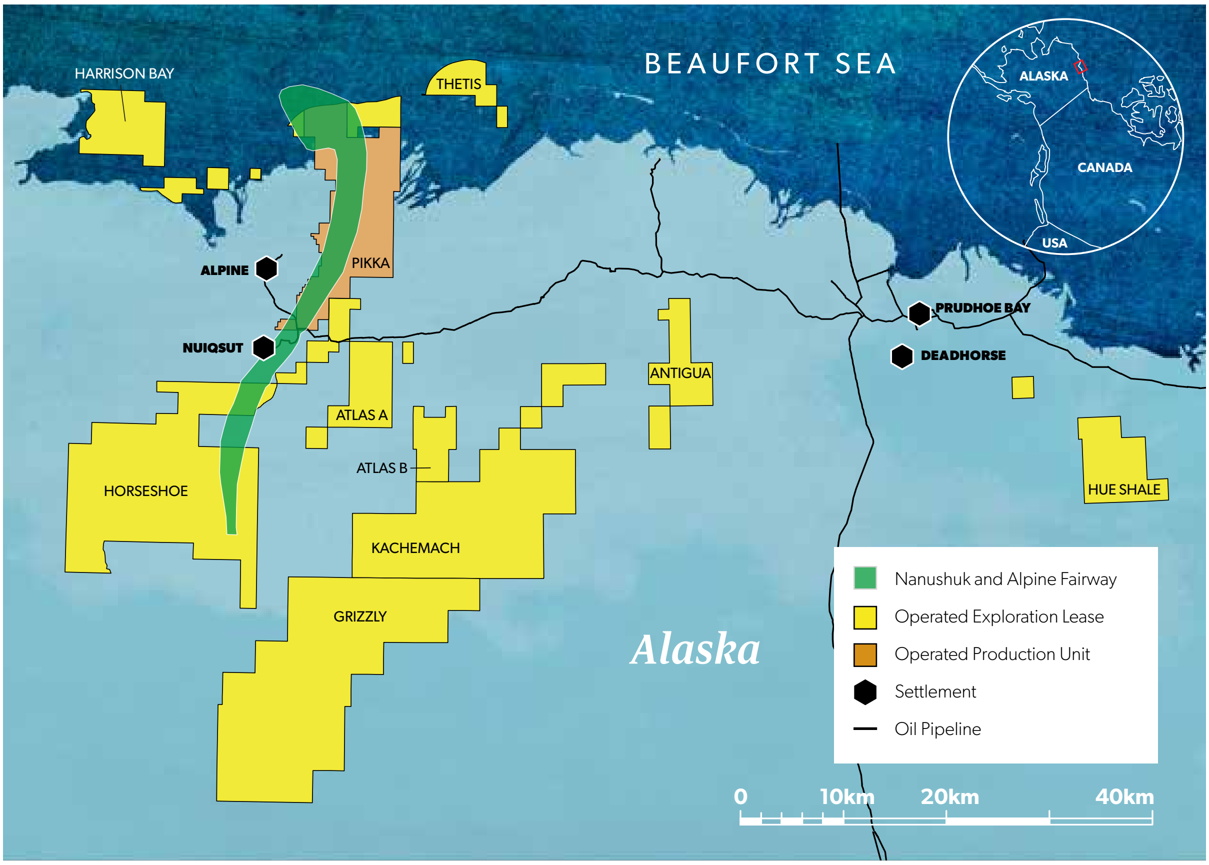
Oil Search has started building an independent, highly experienced, management team, which will be based largely in Anchorage, to develop and operate the Alaskan assets. In addition, the Company has entered into a cooperative agreement with Halliburton, which will provide resources and capability to supplement Oil Search's technical and operating skills on the ground in Alaska.

The Nanushuk and Alpine discovery was made in 2013. 12 wells and seven side-tracks have been drilled to date in the Pikka Unit and Horseshoe area, which, together with 3D seismic, indicate that the fairway extends over 70 kilometres. In January 2018, ConocoPhillips, which operates several adjacent leases, spudded the Putu 2 well and Stony Hill 1 was spudded in February. Both wells will test the extent of the Nanushuk reservoir within the Conoco leases which lie between the Pikka Unit and the Horseshoe Block. A data trading deal is in place to allow Oil Search to access data from the Putu well. The Company will incorporate the results into its appraisal plan, which is expected to comprise up to three wells and three sidetracks in a drilling programme scheduled to take place in early 2019.

Oil Search expects the first phase of the Nanushuk development will be focused on the oil resources within the Pikka Unit. An Environmental Impact Statement process is underway and expected to be completed in the third quarter of 2018. The joint venture is targeting entry into Front End Engineering and Design in 2019, with a Final Investment Decision in 2020. Early engagement with key stakeholders, including local community groups, has commenced on the proposed 2019 drilling campaign and the development.

Alaska North Slope oil assets offer significant upside and complement high-returning PNG gas assets

OIL SEARCH ASSETS IN ALASKA NORTH SLOPE



Oil Search has entered into a cooperative agreement with Halliburton, which will provide resources and capability to supplement Oil Search's technical and operating skills on the ground in Alaska.

Kurdistan Region of Iraq (Taza PSC)

During 2017, Oil Search continued to work with the Kurdistan Regional Government on a relinquishment agreement for the Taza PSC in Kurdistan. The Company withdrew all personnel and de-booked its contingent resources during 2016.

Yemen (Block 7)

During the year, Oil Search continued to work with Petsec to complete the transaction that will see the Company fully exit Yemen. At the end of 2017, completion of the sale was pending relevant approvals. Operations ceased in 2015 due to the security situation in-country.

OBJECTIVES FOR 2018

- Appraise the Muruk gas discovery by drilling the Muruk 2 well, subject to any impacts from the February 2018 earthquake.
- Complete the largest seismic acquisition programme in the Company's history, comprising:
  - Up to approximately 125 kilometres of seismic over a prospect, adjacent to Muruk in the North-West Highlands.
  - Approximately 300 kilometres of seismic in the onshore Papuan Gulf Basin, adjacent to the Elk-Antelope fields.
- Drill Barikewa 3 and Kimu 2 appraisal wells in the Forelands/Gulf to test potential resource upside in these fields and select the optimal commercialisation route.
- Close negotiations on several licence applications and farm-ins, further enhancing the Company's exploration acreage footprint in PNG.
- Progress the development of the Port Moresby power station and make a decision on whether to proceed to construction of the Markham Valley Biomass Project.
- Following the assumption of operatorship of Alaska North Slope assets in March 2018, establish an Alaskan management team in Anchorage and commence planning for the 2019 drilling programme.

CLIMATE CHANGE

Climate change is a significant global issue that poses the challenge of meeting growing energy demands while ensuring supply is sustainable and affordable.

OUR CLIMATE POSITION

During 2017, Oil Search considered the recommendations of the 2017 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), prepared a Climate Change Resilience Report and aligned Oil Search's public disclosures with those recommendations. The Climate Change Resilience Report explains how Oil Search is positioned for a low-carbon world and demonstrates the resilience of the Company's current and growth portfolio. It provides an overview of how the Company manages its climate risks, conducts climate scenario stress tests and the targets and metrics used to monitor performance. The report can be found on Oil Search's website.

As an oil and gas company, Oil Search recognises that it is impossible to decouple climate change from its corporate strategy. The two must be fully integrated. As such, the corporate strategy is focused on having a globally competitive energy portfolio that is sustainable over the long-term.

GOVERNANCE AND CLIMATE RISK MANAGEMENT

The Oil Search Board oversees climate risk management and its potential to influence and inform Corporate Strategy and decision-making. The Board Health Safety

KEY HIGHLIGHTS

Oil Search has made a policy commitment to disclose and report transparently in alignment with the 2017 Financial Stability Board's TCFD recommendations.

The Company has tested our portfolio against International Energy Agency (IEA) New Policies and IEA 450 (2°C) scenarios and the Greenpeace Advanced Energy [R]evolution (~1.5°C) scenario.

The Company's climate scenario analysis indicates long-term resilience and continued economic value generation for Oil Search in a range of decarbonisation scenarios, including a 2°C pathway.

1. Oil Search's LNG expansion project is an 8 MTPA expansion which includes Papua LNG (Elk-Antelope), P'nyang and foundation field gas.

and Sustainability (HSS) Committee supports the Board and oversees the Company's strategies, processes and performance relating to climate change. Oil Search's corporate risk management process aims to ensure the Company has appropriate strategies for managing key risks to its objectives.

In late 2017, the Oil Search Board approved a new stand-alone Climate Change Policy, making its position and commitments around climate change explicit.

Detailed discussion of the Company's climate risks and opportunities can be found in the Oil Search Climate Change Resilience Report.

Oil Search has identified primary controls to help manage its climate risks. These include climate (transition) scenario analysis and the adoption of an internal carbon price.

Climate scenario analysis

Climate scenario analysis forms a key organisational control for identifying and managing climate transition risk, and is an important part of Oil Search's strategy development and decision-making processes.

In 2017, the Company conducted climate scenario analysis to assess the resilience of its current assets and growth assets using three independently published climate scenarios:

- **IEA New Policies Scenario** (IEA NP): Reflects announced government policies (including 2015 Paris pledges)[2].
- **IEA 450 Scenario** (IEA 2°C): IEA's 2-degree Celsius scenario[3].
- **Greenpeace Advance Energy [R]evolution Scenario** (GP AER): Complete decarbonisation scenario (~1.5°C)[4].

Oil Search's material corporate climate risks include:

RISK TYPE	RISK DESCRIPTION	TIME HORIZON	PRIMARY CONTROLS
Transition risk	Changes in demand for our products due to emission reduction policies or technological changes.	**Long-term**	Climate scenario analysis
Operating costs	Increase in operating costs of our long-life assets due to carbon pricing policies or other market mechanisms or regulations.	**Medium and long-term**	Internal carbon price
Reputation risk	Reputational impacts, driven by stakeholder activism and increasing societal expectations that negatively impact our social licence to operate.	**Short, medium and long-term**	Enhanced disclosure in line with TCFD recommendations. Monitoring of changing expectations
Physical risk	Physical impact of climate on our assets and on the communities where we operate.	**Medium and long-term**	Physical climate risk assessment

RESILIENT ASSETS

Oil Search's high quality, globally competitive LNG assets will continue to be resilient under the IEA scenarios tested.

The Company's LNG expansion project's performance is positively impacted under an IEA NP scenario and performs no worse than Oil Search's current low Corporate Economic Assumption (CEA[5]) in an IEA 450 (2°C) scenario.

The LNG expansion project sits on the lower quartile of the cost curve compared to other proposed new projects needed to meet additional LNG demand, making it one of the most resilient LNG projects in a carbon-constrained 2°C world.

In a 2°C scenario, PNG LNG and the Company's LNG expansion project will continue to have positive NPVs and will have economic lives consistent with CEAs.

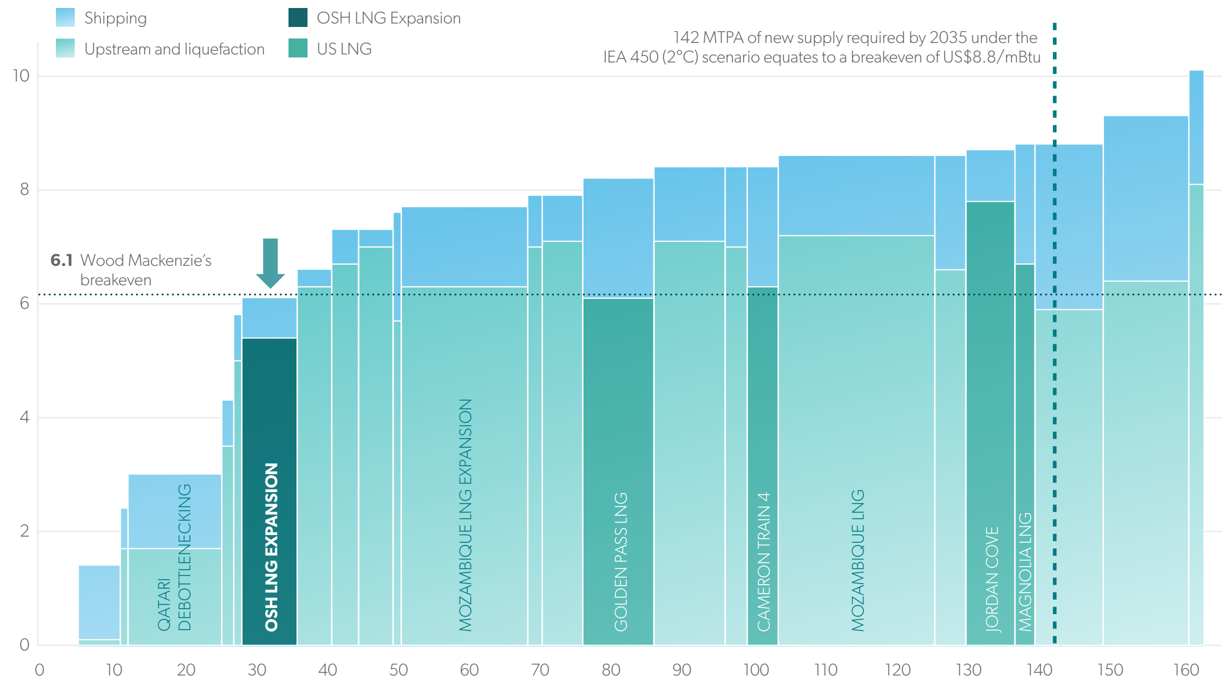
Under the IEA NP, the Nanushuk oil assets perform better than under Oil Search's base CEA.

Under the IEA 450 (2°C) scenario, an additional 20 million barrels of oil per day is required to meet demand. Oil Search's globally competitive Nanushuk oil project is able to meet this additional demand and remains NPV-positive.

There is a low risk of Oil Search's low-cost assets being stranded in a carbon-constrained world.

2. https://www.iea.org/bookshop/720-World_Energy_Outlook_2016
3. https://www.iea.org/bookshop/720-World_Energy_Outlook_2016
4. http://www.greenpeace.org/international/Global/international/publications/climate/2015/Energy-Revolution-2015-Full.pdf
5. Oil Search's Corporate Economic Assumptions (CEA) include High, Base, and Low oil price assumptions. When the Company assesses its investments, it uses the Base CEA oil price as the reference case and tests the High and Low oil prices as sensitivities.

OIL SEARCH'S LNG EXPANSION PROJECT IS ONE OF THE MOST PRICE-RESILIENT LNG PROJECTS GLOBALLY



2035 LNG break-even cost stacks under IEA 450 (Wood Mackenzie, 2017). Cross-section of projects required to meet the additional demand required under an IEA 450 scenario. Excludes projects that are operational or under construction.

As recommended by the TCFD[1], the scenarios selected reflect a wide range of potential climate change outcomes.

The outcome of the scenario analysis demonstrates that the Company's high quality, globally competitive LNG assets will continue to be resilient under the IEA scenarios tested.

PNG LNG and the Company's LNG expansion project continue to have positive Net Present Values (NPV) and will have an economic life consistent with CEAs under the IEA 450 (2°C) Scenario.

The Company's LNG expansion project performs no worse than Oil Search's current low CEA in an IEA 450 (2°C) scenario and is positively impacted under an IEA New Policies scenario.

The expansion project sits on the lower quartile of the cost curve compared to other proposed new projects needed to meet additional LNG demand, making it one of the most price-resilient of new LNG projects globally.

Oil Search's climate scenario analysis indicates long-term resilience and continued economic value generation in a range of scenarios, including a 2°C pathway.

The IEA 450 (2°C) scenario projects an additional 20 million barrels per day of oil is required to meet demand. Oil Search's globally competitive Nanushuk oil project in Alaska is well positioned to meet the additional demand and remains NPV-positive under this 2°C scenario. Under the IEA New Policies scenario, the Nanushuk oil assets are more favourable than the Company's base case.

Use of internal carbon price and introduction of carbon price-linked STI

Oil Search's internal carbon price is country-specific and applied to the base case of project economics. For projects in PNG, the Company applies a US$25 price and for projects in the USA, a US$40 price is applied.

1. https://www.fsb-tcfd.org/publications/final-implementing-tcfd-recommendations/

The price is risk-related and will be reviewed and updated annually. When testing project economics sensitivities, the Company also uses a low and high carbon price.

An internal carbon price embeds awareness and consideration of climate risks in decision-making by:

- Enabling Oil Search decision-makers to consider the future risk of carbon costs (direct or implicit prices) when making capital investment decisions.
- Ensuring carbon price risks are assessed and managed in the same way as any other financial risk.
- Enabling Oil Search's project teams to optimise project design decisions and reduce exposure to future carbon costs.

From 2018, a component of the short-term incentive (STI) scheme will be linked to the use of Oil Search's internal carbon price. This reflects the Company's commitment to managing climate-related risks and is designed to support implementation across the Company.

Please refer to Oil Search's Climate Change Resilience Report for more information on climate change management and analysis.

SUMMARY OF POSSIBLE PORTFOLIO IMPACTS UNDER THE SCENARIOS TESTED

PROJECT	SCENARIO	NPV IMPACT[1]	COMMENTS
PNG LNG (including Oil Search oil assets)	IEA NPS		❖ Economic life not negatively impacted compared to our base case. ❖ NPV impacted by short-term price drop inherent in scenario[2].
	IEA 450 (2°C)		❖ Economic life comparable to our low case. ❖ NPV impacted by short-term prices inherent in scenario.
	GREENPEACE AER (1.5°C)		❖ Value would be eroded under this scenario. However, the project would remain NPV-positive.
LNG expansion project (Elk-Antelope, P'nyang, and foundation field gas)	IEA NPS		❖ NPV impacts are significantly more favourable than our base economic assumptions. ❖ Extends economic life of project by approximately two years.
	IEA 450 (2°C)		❖ NPV and asset economic life impact falls between our base and low economic cases.
	GREENPEACE AER (1.5°C)		❖ Value would be eroded under this scenario. However, the project would remain NPV-positive.
Nanushuk Project[3]	IEA NPS		❖ NPV impacts are more favourable than our base CEA.
	IEA 450 (2°C)		❖ Value is eroded but the project would remain NPV-positive.
	GREENPEACE AER (1.5°C)		❖ Long-term oil price of US$5 significantly impacts the NPV of the project and the project would not be sanctioned.

Positive impact on project economics
NPV positive and above OSH's base CEA

Impact within OSH's base and low case.
NPV positive and within OSH's base and low CEA

Returns are less than planned but asset is still economic and makes positive returns
NPV positive and below OSH's low CEA

Significant negative impact and project does not pay back investment
NPV negative. Project would not be economic if this scenario was to eventuate

1. Compared with Oil Search's internal economic assumptions
2. 30% of PNG LNG's value is realised over the five-year period from 2018-2022. The scenarios show a short-term drop in prices to the US$30s and US$40s starting in 2018, and this negatively impacts the NPV of PNG LNG. Actual oil prices in late 2017 and early 2018 have instead ranged between US$60 and US$70. PNG LNG would have a much higher NPV if the climate scenarios did not have a short-term drop in oil prices and actuals were used. We have chosen to preserve the integrity of the scenario and report the impact using the embedded numbers for this period, not substituting for actuals.
3. Oil Search acquired the Nanushuk assets in November 2017. The climate NPV analysis is based on a conservative acquisition case development concept. The acquisition case is based on a resource of 500 million barrels, compared to the existing joint venture partners' estimates of at least 1.2 billion barrels. The NPV analysis does not include the anticipated design efficiencies, opportunities to realise synergies with existing infrastructure, or the value of our option to double our interest in the asset by mid-2019. It does include the lower USA corporate tax rate that became law in December 2017.

PROMOTING A STABLE OPERATING ENVIRONMENT

In 2017, Oil Search continued to deliver against the goals of its 2020 Social Responsibility Strategy. These goals address Oil Search's long-standing commitment to PNG and ensure the Company can be proud of its activities and performance. Importantly, they support and promote a stable operating environment in PNG.

Oil Search Foundation and Oil Search's Community Affairs team delivering fresh produce to Kikori Hospital.

SOCIAL RESPONSIBILITY AT OIL SEARCH

Oil Search continues to seek to set the standard for private sector contributions in PNG, in alignment with the PNG Government's Vision 2050 goals and the UN Sustainable Development Goals (SDGs).

As part of its commitment to sustainable development in PNG, during 2017 the Company delivered a range of programmes in partnership with the Oil Search Foundation (OSF) and other stakeholders in the areas of health, education and leadership, infrastructure and access to clean water. Improvements were also made in the way the Company manages its social and environmental performance, reflecting its commitment to continuous performance improvement.

AN ONGOING COMMITMENT TO STRATEGIC SUSTAINABLE DEVELOPMENT

In 2017, Oil Search brought several initiatives under the umbrella of its Sustainable Development Strategy, providing a holistic and strategic framework for activities. Currently under development, the Strategy will focus efforts and maximise its impact by enhancing coordination and collaboration across the Company and with the OSF. It will also provide a common measurement framework to enable the impact of sustainable development investment and outcomes to be better tracked and communicated.

Oil Search's commitment to the sustainable development of PNG and its people is one of the ways the Company manages its socio-political risk and maintains a stable operating environment. In 2017, the Company's sustainable development programmes continued to focus on priority areas aligned to the PNG Government's long-term strategic plan for the country, PNG Vision 2050, and the UN SDGs. These include, but are not limited to, health, education, water and sanitation and infrastructure. Oil Search also remains committed to women's empowerment, local content, climate change adaptation and working with the Government to improve PNG's capability in these areas.

Health

Oil Search's network of on-site clinics and medical resources across its operations provides health care services to the local community

Increasing literacy is essential for improving health outcomes, as is providing tools to improve the lives of women and their families.

as well as its workforce. In 2017, more than 4,900 community members in PNG were treated, with Oil Search providing assistance with almost 70 medical evacuations of community members. The Company's medical team also continued to provide clinical expertise to support the work of the OSF at Hela Provincial Hospital.

In 2017, the OSF continued to facilitate outreach patrols to some of the most remote parts of PNG, working closely with local, district and provincial health authorities to provide health services to these communities. During the year, 1,364 outreach patrols and clinics were conducted in the Hela, Southern Highlands and Gulf Provinces and more than 68,380 immunisations were administered in over 50 remote

2020 SOCIAL RESPONSIBILITY STRATEGY GOALS	**2017 PROGRESS**
MAKING PNG LIVES BETTER We aspire to set the standard for private sector contributions to sustainable development in PNG	11 doctors now working with Hela Provincial Hospital Association, up from one in 2016.
	Health outreach patrols continued to be delivered to rural and remote communities in PNG.
	Two new OSF Literacy Libraries were approved for development in 2018.
	77 Papua New Guineans were supported to undertake tertiary studies.
	Two new water projects were delivered, providing approximately 700 local community members with reliable access to clean drinking water.
	US$122 million of infrastructure projects were project-managed by Oil Search, on behalf of the PNG Government, under the Infrastructure Tax Credit Scheme (ITCS).
BEING PROUD OF WHAT WE DO AND HOW WE DO IT We seek to adopt industry best practice to manage material social responsibility issues and exceed stakeholder expectations for governance, environmental and social performance wherever we can	Shutdowns were completed at the Central Processing Facility, Agogo Processing Facility and Gobe Production Facility and an exploration drilling campaign was undertaken at Muruk with no recordable injuries incurred over more than 215,000 hours worked.
	No significant spills attributable to Oil Search or third party contractors occurred.
	Comprehensive requirements for identifying and managing entry into sensitive areas were integrated into Oil Search's procedures on environmental assessment and management.
	A Voluntary Principles on Security and Human Rights (VPSHR)-aligned Memorandum of Understanding was signed with the Royal PNG Constabulary (RPNGC), governing our relationship.
	VPSHR-related clauses were embedded in private security provider contracts and VPSHR training for private security personnel commenced.
	The development of a Responsible Supply Chain Strategy was advanced.

villages, many of which had not received access to health services in decades.

The OSF continued to support the PNG Government's strategies for health worker training and upskilling to manage the threat of tuberculosis in PNG. It also worked with communities and NGOs to train peer outreach workers on how to educate and create awareness about HIV and sexually-transmitted infections in PNG's high-burden HIV provinces.

Hela Provincial Hospital

In Hela Province, Oil Search continued to provide communities with access to health services, which is a key component of the Company's aim of promoting a stable operating environment in this challenging and sometimes unstable region. The OSF, in partnership with the Hela Provincial Health Authority (HPHA), made further improvements to the Hela Provincial Hospital's management systems and engaged critical medical staff. With support from the OSF, a new governance system was established and an experienced and skilled Executive Team recruited. Eleven doctors are now working with the HPHA, compared to only one in 2016, with all but one being Papua New Guinean. In 2017, Hela Provincial Hospital was rated among the best-managed hospitals in PNG, after achieving the highest commendation of an 'Unqualified' rating from the PNG Auditor General's Office.

Education and leadership

Improving literacy and access to quality education in PNG is a sustainable development priority for the PNG Government and for Oil Search. Early literacy is directly linked to retention in school, higher graduation rates and enhanced productivity in adult life. Increased literacy is also essential for improving health outcomes and providing women with the tools to improve their lives and those of their families.

In 2017, Hela Provincial Hospital was rated among the best-managed hospitals in PNG

In 2017, Oil Search and the OSF continued to deliver programmes to improve education and literacy outcomes in project area communities. The OSF Literacy Library programme continued in Tari, expanding from early childhood literacy to include adult literacy programmes for women, in response to local demand. Following the successful early childhood model developed by local NGO, Buk bilong Pikinini, the programme has been delivered in partnership with Buk bilong Pikinini, local community groups and Divisions of Education. Two additional libraries were also approved for construction in Hela Province and Gulf Province in 2018.

Oil Search continued to support schools in project area communities by maintaining and upgrading educational facilities, through the PNG Government's ITCS. The Company also donated essential school supplies, including reading books, stationery and teaching materials. Oil Search continues to create opportunities for students from project areas to take up tertiary studies in institutions throughout PNG, with 77 students supported in 2017.

Improving literacy and access to quality education in PNG is a sustainable development priority for the PNG Government and Oil Search.

Water flows at the launch of the Hebaiya Water Project.

Improving access to clean water

Many people in rural PNG have limited access to sanitation and safe drinking water. Combined with the impact of flooding, frost, drought and water and food-borne diseases, this makes communities vulnerable to water scarcity and related health and hygiene issues.

In 2015, Oil Search began a major drought relief initiative designed to ensure an ongoing clean water supply for villages in the Company's project areas in the Southern Highlands, Hela and Gulf Provinces. In 2017, the Company handed over a water pump and storage tanks to the Hebaiya villages in the Nipa-Kutubu District of the Southern Highlands, whose access to clean water had been impacted by drought. The equipment will provide more than 500 people with ongoing access to drinking water. The Company also provided a 9,000-litre water tank to Ogomabu village on the Kikori River in Gulf Province, where water is scarce as waterholes and springs are contaminated by river floods and siltation. This initiative will provide approximately 200 people with access to clean water.

Support for projects that improve access to clean water will continue to be a priority in 2018, particularly following the February earthquake.

Infrastructure

In 2017, Oil Search continued to support critical infrastructure development in PNG. Through the PNG Government's ITCS, the Company project-managed on behalf of the PNG Government the construction of roads, police barracks and hospital and school redevelopments valued at US$122 million.

Construction of APEC Haus in Port Moresby commenced under the PNG Government's National Infrastructure Tax Credit Scheme and is expected to be completed by mid-2018. APEC Haus will provide a new national government function centre that will be used to host the Asia-Pacific Economic Cooperation (APEC) Summit in 2018.

Construction of the 44 kilometre Erave-to-Samberigi road, linking PNG's north and south road network, continued. When completed, the road will connect local communities and provide material opportunities for trade and business development. Oil Search also undertook general road and bridge maintenance on the Kutubu Access Road, providing access for more than 62,000 Foi, Fasu and Moran area Huli people to larger service areas in northern PNG.

Work commenced on several projects to upgrade hospital and education facilities in project area communities. The construction of a new administration building, outpatients ward, general ward, maternity and delivery ward began at the Kupiano Hospital, which services a local catchment area of 48,000 people. Facilities at the Bimai High School were also upgraded, with new classrooms, staff houses and dormitories built for students.

WOMEN'S EMPOWERMENT

PNG experiences high levels of gender-based violence, especially family and sexual violence directed towards women and children. An estimated two-thirds[1] of women, across both rural and urban areas, experience sexual violence during their lifetime.

Oil Search works collaboratively with the OSF to implement women's protection and empowerment initiatives. These ensure families have access to information and support that help them address gender-based violence and are designed to create positive change within their communities.

In 2017, through the OSF Small Grants Scheme, employees were provided with opportunities to raise awareness

1. Overseas Development Institute 2015, Gender Violence in Papua New Guinea.

in their home communities to combat family and sexual violence. OSF ran a Family Protection Act awareness session for employees in partnership with the PNG Department of Justice and the Attorney General and encouraged employees to participate in events to support the elimination of violence against women.

The OSF implemented a comprehensive programme to address gender, family and sexual violence issues in Hela Province. It provided support for Hela Provincial Hospital's Family Support Centre and entered into a partnership with Femili PNG Inc, to strengthen the response of the HPHA's family and sexual violence assault service. The OSF is engaging with the Government and district health services to expand family and sexual support services into the Southern Highlands and Gulf Provinces in 2018.

During the year, Oil Search sponsored PNG's first women's Rugby league team, the PNG Orchids, enabling their participation in the inaugural Women's Rugby League World Cup in Australia. The Company's sponsorship helped to increase the team's profile in PNG, using the national sport to raise awareness of gender equality and empowering women to represent, lead and inspire through sport.

HUMAN RIGHTS

Respect for human rights and the desire to do no harm underpins a socially responsible approach to Oil Search's operations in host countries and across the Company's supply chain. Together with its commitment to sustainable development, this approach helps the Company maintain strong community relations and a stable operating environment.

In 2017, with assistance from global risk analytics expert Verisk Maplecroft, Oil Search updated its country human rights risk profile for PNG. This update reaffirmed labour rights, particularly in the supply chain and in security management, as two of the Company's most important human rights issues.

In response to this and growing awareness in Australia and globally, the Company sharpened its focus on the important human rights issue of modern slavery. Significant progress was made with the development of a Responsible Supply Chain Strategy which will shape the way Oil Search manages this risk to its people and business.

In line with Oil Search's multi-year Voluntary Principles on Security and Human Rights (VPSHR) Implementation Plan, the Company worked to strengthen its engagement with public and private security providers in PNG. In 2017, the Company signed a VPSHR-aligned Memorandum of Understanding with the Royal PNG Constabulary (RPNGC), embedded VSPHR-related clauses in private security provider contracts and commenced VPSHR training for private security personnel. In September 2017, Oil Search convened and hosted a security managers' meeting in PNG for eight VPSHR participant extractive companies, to share current practices, experiences and challenges, with the objective of ensuring consistency with peers in PNG. This focus has become increasingly important as law and order issues continue to escalate throughout PNG and as the

Oil Search sponsored PNG's first women's Rugby League team, the Oil Search PNG Orchids, enabling their participation in the inaugural Women's Rugby League World Cup in Australia.

Oil Search is proud of its long history and experience working alongside local landowners and landowner companies.

PNG Government seeks to secure a more stable fiscal path to deliver on its obligations to project communities and landowners.

The Company publicly disclosed its inaugural VPSHR Report in February 2018. This was prepared in accordance with the VPSHR Verification and Reporting Framework and is available on the Company's website.

ASSISTING WITH EFFECTIVE DISTRIBUTION OF BENEFITS

The PNG Government has a responsibility to distribute the financial benefits it derives from oil and gas to project area communities in a timely way. This helps ensure the ongoing stability of Oil Search's operating environment and it is a Company priority to actively assist the PNG Government in meeting this obligation.

During 2017, landowners from PNG LNG Project host communities called on the Government to progress the delivery of commitments made under the PNG LNG Project Umbrella Benefits Sharing Agreement. While royalty payments were distributed to the PNG LNG plant site and Hides landowners in the second half of 2017, there are still significant payments outstanding.

In 2017, Oil Search operations at Hides and NW Moran were temporarily interrupted due to community unrest resulting from the non-payment of these Government commitments. In early 2018, activities at Moran were also disrupted.

During these incidents, Oil Search drew on its long history and experience in PNG to support landowners through its network of Community Affairs team members and Village Liaison Officers. Oil Search will continue to work with the local landowner groups and government to facilitate communication and assist the Government in their efforts to meet its obligations.

Oil Search aims to minimise the potential for these types of conflicts by reporting transparently payments to the Government and providing logistical support to the Government in its efforts to engage with communities and meet its obligations.

OBJECTIVES FOR 2018

- Continue to embed climate risk in decision-making and organisational controls.
- Continue implementation of a Human Rights Plan with finalisation of a Human Rights Policy and Responsible Supply Chain Strategy development. Complete Grievance Management System review.
- Support efforts by the PNG Government to deliver on its project commitments to landowner beneficiaries.
- Advance an integrated and strategic approach to sustainable development in PNG.
- Continue to engage and empower employees in social responsibility initiatives.

ORGANISATIONAL CAPABILITY

In 2017, Oil Search continued to focus on employee development to build organisational capability. The Company exceeded its four-year Diversity and Inclusion Strategy goals and continued to support women and PNG citizens in reaching leadership roles. In addition, the first employee engagement survey was undertaken and a new innovation platform was introduced.

In 2017, Oil Search continued to focus on employee development to build organisational capability.

DIVERSITY AND INCLUSION

2017 was the final year covered by Oil Search's 2014-2017 Diversity and Inclusion Strategy. Pleasingly, the Company exceeded all of the goals set in the strategy, making improvements in the key areas of female and PNG national representation in the workforce.

During the year, Oil Search remained focused on improving gender diversity across the organisation. Fiona Harris returned to the Oil Search Board in January, increasing the number of women on the Board to two. The percentage of females in leadership roles[1] increased to 22%, from 14% in 2013, representing the fourth consecutive year of improvement since the Diversity and Inclusion strategy was introduced. The representation of females in succession plans for leadership and management roles also increased to 34% in 2017, reflecting the Company's ongoing focus on developing and recruiting a pipeline of female leaders. The percentage of female graduates and apprentices also increased, from 20% in 2013 to 36% in 2017.

The Company exceeded its 2014-2017 Diversity and Inclusion goals, with the proportion of females and PNG citizens in leadership roles increasing to 22% and 23%, respectively

1. Includes Oil Search Limited employees working with the Oil Search Foundation that are in roles classified as senior management and above.

2014 – 2017 DIVERSITY AND INCLUSION GOALS

		2013 BASELINE	2017 RESULT
1	Increase percentage of females in senior leadership roles by 2017	14%	22%
2	Increase percentage of PNG citizens in senior leadership roles by 2017	21%	23%
3	Increase percentage of female graduates and apprentices by 2017	20%	36%
4	Increase representation of females and PNG citizens in succession plans for leadership and management roles	28% and 22%[1]	34% and 38%

1. 2014 review. No review conducted in 2013.

2018 – 2020 DIVERSITY AND INCLUSION GOALS

1. Gender diversity	At least 30% female representation of Executive General Managers on the Executive Leadership Team by 2020.
	30% female representation at Senior Manager level by 2020.
	50% female representation in graduate intakes over 2018-2020.
2. Citizen development	Increase the percentage of PNG citizens in leadership roles in the PNG workforce to 73% by 2020.
3. An inclusive workplace	Year on year improvement of the "Inclusion Index" of the Employee Engagement Survey (2017 as base).
	Build culture of inclusion through targeted training and awareness campaigns.
	Remove barriers to flexible working in office locations.
	Greater communication of the benefits of diversity and inclusion beyond gender and nationality.

Clear development pathways continued to be created for high-performing citizen employees, with the percentage of PNG citizens in leadership roles increasing from 16% in 2014 to 23% in 2017. This was also reflected in an increase in the representation of PNG citizens in succession plans for leadership and management roles, which increased from 22% in 2014 to 38% in 2017.

Building on this success, Oil Search has established a 2018-2020 Diversity and Inclusion Strategy, with clearly stated 2020 goals, focused on the key areas of gender diversity, citizen development and an inclusive workplace.

In the second half of 2017, the Company introduced the *Leading Our Way for Women* programme. Targeted at high potential women in both Sydney and PNG, the programme is designed to create a cohort of female leaders with the confidence and capability to operate as senior leaders and role models within the business, building their readiness to move into senior and executive leadership roles. 18 participants were selected in the inaugural year.

During the year, Oil Search also conducted pay equity analysis which indicated no apparent gender bias in levels of fixed remuneration or the allocation of performance ratings and short-term Incentives. When comparing like-for-like roles, the study showed no material gender pay difference in technical and non-technical roles. However, the under-representation of women in higher-paying technical roles did result in a disparity between average male and average female salaries, which will only be addressed by attracting and recruiting more females to these roles. To support this, in 2017 the Company worked to make role advertisements and communication about careers at Oil Search attractive to female candidates. The Company also trialled 'blind' recruitment, where a candidate's name and other gender markers are removed from job applications, and will work to include this in its preferred supplier agreements in 2018.

Citizen Development Programme

Oil Search strongly believes that its capability and resilience are strengthened through a diverse and inclusive workforce that reflects the areas in which the Company operates. Through the Citizen Development Programme (CDP), introduced in 2016, Oil Search is committed to providing development opportunities and pathways into leadership roles for its high-performing PNG citizen employees.

At the end of 2017, all 65 CDP participants had a tailored development plan in place, designed to address their individual development objectives. During the year, Oil Search also:

- Established a clear competency-based development framework for CDP participants, aligned with the Oil Search behaviours and general leadership development principles.
- Introduced a series of residential 'Lead Self' workshops to commence each participant's development journey.
- Built a team of high-quality leadership coaches to support the CDP participants and their leaders.
- Conducted talent review workshops with Production Operations and Operations Support teams to identify high-potential talent.
- Conducted a global talent search to identify high potential PNG citizens living abroad with the potential to join Oil Search in the future.

In 2017, the CDP focused on the development of both technical and leadership capability, to enable more PNG citizens to meet the competency requirements for leadership roles. During the year, 11 CDP participants moved into leadership roles in the areas of Production, Operations, Drilling and Finance.

In 2018, the programme will also look at long-term PNG talent development through an Oil Search scholarship programme, targeting high school and university students.

EMPLOYEE ENGAGEMENT

In 2017, Oil Search conducted its first employee engagement survey using the Q^{12} survey methodology and Gallup Inclusion Index. The objective was to establish a baseline understanding of employee satisfaction and engagement across a range of measures and to understand whether employees believe Oil Search is an inclusive workplace. These feelings of inclusion are recognised as a key contributor to the emotional connection an employee has to their work, which drives business performance, a positive attitude and the level of discretionary effort they will apply.

In 2017, almost 80% of employees[1] participated in the employee engagement survey, a high participation rate for a company's first survey. The survey covered employee perceptions in areas including having the basic tools at work, leadership and individual contribution, teamwork, growth and social responsibility. The result was generally positive, with the overall satisfaction score averaging 3.98 out of a maximum score of 5.

Employees clearly recognised Oil Search's commitment to social responsibility, that their jobs were aligned with the overall mission and purpose of the Company and generally felt their opinions are valued. In 2018, an organisation-wide action plan will be implemented that focuses on recognition, learning and growth and leadership visibility. The Company is committed to responding to the engagement survey in a transparent and comprehensive way to ensure Oil Search is the industry's, and PNG's, employer of choice.

EMPLOYEE DEVELOPMENT

Highly capable employees contribute to the overall success

Oil Search is committed to providing development opportunities and pathways into leadership roles for its high-performing PNG citizen employees.

1. Employee refers to Oil Search employees, casual employees and contractors who hold established positions at Oil Search.

CHANGING LIVES WITH OIL SEARCH'S FIRST HOME OWNERSHIP SCHEME

Oil Search offers market leading benefits to employees, enabling the Company to attract and retain high quality talent, as well as demonstrate its commitment to PNG's development.

Owning a home contributes to family wellbeing and creates opportunities for long-term wealth creation. However, access to affordable housing has been a long-standing issue in Port Moresby. High property prices combined with high home loan interest rates has made applying for a home loan unaffordable for most Papua New Guineans.

To address this, in February 2017, Oil Search launched its first Home Ownership Scheme, designed to help PNG citizen employees buy or build their first home on titled or state leased land. Under the Scheme, the Company will advance funds to help eligible employees secure financing for a property. This aligns with the PNG Government's First Home Ownership Scheme which creates a pathway for Papua New Guineans to have access to specially structured loans to acquire their first home.

During 2017, 120 employees were approved to participate in the Scheme, a number of whom collected the keys to their new homes during the year.

and effectiveness of the Company. Investing in employee development enables the Company to attract new talent and retain a workforce of highly skilled people who are willing and able to achieve its objectives. This investment also creates a pipeline of people who are ready to transition into leadership roles.

During 2017, Oil Search's Employee Development Strategy was designed with the support of employees and external consultants, involving substantial consultation and workshops with leaders in PNG and Australia. The strategy, endorsed by the Executive Leadership Team in late 2017, supports the delivery of the Company's strategic objective of enhancing organisational capability. The three-year (2018-2020) Strategy provides a structured development framework and focuses on outcomes to support business success. This will be achieved by increasing workforce capability and engagement and the development of a pipeline of future leaders through targeted development initiatives.

SAFETY

Disappointingly, the Company's 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 was introduced, "Plan, Do, Check" 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.

EMBARKING ON BUSINESS TRANSFORMATION

In late 2017, the Oil Search Board approved a multi-year transformation project designed to integrate processes and data across the business and improve efficiencies.

An Enterprise Resource Planning system will be implemented through a staged release process, delivering integrated, end-to-end business processes in line with industry best practices. Subject Matter Experts (SMEs) from across Oil Search have joined the business transformation project team to lead the direction for each function. The SMEs will also work closely with the project's change management and training partner to help guide the business through this transformation.

Following the completion of the Enterprise Design phase of the project, the focus for 2018 is to build, test and deploy the new processes and to prepare the business prior to the new systems and processes going live.

When complete, this transformation project will provide leaders throughout the Company with accurate and timely information to make quality decisions that will enable Oil Search to grow and expand.

In 2017, Oil Search employees proudly walked in support of the International Day for the Elimination of Violence Against Women in Port Moresby.

CODE OF CONDUCT

Oil Search has strong values that underpin the way its employees and contractors work and that guide the Company in securing a successful and sustainable future. The Company's Code of Conduct sets out the required standards of behaviour and expectations for interactions with others, the way decisions are made and the way in which employees' responsibilities are carried out at work.

Following the revision of the Code of Conduct in 2016, in 2017 the Company implemented an employee training programme to build awareness and understanding of the revised Code of Conduct, including scenario-based sessions and workshops. Training requirements were also strengthened through introducing mandatory annual refresher training on the Code.

All employees are now also required to complete refresher training on Oil Search's Corruption Prevention policy and procedure every two years. In 2017, Oil Search identified employees, agency contractors, officers and business partners in roles that may be exposed to bribery and corruption risks and conducted face-to-face anti-corruption and bribery training for these individuals. In 2018, the Company will expand its bribery and corruption awareness training to include external stakeholders, such as landowner companies, schools and Government departments.

In 2017, there was an increase in the number of reported and suspected breaches of the Code of Conduct, all of which were investigated during the year. Greater awareness of the Oil Search Hotline and the Code of Conduct requirements, as well as a share trading review, contributed to this increase. After investigation, three verbal warnings and 17 written warnings were issued and eight terminations occurred. These resulted from breaches relating to conflicts of interest, business ethics, share trading, harassment and bullying and health, safety, environment and security. No instances of discrimination were reported.

Five calls were made to the whistle-blower hotline during the year, with one call related to a safety concern and the remainder related to allegations of conflict of interest. All issues raised by whistle-blowers were investigated and closed out.

DEMONSTRATING COMMITMENT TO SOCIAL RESPONSIBILITY

During 2017, Oil Search employees demonstrated their commitment to social responsibility through a number of initiatives:

- Recognising the power sport has, as a platform, to inspire women to work towards their dreams, Oil Search sponsored the first ever PNG National Women's Rugby League team. Sydney-based Oil Search employees came together to form a Supporters Club to cheer on the PNG Orchids in the Women's Rugby League World Cup in November and to acknowledge the path they have set for greater women's empowerment in PNG.
- The Oil Search Women's Network held a number of book and clothing drives, with 35 boxes of reading material and children's clothing donated to schools near Lake Kutubu and Semberigi in the Southern Highlands Province of PNG.
- Between April and June 2017, employees in Sydney participated in the 'Run, Ride and Row to PNG' initiative, raising more than

US$4,000 to support the Oil Search Foundation in procuring clothing for newborn babies and postpartum packages for women in Kikori, Gulf Province.

- In November, Oil Search employees walked in support of the Elimination of Violence Against Women Day in Port Moresby. The Company invited other organisations to join in the walk, with more than 150 people participating. After the walk, Oil Search employees shared their thoughts about the value of eliminating family and sexual violence with members of the public, at an information stand set up by employees near the Oil Search office.
- 51 employees and contractors in Port Moresby participated in the corporate blood drive in support of the Port Moresby General Hospital Blood Bank.

FOSTERING INNOVATION

Characteristics of a high performance culture include a commitment to innovation and a desire to seek or create new opportunities for competitive advantage. In 2017, Oil Search launched an online innovation platform, The Hatchery, to identify new ways to solve important business or stakeholder needs through co-creation, sharing and learning. The process is dynamic and collaborative, with the selected initiatives supported from conception to implementation by a campaign sponsor from the Executive Management Team. During the year, challenges were issued to employees for innovative ideas to:

- Reduce drilling logistics costs.
- Make use of unmanned aerial vehicles in oil and gas activities.
- Safely and reliably increase daily production.
- Contribute to making PNG lives better.

OBJECTIVES FOR 2018

- Pursue the Oil Search 2018-2020 Diversity and Inclusion goals, focused on continuous improvement in the areas of gender diversity, citizen development and an inclusive workplace.
- Deliver the Citizen Development Programme initiatives to sustainably increase the representation of PNG citizens in leadership roles.
- Implement an organisation-wide plan addressing the results and feedback from the 2017 Employee Engagement Survey.
- Implement the Employee Development Strategy to develop talent and build a sustainable pipeline of future leaders.
- Implement Organisation and Capability resource plans to address key business needs in areas such as Alaska, Stakeholder Engagement and Commercial.
- Continue to promote the Oil Search Code of Conduct by conducting bribery and awareness training for external stakeholders.
- Refresh the Enterprise Management System and the Oil Search Way and support The Hatchery innovation initiative, to foster collaboration and problem solving across the Company.

RESERVES AND RESOURCES

Despite record production in 2017 of 30.3 mmboe, total proved and probable (2P) gas reserves and total contingent (2C) gas resources increased 3.4%, to 6,341 bcf. Total 2P and 2C oil and condensate reserves and resources also rose by 1.5%, to 125.8 mmbbl. Based on 2017 production, 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.

OIL AND GAS RESERVES

At 31 December 2017, the Company's Proved (1P) Reserves were 59.1 mmbbl of oil and condensate and 2,040.5 bcf of gas. Proved and Probable (2P) Reserves were 73.0 mmbbl of oil and condensate and 2,313.7 bcf of gas.

The key changes in 1P and 2P Reserves since 31 December 2016, which are summarised in Tables 1 and 2, are as follows:

- Reserves at 31 December 2017 have been adjusted for net production of 7.4 mmbbl of oil and condensate and 111.1 bcf of gas[1].
- During the year Netherland, Sewell & Associates, Inc. (NSAI) were engaged by Oil Search to assess Reserves and Resources in the Kutubu Complex, Agogo, and Moran oil fields. This independent audit resulted in increases to Estimated Ultimate Recoveries (EUR) for all the fields assessed, with the majority of the increase seen in the Kutubu Complex and Agogo.
- There were minor changes in the Hides GTE 1P Reserve booking, reflecting a change to gas nominations under the Hides Gas Sales Agreement.
- There have been no changes to the Expected Ultimate Recovery (EUR) for oil and gas associated with the PNG LNG Project, or oil in the Gobe oil fields. Reserves in both the 1P and 2P categories reflect the year-end 2016 position less 2017 production volumes.

Developed and undeveloped Reserves are shown in Table 3. Undeveloped gas and condensate Reserves are related to the PNG LNG Project, where the construction of additional infrastructure is required prior to the commencement of gas export, consistent with the approved development plan. Undeveloped oil Reserves are largely associated with future development drilling in producing oil fields.

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

CONTINGENT RESOURCES

At the end of 2017, the Company's 2C Contingent Resources comprised 4,027.4 bcf of gas, up from 3,709.2 bcf at the end of 2016, and 52.7 mmbbl of oil and condensate, up from 48.3 mmbbl.

The key changes in 2C Contingent Resources since 31 December 2016, which are summarised in Tables 1 and 2, are as follows:

- The addition of 174.1 bcf gas and 1.7 mmbbl condensate at PDL 9/ PPL 402, which represents the Resource identified in proximity to Oil Search's successful Muruk 1 and sidetrack wells drilled in 2016/17 (see below for further details).
- 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, has resulted in the addition of 73 bcf gas and 1.3 mmbbl condensate at P'nyang (PRL 3) and 71 bcf gas and 0.6 mmbbl condensate at Elk-Antelope (PRL 15).
- At Kutubu and Agogo, the additional reserves resulting from the NSAI audit, noted previously, have resulted in the addition of 0.9 mmbbl oil and condensate to the 2C category, reflecting the additional volumes beyond the current economic limit of the respective fields.

Note that additional Resources as a result of the acquisition of interests in the Pikka Unit and Horseshoe Block in Alaska have not been included in the year end Reserves and Resources Statement for 2017 because the transaction was not completed until February 2018.

RESERVES AND RESOURCES

As highlighted in Table 4, at the end of 2017, Oil Search's total 2P oil and condensate Reserves and 2C Contingent Resources were 125.8 mmbbl, up from 124.0 mmbbl at year-end 2016. The Company's total 2P gas Reserves and 2C Contingent Resources were 6,341.1 bcf, up from 6,134.1 bcf at the end of 2016.

MURUK, PDL 9 AND PPL 402 – INITIAL BOOKING OF CONTINGENT RESOURCE

174.1 bcf gas and 1.7 mmbbl of condensate has been booked for the first time in the 2C Contingent Resource category, relating to the successful Muruk drilling programme. This programme comprised the Muruk 1 well and three sidetracks, drilled by Oil Search in Petroleum Prospecting Licence 402 (PPL 402), where Oil Search (as operator) holds a working interest of 37.50%. The current mapping of the Muruk field is based on seismic data and extends across both PPL 402 and Petroleum Development Licence 9 (PDL 9), where Oil Search holds an economic interest of 24.42%.

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

- Data acquired from the Muruk 1 well and its three sidetracks (ST1, ST2, and ST3), drilled between November 2016 and June 2017. Data from well logging during and after drilling have been used to determine the fluid content and most likely fluid contacts in the sandstone reservoir. This approach includes the analysis of reservoir pressure data and samples of hydrocarbons brought to surface during wireline logging in Muruk 1.
- The interpretation of data acquired during the drill stem testing of Muruk 1ST3, including the analysis of reservoir hydrocarbon samples recovered to surface.
- The interpretation of seismic data and data from offset wells, in particular the wells in the Hides and Juha fields.

Oil Search has conducted a detailed assessment of all available data to reach a position on the Contingent Resource potential of the field. Contingent Resource volumes have been estimated by combining in-place volume estimates from geological modelling with recovery factor estimates from analogue fields. A deterministic approach was used to estimate the reported volumes for the Muruk discovery.

These Resources are considered to be contingent on the confirmation of a commercially viable development project. Additional seismic data is currently being gathered and a second well, Muruk 2, to test the north-west extent of the field is planned to be drilled in 2018 which will provide further data points.

ELK-ANTELOPE, PRL 15, AND P'NYANG, PRL 3 – INCREASE IN BOOKED 2C CONTINGENT RESOURCE

Using the guidance provided by the Petroleum Resources Management System (PRMS), minor changes to Contingent Resource bookings for the Elk-Antelope gas fields and the P'nyang gas field have been made in 2017. Both of these bookings have been updated to be consistent with definitions and assumptions used for Oil Search's other Contingent Resource bookings and reflect production of tail gas beyond turndown rates associated with transmission to, and operation of, a distant LNG train.

1,473 bcf dry gas and 13.1 mmbbl of condensate were previously booked in the 2C Contingent Resource category relating to Oil Search's 22.835% economic interest in Petroleum Retention Licence 15 (PRL 15) in the Gulf Province of PNG, which contains the Elk-Antelope gas fields. Inclusion of the tail gas results in the addition of 71 bcf of dry gas and 0.6 mmbbl of condensate.

1,348 bcf of dry gas and 20.2 mmbbl of condensate were previously booked in the 2C Contingent Resource category relating to Oil Search's 38.5% economic interest in Petroleum Retention Licence 3 (PRL 3) in the Western Province of PNG, which contains the P'nyang gas field. Inclusion of the additional tail gas results in the addition of 73 bcf of dry gas and 1.3 mmbbl of condensate.

These Contingent Resource volume changes have been assessed using the field models and development plans used for the year-end 2016 Contingent Resource bookings. As such, these amendments do not reflect any changes to the assessment of total hydrocarbons in place.

The Elk-Antelope and P'nyang Resources are considered to remain contingent on a number of factors, including additional technical studies, the confirmation of a commercially viable development project, acceptable project financing and the negotiation of, and commitment to, future gas sales contracts.

GOVERNANCE AND 2018 AUDIT PLAN

The governance arrangements for the reporting of hydrocarbon Reserves and Resources are based on Oil Search's Resource Management and Audit Process (RMAP), which consists of the following:

- A Technical Reserves Committee (TRC) which assesses all proposed changes and additions to the Company's Reserves and Resources database, utilising advice and contributions from peer review and subject matter experts, where appropriate.
- The TRC reports to the Reserves Operating Committee (ROC), consisting of senior management from technical and commercial disciplines, for the sanction of changes proposed by the TRC.
- Final statements are subject to review and endorsement by the Audit and Financial Risk Committee prior to approval by the Board.

Oil Fields

Under the Company's Reserves Management and Audit Process, oil fields are subject to independent audit every three years, or alternative intervals under some circumstances (for example, where anticipated changes may or may not be material). The Kutubu and Moran fields were audited at year-end 2017 by independent auditor, NSAI. The Gobe oil fields were audited in 2015, also by NSAI.

PNG LNG Project

Given that the PNG LNG Project Resources were audited in 2016, there is no reason for further audit in 2018.

PRL 3

Gas Resources at P'nyang (PRL 3) will be recertified by the Joint Venture in 2018 following the drilling of the recent, successful P'nyang South 2ST1 appraisal well. This recertification is underway and is being managed by the Operator, ExxonMobil.

PRL 15

Two separate audits of the Resources at Elk-Antelope were undertaken by NSAI and Gaffney Cline & Associates in 2016 as part of the First PAC Certification. These audits were updated by the same auditors in 2017 to include the results of Antelope 7 for Oil Search internal purposes. There is no requirement for further audit in 2018.

The Second PAC Certification will occur one year after delivery of the first commercial LNG cargo.

Muruk

An independent certification ofthe Muruk field may occur in 2018, subject to the results of the Muruk 2 well.

TABLE 1

2017 OIL AND CONDENSATE RESERVES AND RESOURCES RECONCILIATION WITH 2016

PROVED OIL AND CONDENSATE RESERVES (MILLION BARRELS)

Licence/Field	End 2016 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 Reserves
PDL 2 – Kutubu	12.1	2.6	3.4	–	12.9
PDL 2/5/6 – Moran Unit	7.0	1.3	0.7	–	6.4
PDL 4 – Gobe Main	0.0	0.0	–	–	0.0
PDL 3/4 – SE Gobe	0.2	0.1	–	–	0.1
PDL 1 – Hides GTE	–	–	–	–	–
PNG LNG Project	43.1	3.5	–	–	39.6
Total	**62.3**	**7.4**	**4.2**	**–**	**59.1**

PROVED AND PROBABLE OIL AND CONDENSATE RESERVES (MILLION BARRELS)

Licence/Field	End 2016 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 Reserves
PDL 2 – Kutubu	16.7	2.6	4.2	–	18.3
PDL 2/5/6 – Moran Unit	10.6	1.3	0.6	–	10.0
PDL 4 – Gobe Main	0.1	0.0	–	–	0.1
PDL 3/4 – SE Gobe	0.3	0.1	–	–	0.2
PDL 1 – Hides GTE	–	–	–	–	–
PNG LNG Project	48.0	3.5	–	–	44.6
Total	**75.7**	**7.4**	**4.8**	**–**	**73.0**

2C CONTINGENT OIL AND CONDENSATE RESOURCES (MILLION BARRELS)

Licence/Field	End 2016 2C Resources	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 2C Resources
PNG LNG Project Fields oil and condensate	1.6	–	–	–	1.6
Other PNG oil and condensate	46.7	–	4.5	–	51.1
Total	**48.3**	**–**	**4.5**	**–**	**52.7**

* See notes on page 69.

TABLE 2

2017 GAS RESERVES AND RESOURCES RECONCILIATION WITH 2016

PROVED GAS RESERVES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2016 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 Reserves
PDL 2 – Kutubu	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	10.7	3.3	–	–	7.4
PDL 1 – Hides GTE	3.2	1.0	1.0	–	3.2
PNG LNG Project	2,136.8	106.9	–	–	2,029.9
Total	**2,150.7**	**111.1**	**1.0**	**–**	**2,040.5**

PROVED AND PROBABLE GAS RESERVES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2016 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 Reserves
PDL 2 – Kutubu	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	14.2	3.3	–	–	10.9
PDL 1 – Hides GTE	5.0	1.0	–	–	4.0
PNG LNG Project	2,405.6	106.9	–	–	2,298.8
Total	**2,424.9**	**111.1**	**–**	**–**	**2,313.7**

2C CONTINGENT GAS RESOURCES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2016 2C Resources	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2017 2C Resources
PNG LNG Project Fields Gas	60.0	–	–	–	60.0
Other PNG Gas	3,649.3	–	318.1	–	3,967.4
Total	**3,709.2**	**–**	**318.1**	**–**	**4,027.4**

* See notes on page 69.

TABLE 3

DEVELOPED AND UNDEVELOPED RESERVES

DEVELOPED RESERVES (NET TO OIL SEARCH)

Licence/Field	Oil Search Interest %	PROVED (1P) Developed Oil and Condensate[3] mmbbl	PROVED (1P) Developed Gas[4,5] bcf	PROVED AND PROBABLE (2P) Developed Oil and Condensate[3] mmbbl	PROVED AND PROBABLE (2P) Developed Gas[4,5] bcf
PDL 2 – Kutubu	60.0%	11.0	–	14.8	–
PDL 2/5/6 – Moran Unit	49.5%	4.6	–	6.8	–
PDL 4 – Gobe Main	10.0%	0.0	–	0.1	–
PDL 3/4 – SE Gobe	22.3%	0.1	7.4	0.2	10.9
PDL 1 – Hides GTE	16.7%	–	3.2	–	4.0
Oil fields and Hides GTE Reserves		**15.7**	**10.6**	**21.8**	**15.0**
PNG LNG Project Reserves	29.0%	**28.6**	**1,490.5**	**32.0**	**1,657.2**
Sub-total developed Reserves		**44.4**	**1,501.1**	**53.8**	**1,672.1**

UNDEVELOPED RESERVES (NET TO OIL SEARCH)

Licence/Field	Oil Search Interest %	PROVED (1P) Undeveloped Oil and Condensate[3] mmbbl	PROVED (1P) Undeveloped Gas[4,5] bcf	PROVED AND PROBABLE (2P) Undeveloped Oil and Condensate[3] mmbbl	PROVED AND PROBABLE (2P) Undeveloped Gas[4,5] bcf
PDL 2 – Kutubu complex	60.0%	1.9	–	3.5	–
PDL 2/5/6 – Moran Unit	49.5%	1.9	–	3.2	–
PDL 4 – Gobe Main	10.0%	–	–	–	–
PDL 3/4 – SE Gobe	22.3%	–	–	–	–
PDL 1 – Hides GTE	16.7%	–	–	–	–
Oil fields and Hides GTE reserves		**3.7**	**–**	**6.7**	**–**
PNG LNG Project reserves	29.0%	**11.0**	**539.4**	**12.6**	**641.6**
Sub-total undeveloped reserves		**14.7**	**539.4**	**19.2**	**641.6**
Total developed and undeveloped reserves		**59.1**	**2,040.5**	**73.0**	**2,313.7**

* See notes on page 69.

TABLE 4

TOTAL RESERVES AND RESOURCES SUMMARY

RESERVES AND RESOURCES AT 31 DECEMBER 2017 (NET TO OIL SEARCH)

		PROVED (1P)		PROVED AND PROBABLE (2P)	
Licence/Field	Oil Search Interest %	Total Oil and Condensate[3] mmbbl	Total Gas[4] bcf	Total Oil and Condensate[3] mmbbl	Total Gas[4] bcf
RESERVES					
PDL 2 – Kutubu complex	60.0%	12.9	–	18.3	–
PDL 2/5/6 – Moran Unit	49.5%	6.4	–	10.0	–
PDL 4 – Gobe Main	10.0%	0.0	–	0.1	–
PDL 3/4 – SE Gobe	22.3%	0.!	7.4	0.2	10.9
PDL 1 – Hides GTE	16.7%	–	3.2	–	4.0
Oil fields and Hides GTE reserves	**–**	**19.5**	**10.6**	**28.5**	**15.0**
PNG LNG Project reserves[(5)]	29.0%	**39.6**	**2,029.9**	**44.6**	**2,298.8**
Sub-total developed reserves	**–**	**59.1**	**2,040.5**	**73.0**	**2,313.7**
CONTINGENT RESOURCES		1C		2C	
PNG LNG Project Fields gas, oil and condensate		–	–	1.6	60.0
Other PNG gas, oil and condensate[(7)]		–	–	51.1	3,967.4
Sub-total resources		**–**	**–**	**52.7**	**4,027.4**
Total reserves and resources		**59.1**	**2,040.5**	**125.8**	**6,341.1**

NOTES

(1) Numbers may not add due to rounding.

(2) Oil fields proved Reserves (1P) and Proved and Probable (2P) Reserves are as certified by independent auditor Netherland, Sewell & Associates, Inc. (NSAI) in 2015 and 2017. 1P and 2P PNG LNG Project Reserves are based on Contingent Resources as certified in 2016 by independent auditor, NSAI, adjusted for economic limit using Oil Search's corporate assumptions.

(3) Crude oil, and separator and plant condensates.

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

(5) PNG LNG Project Reserves comprise the Kutubu, Moran, Gobe Main, SE Hedinia, Hides, Angore and Juha fields. Minor volumes associated with proposed domestic gas sales have been included as part of PNG LNG Reserves. In addition, third party wet gas sales to the project at the Gobe plant outlet (inclusive of plant condensate) have been included for SE Gobe in 1P and 2P Reserves at the post-sales agreement field interest of 22.34%. SE Gobe estimates for gas are based on NSAI certification in 2015.

(6) Hides Reserves associated with the GTE Project under existing contract. Production volumes shown in this Reserves report are based on Oil Search's entitlement in PDL 1 (16.67%).

(7) Other gas, oil and condensate Resources comprise the Company's other PNG fields including Elk-Antelope, SE Mananda, Juha North, P'nyang, Kimu, Uramu, Barikewa, Iehi, Cobra, Mananda, Flinders, and Muruk and may also include Resources beyond the current economic limit of producing oil and gas fields. These gas Resources may include fuel, flare, and shrinkage depending on the choice of reference point.

The information in this Reserves and Resources statement has been prepared by Dr Jon Rowse, Oil Search's General Manager – Subsurface, who is a full-time employee of the Company and a member of the Society of Petroleum Engineers. Dr Rowse is qualified in accordance with ASX Listing Rules 5.41-5.44, and confirms that the statement fairly represents information and documentation which has been prepared under his supervision and approved by him. He has consented to publish this information in the form and context in which it is presented in this statement.

ADDITIONAL NOTES

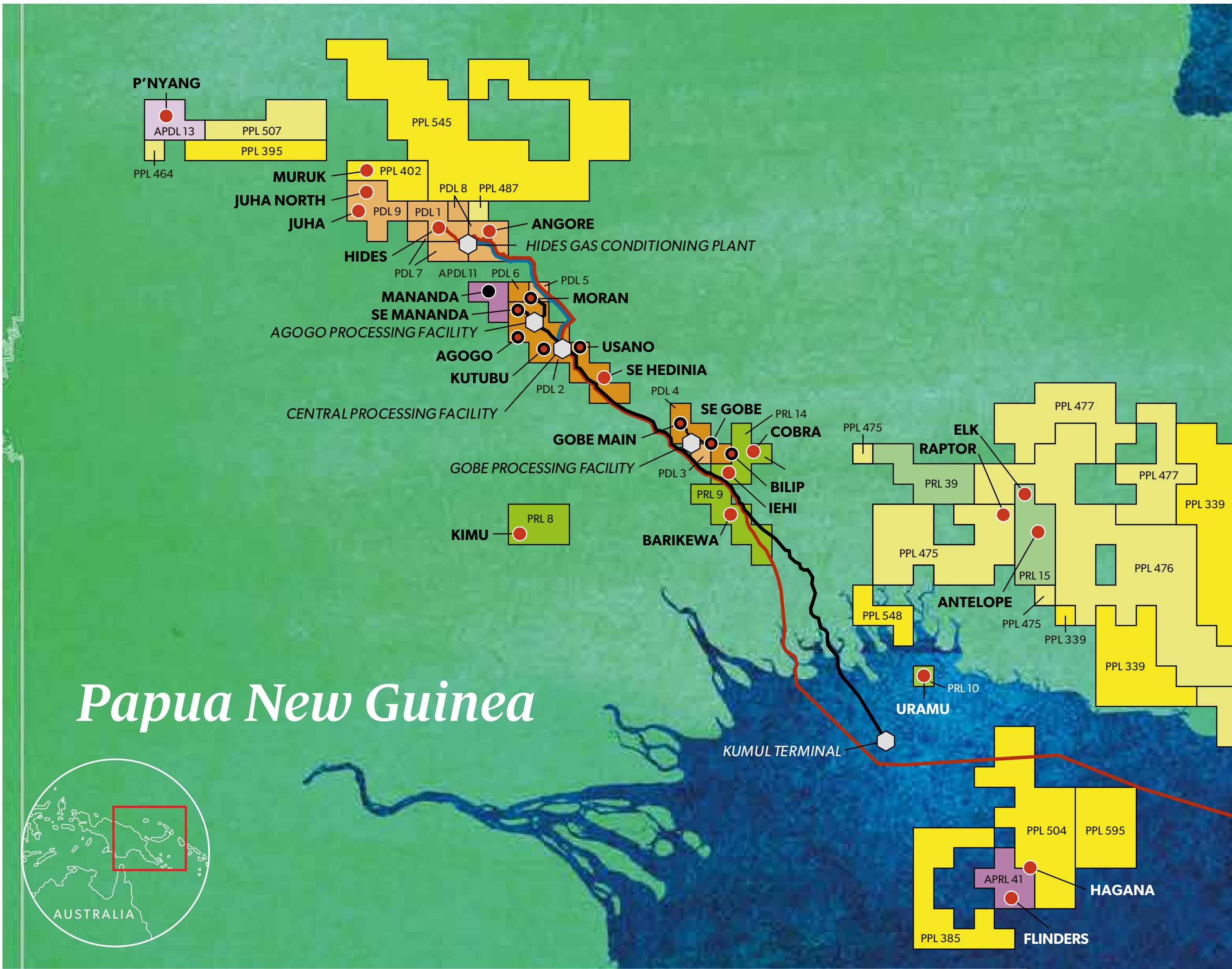
- The evaluation date for these estimates is 31 December 2017.
- Oil Search's Reserves and Contingent Resource estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), sponsored by the Society of Petroleum Engineers (SPE).
- The following reference points are assumed:
  - Oil volumes: include both oil and condensate recovered by lease processing. The reference point is at the outlet of the relevant process facility. Volumes are adjusted to stock-tank using field standard conditions.
  - Hides GTE: the custody transfer point at the wellhead
  - PNG LNG Project: the outlet to the LNG plant
  - SE Gobe gas: the outlet to the Gobe facility
  - Fuel, flare and shrinkage upstream of the reference points have been excluded.
- Reserves and Contingent Resources are aggregated by arithmetic summation by category and therefore Proved Reserves may be a conservative estimate due to the portfolio effects of arithmetic summation.
- Reserves and Contingent Resources have been estimated using both deterministic and probabilistic methods.

LICENCE INTERESTS

LICENCE INTERESTS AS AT 9 MARCH 2018

Licence	Field/Project	Oil Search Interest %	Operator
PNG Petroleum Development Licences (PDL)			
PDL 1	Hides	16.66	ExxonMobil
PDL 2	Kutubu, Moran	60.05	Oil Search
PDL 2 - SE Mananda JV	SE Mananda	72.27	Oil Search
PDL 3	SE Gobe	36.36	Santos
PDL 4	Gobe Main, SE Gobe	10.00	Oil Search
PDL 5	Moran	40.69	ExxonMobil
PDL 6	Moran	71.07	Oil Search
SE Gobe Unit (PDL 3/PDL 4)		22.34	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas to Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
APDL 11	Mananda	71.25[1]	Oil Search
APDL 13	P'nyang	38.51[2]	ExxonMobil
PNG LNG Project	**PNG LNG Project**	**29.00**	**ExxonMobil**
PNG Pipeline Licences (PL)			
PL 1	Hides	100.00	Oil Search
PL 2	Kutubu	60.05	Oil Search
PL 3	Gobe	17.78	Oil Search
PL 4	PNG LNG Project	29.00	ExxonMobil
PL 5	PNG LNG Project	29.00	ExxonMobil
PL 6	PNG LNG Project	29.00	ExxonMobil
PL 7	PNG LNG Project	29.00	ExxonMobil
PL 8	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence			
PPFL 2	PNG LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	45.11	Oil Search
PRL 10	Uramu	100.00	Oil Search
PRL 14	Cobra, Iehi	62.56	Oil Search
PRL 15	Elk/Antelope	22.835	Total
APRL 41	Flinders / Hagana	100.00	Oil Search
PNG Petroleum Prospecting Licences (PPL)			
PPL 339		35.00[3]	Oil Search
PPL 374		40.00	ExxonMobil
PPL 375		40.00	ExxonMobil
PPL 385		100.00	Oil Search
PPL 395		50.00[4]	Oil Search
PPL 402		50.00[5]	Oil Search
PPL 464		50.00[4]	ExxonMobil
PPL 487		50.00[4]	ExxonMobil
PPL 504		100.00	Oil Search
PPL 507		50.00[4]	Exxon Mobil
PPL 545		40.00	Oil Search
PPL 548		100.00	Oil Search
PPL 595		100.00	Oil Search
PNG Farm-in Agreements			
PPL 474		30.00[6]	ExxonMobil
PPL 475		30.00[6]	ExxonMobil
PPL 476		30.00[6]	ExxonMobil
PPL 477		30.00[6]	ExxonMobil
PRL 39		30.00[6]	ExxonMobil
Alaska, United States of America			
Pikka Unit		25.5[7]	Oil Search
Horsehoe		37.5[7]	Oil Search
Exploration		25.5[7]	Oil Search
Hue Shale		37.5[7]	Oil Search
Yemen			
Block 7		34.008[8]	Oil Search

1. Pending Ministerial grant.
2. The PDL application submitted by the PRL 3 joint venture in respect of the P'nyang field in December 2015 remains pending Ministerial grant.
3. Kina's proposed transfer to Santos of a 20% interest remains subject to coventurer and regulatory approval.
4. In October 2017, Oil Search entered into an agreement with ExxonMobil and Santos under which Santos will potentially acquire a 20% interest in PPLs 395, 464, 487 ANS 507 (being a 12.5% interest from Oil Search and a 7.5% interest from ExxonMobil).
5. In December 2016, Oil Search entered into an agreement with ExxonMobil and Santos under which Santos will potentially acquire a 20% interest in PPL 402 (being a 12.5% interest from Oil Search and a 7.5% interest from ExxonMobil).
6. Subject to due diligence, execution of binding agreements, conditions precedent and regulatory approvals.
7. Includes US Government and State of Alaska leases. Oil Search has an option to increase its interest by acquiring the balance of Armstrong's interests in each asset.
8. 40% paying interest. Oil Search is yet to complete the sale to Petsec Energy Limited of all of the shares in the entity holding Oil Search's interest in Block 7.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P'NYANG
APDL 13
PPL 507
PPL 395
PPL 464
PPL 545
MURUK
PPL 402
JUHA NORTH
JUHA
PDL 9
PDL 8
PPL 487
PDL 1
ANGORE
HIDES GAS CONDITIONING PLANT
HIDES
PDL 7
APDL 11
PDL 6
PDL 5
MANANDA
MORAN
SE MANANDA
AGOGO PROCESSING FACILITY
USANO
AGOGO
SE HEDINIA
KUTUBU
PDL 2
PDL 4
CENTRAL PROCESSING FACILITY
SE GOBE
PRL 14
COBRA
GOBE MAIN
GOBE PROCESSING FACILITY
PDL 3
BILIP
PRL 9
IEHI
PRL 8
KIMU
BARIKEWA
PPL 475
PPL 477
ELK
RAPTOR
PPL 39
PPL 477
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PPL 475
PPL 476
PRL 15
ANTELOPE
PPL 548
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PPL 339
PRL 10
URAMU
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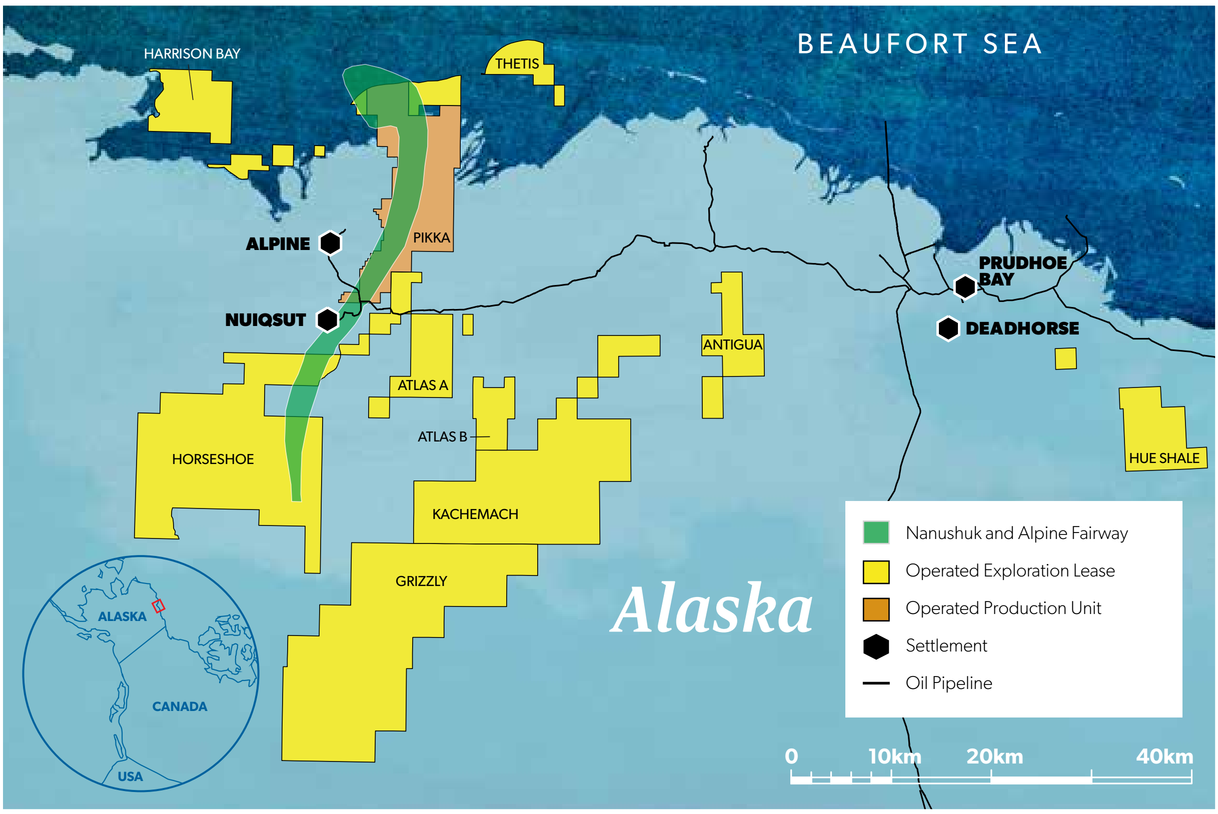
PPL 595
APRL 41
HAGANA
PPL 385
FLINDERS
AUSTRALIA
GULF OF
PPL 374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ATLAS B
HORSESHOE
KACHEMACH
GRIZZLY
HUE SHALE
Alaska
ALASKA
CANADA
USA
Nanushuk and Alpine Fairway
Operated Exploration Lease
Operated Production Unit
Settlement
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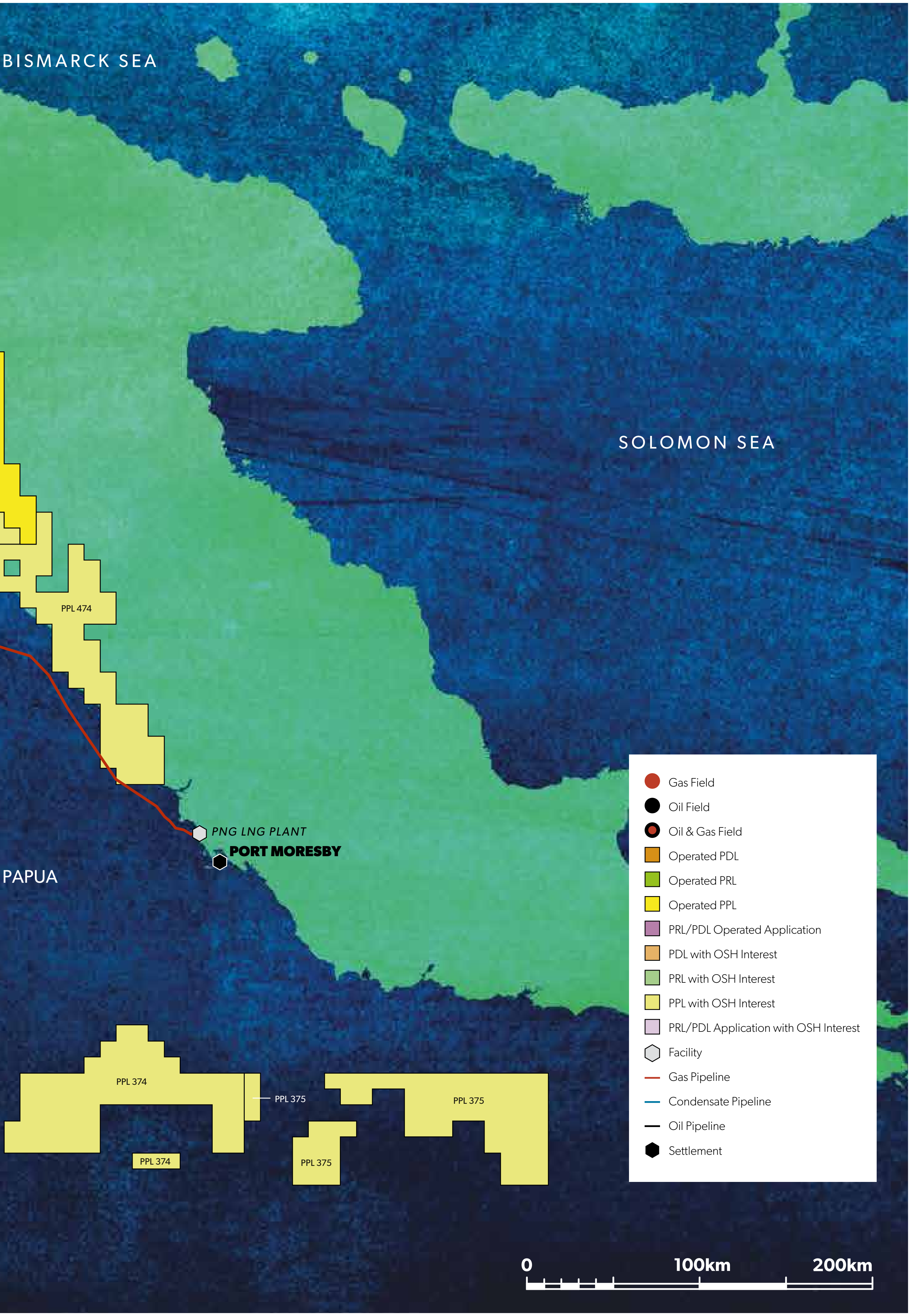
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SOLOMON SEA
PAPUA
PPL 474
PNG LNG PLANT
PORT MORESBY
PPL 374
PPL 374
PPL 375
PPL 375
PPL 375
Gas Field
Oil Field
Oil & Gas Field
Operated PDL
Operated PRL
Operated PPL
PRL/PDL Operated Application
PDL with OSH Interest
PRL with OSH Interest
PPL with OSH Interest
PRL/PDL Application with OSH Interest
Facility
Gas Pipeline
Condensate Pipeline
Oil Pipeline
Settlement
0
100km
200km

Pictured from left to right: RJ Lee (Chairman), G Aopi, FE Harris, KG Constantinou, MP Togolo, EJ Doyle, PR Botten, AJ Kantsler

CORPORATE GOVERNANCE

Oil Search is committed to adopting and implementing rigorous corporate governance practices across all of its activities. The Company supports this commitment by transparent and open reporting of its governance practices to assist investors in making informed investment decisions.

COMMITMENT TO GOOD GOVERNANCE

Oil Search has reported against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the "CGC Recommendations") each year since their first release in 2003. Oil Search believes it followed all the CGC Recommendations in the 3rd Edition of the CGC Recommendations, released in March 2014, during the 12 months ended 31 December 2017.

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

The Company's charters, policies and Constitution are also available on the website.

The table below provides a brief summary of the relevant sections of the Corporate Governance Statement that address the Company's compliance with each of the CGC Recommendations.

ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS		HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT		
1.1	Disclose: • the respective roles and responsibilities of the board and management. • those matters expressly reserved to the board and those delegated to management.	Compliant – see Board and Committee Charters on the Company's website.
1.2	Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Compliant – see Corporate Governance Statement for a summary of director selection and appointment processes. See 2018 Notice of Annual Meeting for information on directors standing for election/re-election.
1.3	Have a written agreement with each director and senior executive setting out the terms of their appointment.	Compliant – all agreements in place.
1.4	The Company Secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Compliant – see Board Charter on the Company's website.
1.5	Have and disclose a diversity policy, including measurable objectives for achieving gender diversity, its progress towards achieving those objectives and the respective proportions of men and women on the board, in senior executive positions and across the whole organisation.	Compliant – see Diversity Policy on the Company's website, and the Company's diversity objectives and progress against achieving those objectives disclosed in the Corporate Governance Statement.

ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS		HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
1.6	Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors. Disclose whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Compliant – process for director performance reviews disclosed in the Corporate Governance Statement. Board performance review undertaken in 2017.
1.7	Have and disclose a process for periodically evaluating the performance of senior executives. Disclose whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Compliant – process for senior executive performance reviews disclosed in the Corporate Governance Statement. Senior executive performance reviews undertaken in 2017.
PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE		
2.1	Have a nomination committee which: ◆ has at least three members, a majority of whom are independent directors. ◆ is chaired by an independent director. Disclose: ◆ the charter of the committee. ◆ the members of the committee. ◆ the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – People and Nominations Committee has four members, all independent, including the Chairman. Committee Charter disclosed on the Company's website. Members, meetings held and attendances disclosed in the Directors' Report.
2.2	Have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Compliant – Skills matrix and preferred Board composition disclosed in the Corporate Governance Statement.
2.3	Disclose: ◆ the names of directors considered independent. ◆ the nature of any interest, position, association or relationship that each director has and an explanation of why it does not compromise the independence of the director. ◆ the length of service of each director.	Compliant – Director details disclosed in the Directors' Report. Any potential conflicts and related mitigants disclosed in the Corporate Governance Statement.
2.4	A majority of the board should be independent directors.	Compliant – Six of eight directors are assessed as independent.
2.5	The chair of the board should be an independent director. The chair should not be the same person as the CEO.	Compliant – Chairman is non-executive and independent.
2.6	Have a programme for inducting new directors and provide appropriate professional development opportunities for directors.	Compliant – detailed director induction programme in place and annual director ongoing education programme provided by the Company.
PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY		
3.1	Have and disclose a code of conduct for directors, senior executives and employees.	Compliant – Code of Conduct disclosed on the Company's website.
PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING		
4.1	Have an audit committee which: ◆ has at least three members. ◆ consists only of non-executive directors, majority of whom are independent. ◆ is chaired by an independent director, who is not the chair of the board. Disclose: ◆ the charter of the committee. ◆ the relevant qualifications and experience of the members. ◆ the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – Audit and Financial Risk Committee has four members, all independent and non-executive, including the Committee Chairman, who is not the Chairman of the Board. Committee Charter disclosed on the Company's website. Members, qualifications/experience, meetings held and attendances disclosed in the Directors' Report.
4.2	CEO and CFO certification of financial statements before the board approves the financial statements for the financial period.	Compliant – CEO and CFO certifications issued prior to the Board approving the 2017 Financial Report.

ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS		HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS
4.3	Ensure external auditor attendance and availability at the AGM to answer questions from security holders relevant to the audit.	Compliant – Company's auditor, from Deloitte Touche Tohmatsu, attended the 2017 Annual Meeting, with shareholders invited to put questions to the auditor.
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE		
5.1	Have and disclose a written policy for complying with continuous disclosure obligations under the Listing Rules.	Compliant – Public Disclosure Policy disclosed on the Company's website.
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS		
6.1	Provide information about itself and its governance to investors on its website.	Compliant – Detailed disclosures contained on the Company's website.
6.2	Design and implement an investor relations programme to facilitate effective two-way communication with investors.	Compliant – Investor Relations programme in operation, with communications governed by the Public Disclosure Policy.
6.3	Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Compliant – Disclosed in the Public Disclosure Policy.
6.4	Give security holders the option to receive communications from, and send communications to, the entity and the security registry electronically.	Compliant – Electronic security registry communication options in place.
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK		
7.1	Have a committee or committees to oversee risk, each of which: • has at least three members, a majority of whom are independent directors. • is chaired by an independent director. Disclose: • the charter of the committee. • the members of the committee. • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – Financial risk overseen by the Audit and Financial Risk Committee – see section 4.1. Health, Safety and Sustainability Committee oversees operational and social responsibility risks. This Committee has five members, four of whom are independent, including the Chairman. Health, Safety and Sustainability Committee Charter disclosed on the Company's website. Members, qualifications/experience, meetings held and attendances disclosed in the Directors' Report.
7.2	The board or a committee of the board should: • review the entity's risk management framework at least annually to satisfy itself that it continues to be sound. • disclose, in relation to each reporting period, whether such a review has taken place.	Compliant – Board reviews the entity's risk management framework at least annually, with reviews undertaken in 2017.
7.3	Disclose the structure and role of its internal audit function.	Compliant – Disclosed in the Corporate Governance Statement.
7.4	Disclose any material exposure to economic, environmental and social sustainability risks and how these risks are managed.	Compliant – Disclosed in the Operating and Financial Review section of the Directors' Report.
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY		
8.1	Have a remuneration committee which: • has at least three members, a majority of whom are independent directors. • is chaired by an independent director. Disclose: • the charter of the committee. • the members of the committee. • the number of times the committee met during the reporting period and the individual attendances of the members at those meetings.	Compliant – See section 2.1. The People and Nominations Committee provides advice and recommendations to the Board regarding the remuneration of Directors, executives and employees.
8.2	Separately disclose the policies and practices regarding the remuneration of non-executive directors and executive directors and other senior executives.	Compliant – See Remuneration Report contained in the Directors' Report.
8.3	Have and disclose a policy on whether participants in equity-based remuneration schemes are permitted to enter into transactions which limit the economic risk of participating in the scheme.	Compliant – See Share Trading Policy on the Company's website.

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DIRECTORS' REPORT

for the year ended 31 December 2017

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*

DIRECTORS' REPORT
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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 83.

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.

DIRECTORS' REPORT
for the year ended 31 December 2017

LIKELY FUTURE DEVELOPMENTS

Refer to the 'Operating and Financial Review' on page 83 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 Kantsler(1) (Committee Chair), Dr EJ Doyle, Ms FE Harris(2) 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 Spence(3);

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 Lee(4) 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 Sansingian-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.

(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.

DIRECTORS' REPORT

for the year ended 31 December 2017

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(1)	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.

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 116.

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.

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

DIRECTORS' REPORT

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$/bbl[2])	**55.68**	45.04	+24
Average realised LNG and gas price (US$/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
EBITDAX[5]	**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 profit[5]	**302.1**	106.7	+183
Net debt	**2,610.2**	3,076.7	-15

Note: Numbers may not add due to rounding.

(1) mmboe = million barrels of oil equivalent. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.

(2) bbl = barrel of oil.

(3) mmBtu = million (10^6) British thermal units.

(4) Other operating costs 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.

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 naptha 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.

	PRODUCTION COSTS	
US$ MILLION	**2017**	**2016**
PNG LNG	**142.2**	150.6
PNG oil and gas	**120.6**	106.5
	262.8	257.1

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 unrisked 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 mmboe 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 Production[3]	**262,392**	**30,314**	256,715	30,245	+2%	–

(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.

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.

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%) 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 unrisked gas[1]. 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.

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.

(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 unrisked.

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.

DIRECTORS' 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.

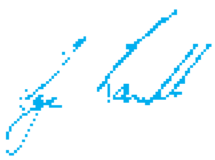
- Compensation outcomes were modelled over the period 2008 to 2016 to show the value of remuneration ultimately received for each performance year. The results of the analysis for the Managing Director, included in the body of the Remuneration Report, demonstrates how the Short Term Incentive scorecard (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

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.

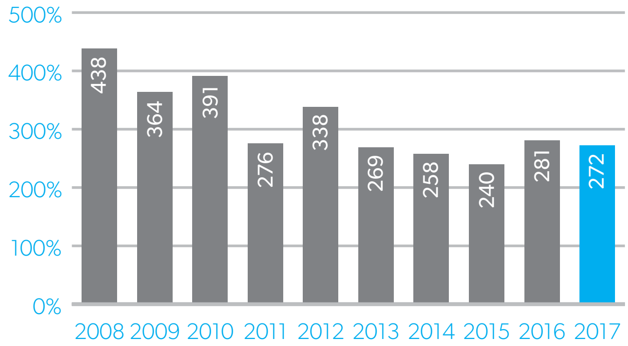


Chart 1 shows how the Short Term Incentive scorecard, which is tightly linked to the long term strategic plan, coupled with the significant 50% deferral arrangement and the Total Shareholder Return performance conditions attaching to the Long Term Incentive awards have, delivered aggregate remuneration 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	2016 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 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.	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.
GROWTH MEASURES (45%)	2C Gas 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 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 delivery of milestones that ensure the progressive achievement of strategic plan objectives.	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.

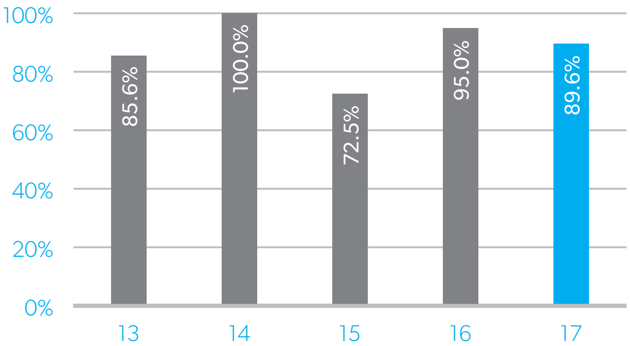
(1) Performance Level achieved:

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.

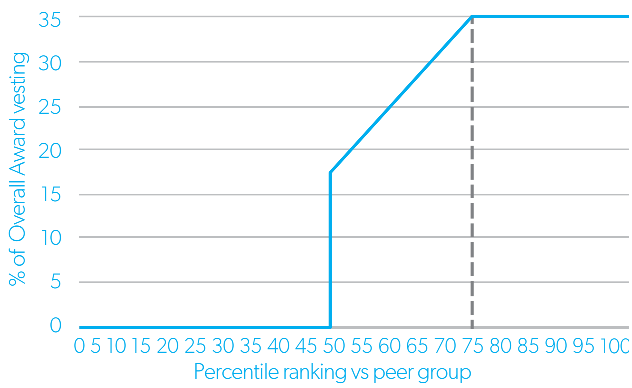
If, in regard to each part of the award described above, the Company's TSR performance is:

- 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.

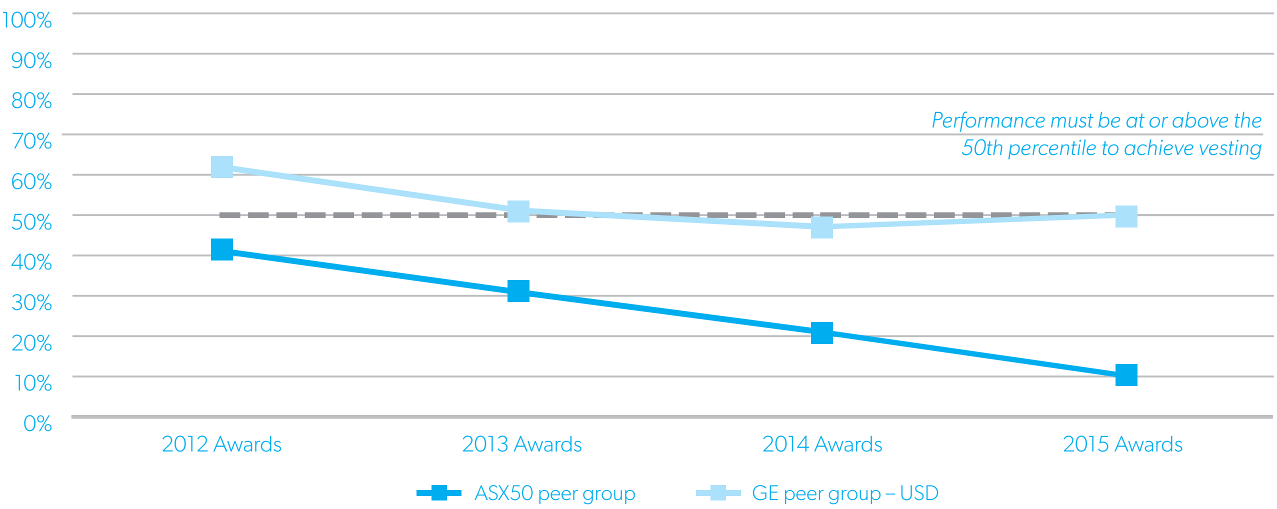
(2) TSR outcomes for the purposes of comparison against the S&P Global 1200 Energy Index peer group are measured in US dollars for Oil Search and all constituent companies.

(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 % OF TFR	
	STI OUTCOME AS A % OF OPPORTUNITY	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:

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

where X is 100% for the Managing Director and 60% for other senior executives, and "Oil Search Share Price" is based on the Volume Weighted Average Price of Oil Search shares for the 5 trading days following the release of 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 Gerea Aopi CBE – Executive General Manager Stakeholder Engagement

Incumbent for the full year

Gerea plays a major role in managing relationships with the PNG Government and other joint venture partners. He is also charged with strategy development and enactment of our community affairs within the Company. Gerea plays an important role in the interface between the Company and major stakeholders in PNG.

In addition, Gerea has responsibility of leading the company's broad sustainability strategies and social programs within PNG.

Mr Paul Cholakos – Executive General Manager Technical Services

Incumbent for the full year

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

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

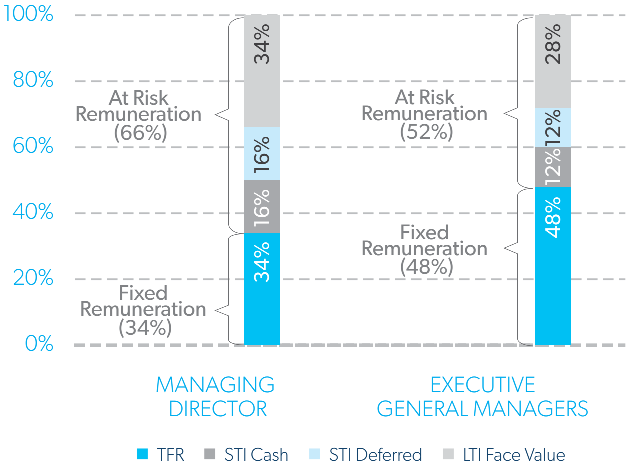
Keiran has responsibility for Oil Search's exploration programs to grow Shareholder value through exposure to quality exploration projects on a risked basis. Keiran also leads teams in the technical and commercial evaluation of new ventures and business development opportunities.

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 REMUN-ERATION	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	**2017**	**2,233,168**	**1,909,359**	**1,620,728**	**–**	**–**	**5,763,255**
Managing Director	2016	2,189,380	1,970,442	666,382	422,820	–	5,249,024
G Aopi	**2017**	**729,603**	**294,012**	**283,882**	**–**	**–**	**1,307,497**
EGM Stakeholder Engagement	2016	715,297	339,766	174,173	92,138	–	1,321,374
Executives							
P Cholakos	**2017**	**752,547**	**303,258**	**304,768**	**–**	**–**	**1,360,573**
EGM Technical Services	2016	737,791	350,451	179,647	94,952	–	1,362,841
M Drew[1]	**2017**	**665,101**	**327,579**	**224,063**	**–**	**–**	**1,216,743**
EGM & General Counsel	2016	126,985	60,260	–	–	–	187,245
J Fowles	**2017**	**1,456,790**[2]	**309,070**	**298,423**	**–**	**389,500**[3]	**2,453,783**
EGM PNG Business Unit	2016	1,428,228	357,167	183,091	96,714	–	2,065,200
S Gardiner	**2017**	**788,908**	**388,557**	**314,863**	**–**	**–**	**1,492,328**
Chief Financial Officer & Group Secretary	2016	751,341	356,887	174,421	92,138	–	1,374,787
M Herrett	**2017**	**640,003**	**286,562**	**259,188**	**–**	**–**	**1,185,753**
EGM Human Resources, Health & Administration	2016	627,454	298,041	150,263	79,630	–	1,155,747
I Munro	**2017**	**742,932**	**332,648**	**312,684**	**–**	**–**	**1,388,264**
EGM Gas & Marketing	2016	728,365	345,974	330,029	32,940	–	1,437,308
E White[4]	**2017**	**432,600**	**194,490**	**–**	**–**	**–**	**627,090**
EGM Gas Project Delivery	2016	–	–	–	–	–	–
K Wulff	**2017**	**789,876**	**389,033**		**–**	**–**	**1,178,909**
EGM Exploration & New Business	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 ALLOW ANCES [1]	NON-MONETARY BENEFITS[2]	SHORT TERM INCENTIVE[3]	COMPANY CONTRI-BUTION TO SUPER[4]	LONG SERVICE LEAVE ACCRUAL[5]	PERFORM. RIGHTS	RESTRICTED SHARES	SIGN ON/ TERMI-NATION BENEFITS	
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
Executives										
P Cholakos	**2017**	**578,299**	**156,909**	**232,508**	**15,205**	**10,866**	**174,788**	**228,353**	**–**	**1,396,928**
EGM Technical Services	2016	554,433	171,540	260,700	14,478	10,429	171,667	218,999	–	1,402,246
M Drew[7]	**2017**	**481,364**	**3,407**	**251,155**	**18,381**	**–**	**66,495**	**81,157**	**–**	**901,959**
EGM & General Counsel	2016	97,408	–	44,827	4,237	–	6,027	14,956	–	167,456
J Fowles	**2017**	**981,345**	**–**	**236,964**	**–**	**84,332**	**178,145**	**342,190**	**–**	**1,822,977**
EGM PNG Business Unit	2016	1,062,459	–	265,697	–	–	174,999	324,290	–	1,827,445
S Gardiner	**2017**	**603,873**	**–**	**297,907**	**15,205**	**16,230**	**177,773**	**231,004**	**–**	**1,341,992**
Chief Financial Officer & Group Secretary	2016	547,033	–	265,488	14,478	14,578	170,929	224,160	–	1,236,666
M Herrett	**2017**	**466,395**	**–**	**219,707**	**20,031**	**43,735**	**148,654**	**198,535**	**–**	**1,097,057**
EGM Human Resources, Health & Administration	2016	443,575	–	221,713	23,188	–	155,644	188,916	–	1,033,036
I Munro	**2017**	**568,339**	**–**	**255,041**	**19,693**	**–**	**172,586**	**225,622**	**–**	**1,241,281**
EGM Gas & Marketing	2016	525,709	–	257,370	19,008	–	152,927	254,437	–	1,209,451
E White[8]	**2017**	**334,220**	**1,503**	**149,115**	**10,192**	**31,409**	**42,796**	**–**	**–**	**569,235**
EGM Gas Project Delivery	2016	–	–	–	–	–	–	–	–	–
K Wulff	**2017**	**579,745**	**295,861**	**298,272**	**15,205**	**–**	**155,192**	**247,188**	**–**	**1,591,463**
EGM Exploration & New Business	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
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
	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	MOVEMENTS DURING THE YEAR: 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**			
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

		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]		
	GRANTED IN THE YEAR (US$)[1]	NUMBER	AVERAGE VALUE (US$)	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$)

	YEAR	SHORT TERM			POST EMPLOYMENT	LONG TERM	EQUITY		OTHER	TOTAL
DIRECTORS		SALARIES FEES AND ALLOWANCES	NON-MONETARY BENEFITS	SHORT TERM INCENTIVE	COMPANY CONTRI-BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFORM. RIGHTS	RESTRICTED SHARES	SIGN ON/ TERMI-NATION 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

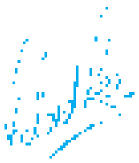
Equity Participation for Non-Executive Directors

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

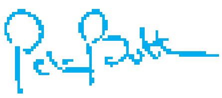
Table 25 summarises the movements in shareholdings of Non-Executive Directors including their personally related entities for the 2017 financial year.

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

Signed in accordance with a resolution of the directors.



Richard Lee
CHAIRMAN



PR Botten
MANAGING DIRECTOR

Sydney, 19 February 2017

AUDITOR'S INDEPENDENCE DECLARATION

for the year ended 31 December 2017

Deloitte.

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

Grosvenor Place
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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

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

		CONSOLIDATED		PARENT	
	NOTE	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					
Items that may be reclassified to profit or loss:					
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

		CONSOLIDATED		PARENT	
			RESTATED*		
	NOTE	2017 $'000	2016 $'000	2017 $'000	2016 $'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

		CONSOLIDATED		PARENT	
	NOTE	2017 $'000	2016 RESTATED* $'000	2017 $'000	2016 $'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 COMPEN-SATION 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
Other comprehensive income:						
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**
Other comprehensive income:						
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

PARENT	SHARE CAPITAL $'000	AMALGA-MATION RESERVE $'000	RESERVE FOR TREASURY SHARES $'000	EMPLOYEE EQUITY COMPEN-SATION 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SEGMENT REPORTING (CONTINUED)

(b) Segment information provided to the executive management team

The Group's executive management team evaluates the financial performance of the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment.

	PNG BU		EXPLORATION		OTHER		TOTAL	
$'000	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.

Geographical segments

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

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

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

	REVENUE		NON-CURRENT ASSETS[(1)]	
$'000	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).

2 SEGMENT REPORTING (CONTINUED)

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
Costs of production:				
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)	**–**	–
Depreciation and amortisation				
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)
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 $'000	2016 $'000	2017 $'000	2016 $'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 $'000	2016 $'000	2017 $'000	2016 $'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	(i)	**(17,157)**	(17,645)	**–**	–
Amalgamation reserve	(ii)	**–**	–	**(2,990)**	(2,990)
Reserve for treasury shares	(iii)	**3,663**	(250)	**6,283**	2,370
Employee equity compensation reserve	(iv)	**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

(a) Cash and cash equivalents

	CONSOLIDATED		PARENT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
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)

(b) Reconciliation of cash flows from operating activities

	CONSOLIDATED		PARENT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
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

			NON-CASH CHANGES			
CONSOLIDATED	2016 $'000	CASH (OUTFLOWS)/ INFLOWS $'000	ACQUISITION $'000	FAIR VALUE CHANGES $'000	OTHER CHANGES $'000	2017 $'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)**
	(48,673)	(519)	–	–	(7,418)	**(56,610)**
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)	(1255,800)
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%

21 EMPLOYEE BENEFITS AND SHARE-BASED PAYMENTS (CONTINUED)

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.

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

	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%	2.60%

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)	–	–	–	(31,25)	(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:

	NO. OF ORDINARY SHARES		NO. OF PERFORMANCE RIGHTS[1]		NO. OF RESTRICTED SHARES[1]	
	2017	2016	2017	2016	2017	2016
Directors						
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:

	TRANSACTIONS VALUE YEAR ENDED 31 DECEMBER	
CONSOLIDATED	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	% INTEREST 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			
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)

CONSOLIDATED FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	1-5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION $'000
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

27 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

PARENT FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	1-5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION $'000
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

(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.

27 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

Credit risk management

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

The Group markets Kutubu crude oil, blended with PNG LNG condensate, on behalf of the Joint Lifting Consortium, primarily selling this product to investment grade counterparties. 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:

		CONSOLIDATED		PARENT	
	NOTE	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	**–**	–

(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.

27 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

Non-derivative financial liabilities

		CONTRACTUAL CASH FLOWS			
	CARRYING AMOUNT $'000	TOTAL $'000	LESS THAN 1 YEAR $'000	1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000
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.

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.

27 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

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

for the year ended 31 December 2017

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
for the year ended 31 December 2017

Deloitte.

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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.

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

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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

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for the year ended 31 December 2017

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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.

Applicable to The Parent Only	
Key Audit Matter	**How the scope of our audit responded to the Key Audit Matter**
Carrying Value of Exploration and Evaluation Assets The carrying value of Exploration and Evaluation assets at 31 December 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). 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.	Our procedures included, but were not limited to the following: • 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 investments in subsidiaries
 	
The Company has investments in subsidiaries at 31 December 2017 of $2,295 million. See note 26 for further details.
 	
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.
	Our procedures included, but were not limited to the following:
	
	• evaluating management's assessment of indicators of impairment for investments at 31 December 2017, including:
	  ○ 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.

Recoverability of loans receivable from related entities The Company has loans receivable from related entities as at 31 December 2017 of $582 million. 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.	Our procedures included, but were not limited to the following: • evaluating management's assessment of objective evidence of impairment indicators for loans receivable at 31 December 2017, including: ○ determining whether the related entity has positive net assets, inclusive of the loan payable to the Company.

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	○ 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.

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- 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 93 to 115 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

DELOITTE TOUCHE TOHMATSU

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

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

SHAREHOLDER INFORMATION

OIL SEARCH LIMITED

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 26 February 2018 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	19,922	9,614,784	0.63%
1,001 – 5,000	20,840	51,383,725	3.37%
5,001 – 10,000	4,863	34,887,265	2.29%
10,001 – 100,000	2,929	61,350,079	4.03%
100,001 and over	168	1,366,395,339	89.68%
Total	**48,722**	**1,523,631,192**	**100.00%**

(b) The 20 largest ordinary shareholders representing 86.11% of the ordinary shares as at 26 February 2018 were as follows:

SHAREHOLDER		NUMBER OF SHARES	% OF ISSUED CAPITAL
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	482,049,399	31.64%
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	355,483,267	23.33%
3.	AUST EXECUTOR TRUSTEES LTD <IPIC>	196,604,177	12.90%
4.	CITICORP NOMINEES PTY LIMITED	88,636,146	5.82%
5.	NATIONAL NOMINEES LIMITED	48,094,446	3.16%
6.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	35,482,699	2.33%
7.	BNP PARIBAS NOMS PTY LTD <DRP>	27,167,474	1.78%
8.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	16,485,646	1.08%
9.	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	16,482,507	1.08%
10.	UBS NOMINEES PTY LTD	14,298,490	0.94%
11.	NATIONAL SUPERANNUATION FUND LIMITED	6,171,998	0.41%
12.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	5,797,587	0.38%
13.	AMP LIFE LIMITED	4,420,240	0.29%
14.	MR KWOK CHING CHOW + MS PIK YUN PEGGY CHAN	2,475,916	0.16%
15.	MRS FRANCES CLAIRE FOX <THOMAS J BERESFORD WILL A/C>	2,272,000	0.15%
16.	AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	2,200,000	0.14%
17.	DJERRIWARRH INVESTMENTS LIMITED	2,150,000	0.14%
18.	DIVERSIFIED UNITED INVESTMENT LIMITED	2,000,000	0.13%
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,930,656	0.13%
20.	RICE ATLANTIC COMPANY LIMITED <WORLDWIDE ASSETS HOLDING A/C>	1,865,394	0.12%
Total	**Total**	**1,312,068,042**	**86.11%**

(c) Issued capital as at 26 February 2018 was:

- 1,523,631,192 ordinary fully paid shares
- 3,201,088 unlisted performance rights
- 680,824 restricted shares
- 1,698,820 share rights

The trustee for the employee share plan holds 681,171 shares that are available to satisfy the exercise of employee rights and options and vesting of restricted shares. The shares in the trust are part of the issued capital.

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 26 February 2018:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Mubadala Investment Company	196,604,177	12.90
The Capital Group Companies	109,364,124	7.18

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

(f) At 26 February 2018, 1,667 holders held unmarketable parcels of ordinary shares in the Company.

SHAREHOLDER INFORMATION

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

ANNUAL MEETING

Oil Search's 2018 Annual Meeting will be held at the Crowne Plaza Hotel, Port Moresby, Papua New Guinea on Friday, 11 May 2018, commencing at 9:30am (Port Moresby time).

2017 FINAL DIVIDEND

The 2017 final dividend will be paid on 29 March 2018 to shareholders registered at the close of business on 7 March 2018.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB credit with the Company's share registry, Computershare, and in Australian dollars for all other shareholders. The exchange rates used for converting the US dollar dividend into the payment currencies are the rates as on the record date, 7 March 2018.

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

SHARE REGISTRY

Enquiries

Oil Search's share register is managed by Computershare Investor Services Pty Limited. Please contact Computershare for all shareholding and dividend related enquiries.

Change of shareholder details

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

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

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Australia

Telephone:
Within Australia: 1300 850 505
Outside Australia: +61 3 9415 4000
Facsimile: +61 3 9473 2500

Email: oilsearch@computershare.com.au

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AMERICAN DEPOSITARY RECEIPTS PROGRAMME

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

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

SHARE CODES

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

OIL SEARCH WEBSITE

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

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

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

SHAREHOLDER INFORMATION

KEY ANNOUNCEMENTS IN 2017

January	24	Release of 2016 4th Quarter results
February	21	Release of 2016 Full Year results
March	7	Ex-dividend date for 2016 final dividend
	8	Record date for 2016 final dividend
	30	Payment of 2016 final dividend
April	7	Release of 2016 Annual Report
	19	Release of 2017 1st Quarter results
May	19	2017 Annual Meeting
	29	Oil Search farms-in to acreage in onshore Papuan Gulf Basin, PNG
June	22	Oil Search establishes US$600 million revolving credit facility
July	18	Release of 2017 2nd Quarter results
August	22	Release of 2017 half year results
September	5	Ex-dividend date for 2017 interim dividend
	6	Record date for 2017 interim dividend
	26	Payment of 2017 interim dividend
October	17	Release of 2017 3rd Quarter results
November	1	Acquisition of world class oil asset in Alaska
December	31	End of Financial Year

2018 FINANCIAL CALENDAR(1)

January	23	Release of 2017 4th Quarter results
February	20	Release of 2017 Full Year results
March	6	Ex-dividend date for 2017 final dividend
	7	Record date for 2017 final dividend
	29	Payment of 2017 final dividend
		Release of 2017 Annual Report
April	17	Release of 2018 1st Quarter results
May	11	2018 Annual Meeting
July	17	Release of 2018 2nd Quarter results
August	21	Release of 2018 half year results
September	4	Ex-dividend date for 2018 interim dividend
	5	Record date for 2018 interim dividend
	25	Payment of 2018 interim dividend
October	23	Release of 2018 3rd Quarter results
December	31	End of Financial Year

(1) Dates are subject to change.

TEN YEAR SUMMARY

TEN YEAR SUMMARY(1)

INCOME STATEMENT	2017 US$ 000	2016 US$ 000	2015 US$ 000	2014 US$ 000
Revenue	**1,446,001**	1,235,908	1,585,728	1,610,370
Production costs	**(262,813)**	(257,104)	(294,818)	(235,380)
Other operating costs	**(141,056)**	(131,721)	(154,469)	(125,769)
Other income	**9,969**	5,120	14,841	7,762
EBITDAX(3)	**1,052,101**	852,203	1,151,282	1,256,983
Depreciation and amortisation	**(380,571)**	(436,702)	(407,753)	(252,671)
Exploration costs expensed	**(35,928)**	(53,164)	(50,889)	(109,132)
Proposed InterOil acquisition	**–**	18,694	–	–
EBIT	**635,602**	381,031	692,640	895,180
Net finance (costs)/income	**(194,728)**	(195,999)	(185,114)	(129,595)
Net impairment (losses)/reversals	**–**	–	(399,271)	(180,593)
Profit before income tax	**440,874**	185,032	108,255	584,992
Income tax expense	**(138,782)**	(95,237)	(147,636)	(231,774)
Net profit after income tax, significant items	**302,092**	89,795	(39,381)	353,218
Significant items	**–**	16,906	399,271	180,593
Net profit after tax, before significant items	**302,092**	106,701	359,890	533,811
Dividends paid – ordinary	**(99,014)**	(76,135)	(274,085)	(60,308)
BALANCE SHEET				
Total assets	**10,512,498**	10,126,129	10,342,835	10,727,247
Total cash	**1,015,246**	862,748	910,479	960,166
Total debt	**3,758,906**	4,074,781	4,302,650	4,421,065
Shareholders' equity	**4,937,754**	4,725,316	4,709,362	5,025,476

OTHER INFORMATION	2017	2016	2015	2014
Average realised oil and condensate price (US$/bbl)	**55.68**	45.04	51.36	99.79
Average realised LNG and gas price (US$/mmBtu)	**7.67**	6.36	9.44	13.94
Net annual oil and condensate production (mmbbl)	**7.56**	8.58	8.89	7.93
Net annual gas production (bcf)(4)	**116.04**	110.46	103.84	57.87
Total BOE net annual production (mmboe)	**30.3**	30.24	29.25	19.27
Exploration and evaluation expenditure incurred (US$'000)	**169,544**	151,761	275,699	1,246,939
Assets in development expenditure incurred (US$'000)	**30,102**	9,611	135,211	502,566
Producing assets expenditure incurred (US$'000)	**40,654**	38,250	111,830	105,677
Operating cash flow (US$'000)	**843,585**	555,116	952,739	992,304
Operating cash flow per ordinary share (US cents)	**55.40**	36.46	62.57	65.16
Diluted EPS (including significant items) (US cents)	**19.8**	5.9	-2.6	23.8
Basic EPS (excluding significant items) (US cents)	**19.8**	7.0	-2.6	32.6
Ordinary dividend per share (US cents)	**9.5**	3.5	10.0	8.0
Special dividend per share (US cents)	**–**	–	–	4.0
Gearing (%)(5)	**37.0%**	40.5%	41.9%	40.8%
Return on average shareholders' funds (%)	**9.1%**	3.9%	2.2%	8.4%
Number of issued shares – ordinary (000's)	**1,5223,631**	1,522,693	1,522,693	1,522,693
EXCHANGE RATES				
Year end A$: US$	**0.779**	0.724	0.731	0.820
Average A$: US$	**0.767**	0.744	0.753	0.903
SOCIAL RESPONSIBILITY				
Total paid to PNG Government (US$'000)	**62,728**	68,279	97,843	239,606
Total investment in sustainable development (US$'000)	**14,974**	13,934	9,591	7,807
Total Recordable Injury Rate (per million hours worked)	**1.93**	1.53	1.91	1.97
Number of significant spills (>100 bbl)	**0**	0	0	0
Total greenhouse gas emissions (ktCO_2-e)	**962**	941	958	830
Greenhouse gas emissions intensity (ktCO_2-e)6	**50**	46	48	55
Total number of employees	**1,286**	1,206	1,334	1,701
Females in senior leadership roles7 (%)	**22**	21	18	15
PNG nationals in senior leadership roles7 (%)	**23**	23	21	16

(1) Prior year comparatives have been restated where necessary, in order to achieve consistency with current year disclosures.

(2) Reflects changes in accounting policies.

(3) Earnings before interest, borrowing costs, tax, depreciation and amortisation, exploration and business development costs expensed.

(4) Hides gas production for 2008 onwards includes vent gas. Vent gas was not previously reported prior to 2008.

(5) Net debt/(net debt & shareholders funds).

(6) Intensity is calculated by dividing total GHG (scope 1 and 2) emissions by gross total production. Gross production is based on operational control (e.g. total usable hydrocarbon production from Oil Search controlled operations only), as compared to equity based production figures.

(7) Includes all senior managers, technical experts and executives.

TEN YEAR SUMMARY

2013 US$ 000	2012 US$ 000	2011 US$ 000	2010 US$ 000	2009 US$ 000	2008 US$ 000
766,265	724,619	732,869	583,560	512,154	814,330
(126,442)	(112,042)	(93,919)	(87,770)	(84,104)	(92,870)
(87,392)	(88,244)	(53,362)	(24,078)	(18,663)	(23,399)
216	45,079	138	3,158	14,914	126,145
552,647	569,412	585,726	474,870	424,301	824,206
(50,201)	(49,457)	(51,307)	(49,874)	(105,416)	(127,230)
(107,424)	(143,970)	(60,633)	(131,188)	(75,729)	(91,234)
–	–	–	–	0	–
395,022	375,985	473,786	293,808	243,156	605,742
(15,152)	(4,557)	(658)	(826)	(3,326)	6,093
–	(23,793)	(33,227)	(15,808)	–	(91,530)
379,870	347,635	439,901	277,174	239,830	520,305
(174,148)	(171,801)	(237,418)	(91,572)	(106,150)	(206,943)
205,722	175,834	202,483	185,602	133,680	313,362
–	22,796	(33,227)	41,488	34,058	73,396
205,722	198,630	169,256	227,090	167,738	386,758
(53,532)	(53,143)	(52,663)	(52,087)	(67,359)	(89,415)
8,421,537	7,102,721	5,702,034	4,370,067	3,077,390	2,005,457
209,661	488,274	1,047,463	1,263,589	1,288,077	534,928
4,024,421	2,866,050	1,747,567	929,720	–	–
3,421,052	3,208,346	3,017,232	2,798,467	2,593,181	1,593,227

2013	2012	2011	2010	2009	2008
110.73	113.97	116.09	80.19	65.40	100.10
–	–	–	–	–	–
5.82	5.50	5.76	6.77	7.20	7.71
5.51	5.27	5.56	5.35	5.52	5.35
6.74	6.38	6.69	7.66	8.12	8.58
293,985	240,615	144,606	175,980	438,922	257,286
1,214,615	1,492,529	1,286,542	1,139,058	–	4,214
152,600	111,498	129,396	41,850	142,325	157,584
366,804	196,226	386,193	346,675	284,099	507,423
27.39	14.75	29.3	26.5	24.5	45.3
15.3	13.2	15.3	14.1	11.5	27.8
15.4	11.5	17.9	11.0	8.6	21.4
4.0	4.0	4.0	4.0	4.0	8.0
–	–	–	–	–	–
52.7%	42.6%	18.8%	–	–	–
6.2%	5.6%	7.0%	6.9%	6.4%	21.0%
1,343,361	1,334,757	1,325,155	1,312,888	1,299,562	1,119,841

0.895	1.038	1.016	1.016	0.897	0.693
0.969	1.036	1.032	0.919	0.792	0.868

234,371	300,229	260,497	183,051	143,865	n/a
8,170	6,582	6,303	3,200	3,100	n/a
2.47	2.64	1.85	1.96	1.16	2.04
0	0	0	0	0	n/a
898	918	1,021	1,105	1,405	n/a
73	80	85	78	93	n/a
1,515	1,200	1,124	1,041	970	n/a
14	13	10	6	5	n/a
21	22	23	23	25	n/a

GLOSSARY

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

1C
Low estimate of contingent resources.

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

1P
Proved reserves.

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

2C
Best estimate of contingent resources.

2P
Proved and probable reserves.

AGX
Associated Gas Expansion opportunity.

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

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

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

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

bopd
Barrels of oil per day.

Btu
British thermal units, a measure of thermal energy.

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

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

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

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

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

EITI
Extractive Industries Transparency Initiative.

ExxonMobil
Subsidiary of the Exxon Mobil Corporation.

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

FID
Final Investment Decision.

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

GHG
Greenhouse gas.

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

ITCS
Infrastructure Tax Credit Scheme.

JV
Joint venture.

LNG
Liquefied natural gas.

LPG
Liquid petroleum gas.

LTI
Long-term incentive.

LTIR
Lost Time Injury Rate.

GLOSSARY

MENA
Middle East/North Africa.

mmbbl
Million barrels.

mmBtu
Million British thermal units.

mmscf/d
Million standard cubic feet per day.

MoU
Memorandum of Understanding.

MTPA
Million tonnes per annum (LNG).

Net debt
Total debt less cash and cash equivalents.

OSF
Oil Search Foundation

PDL
Petroleum Development Licence.

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

PL
Pipeline Licence.

PNG
Papua New Guinea.

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

PPFL
Petroleum Processing Facilities Licence.

PPL
Petroleum Prospecting Licence.

PRL
Petroleum Retention Licence.

PSC
Production Sharing Contract.

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

scf
Standard cubic feet, a measure of gas volume.

STI
Short-term incentive.

tcf
Trillion cubic feet, a measure of gas volume.

TCFD
Task Force on Climate-related Financial Disclosure.

Total
Subsidiary of Total SA.

TRIR
Total Recordable Injury Rate.

VPSHR
Voluntary Principles on Security and Human Rights.

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

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

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

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

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ABOUT OIL SEARCH

Oil Search was established in Papua New Guinea (PNG) in 1929, where it operates all of the country's producing oil fields, holds an extensive appraisal and exploration portfolio and has a 29% interest in the PNG LNG Project, operated by ExxonMobil PNG Limited. The Company also holds interests in a number of major undeveloped gas fields, including Elk-Antelope in PRL 15, operated by Total SA, and P'nyang in PRL 3, operated by ExxonMobil. These fields contain sufficient gas resource to underpin 8 MTPA of additional LNG capacity. The Muruk gas discovery located on-trend with Hides and P'nyang in the North-West Highlands provides longer-term production optionality. The Company is also undertaking a range of exploration and appraisal activities to support further LNG expansion in PNG.

In February 2018, Oil Search's acquisition of an interest in world class oil assets in the prolific Alaska North Slope, USA was completed. These assets offer significant upside and complement the Company's high-returning PNG gas assets.

Oil Search is listed on the Australian and Port Moresby security exchanges (Share code: OSH) and its ADRs trade on the US Over the Counter market (Share code: OISHY).

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Oil Search

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