



Oil Search

The power
of **PARTNERSHIP**

ANNUAL REPORT 2016



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The power of partnership

For 87 years, our commitment to developing and maintaining genuine relationships has been key to our ongoing success. Whether we're working with joint venture partners, regulators, the PNG Government, landowners or communities, we are focused on recognising their individual needs and building relationships to the benefit of all. Combined with an unrivalled understanding of how to operate successfully and safely in PNG, we know the importance of a strong long-term, mutually beneficial partnership. That's what sets us apart. That's what makes us Oil Search.



OUR
Vision

*To generate top quartile returns
for shareholders through excellence
in socially responsible oil and
gas exploration and production.*

OUR
Values

Passion

Responsible

Caring

Diversity

Respect

Integrity

Excellence





The power of partnership

Our joint venture partners are among the strongest and most successful oil and gas operators in the world. Combined with our in-country expertise and PNG's world class assets, we are well placed to continue to develop further LNG trains and grow PNG's presence in the global LNG market.



The power of partnership

Our partnerships with communities and governments are vital to developing the resources of PNG in a responsible, equitable manner and in ensuring a stable operating environment. We all share an aligned interest: to create a stronger PNG. What is good for PNG is good for Oil Search.







The power of partnership

More than 83% of our employees in PNG are Papua New Guineans. Developing our local PNG talent and increasing the percentage of women in leadership roles are two of our key goals. We are committed to ensuring a safe and inclusive workplace for our employees and rewarding them as partners in our success.

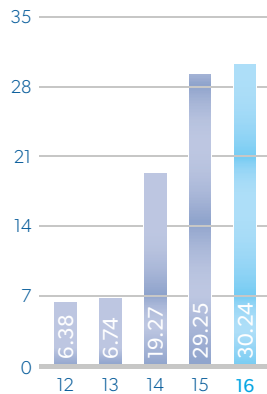


2016

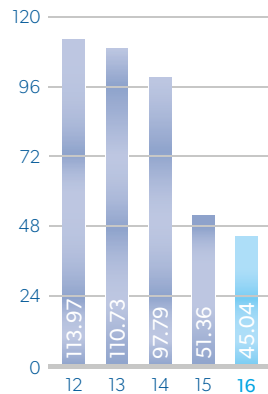
HIGHLIGHTS



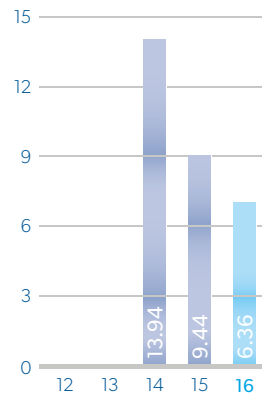
During 2016, Oil Search achieved record production and reduced its unit costs substantially. Despite lower oil and gas prices, operating cash flow generation was strong, cementing the Company's platform for growth.



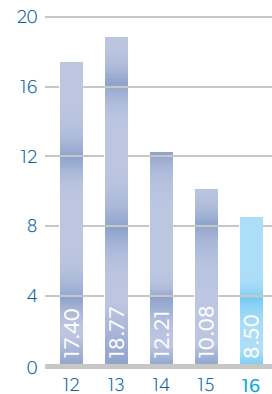
PRODUCTION
(MMBOE)



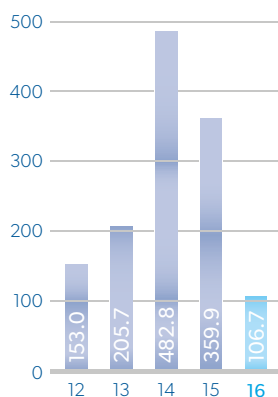
AVERAGE REALISED OIL AND CONDENSATE PRICE
(US\$ PER BARREL)



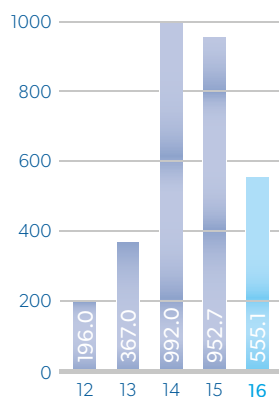
AVERAGE REALISED LNG AND GAS PRICE
(US\$ PER MMBTU)



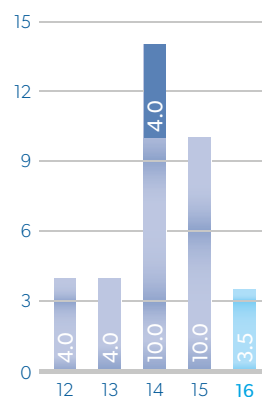
UNIT PRODUCTION COSTS
(US\$ PER BOE)



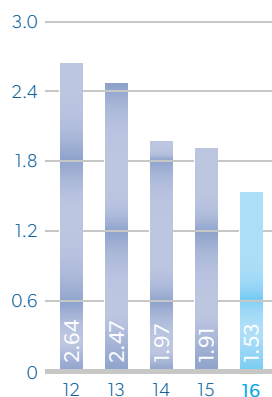
CORE PROFIT
(US\$ MILLION)



OPERATING CASH FLOW
(US\$ MILLION)



DIVIDENDS PER SHARE
(US CENTS)
■ 4¢ SPECIAL



TOTAL RECORDABLE INCIDENT RATE
(PER MILLION HOURS WORKED)



Safety is at the heart of everything we do. We introduced a safety improvement plan during the year, focused on enhancing operational awareness of issues that could make a meaningful difference to safety outcomes. Combined with a strong leadership presence in the field, this resulted in a significant reduction in Oil Search's Total Recordable Incident Rate (TRIR), to 1.53 per million hours worked, the Company's lowest TRIR since 2009.



2016 marked the final year of our first five-year emissions reduction programme. Our emissions in 2016 were 941 ktCO₂-e and our emissions intensity was 46 ktCO₂-e/mmboe. This was 50% lower than our emissions intensity of 93 ktCO₂-e/mmboe in 2009, compared to a target reduction of 12%. Our new Climate Change Strategy, which formalises several existing initiatives, was approved by the Board during 2016.



In December 2016, we became a Corporate Pillar Participant to the Voluntary Principles on Security and Human Rights (VPSHR). This is a demonstration of our commitment to human rights. As signatories, we are required to implement the principles of the VPSHR in our business activities. This process is under way and will continue into 2017, to ensure that human rights management is embedded in all our operating procedures.



Letter from **RICHARD LEE**

Oil Search achieved a number of milestones during 2016, building on its already strong foundations. In a year of record production, Oil Search continued to drive costs lower and delivered a core profit of US\$106.7 million, despite depressed global oil and gas prices. The Company also made progress on its high potential LNG growth opportunities. With strong cash flows and a healthy balance sheet, Oil Search is well positioned to continue to provide attractive returns to shareholders.



Oil Search produced 30.24 million barrels of oil equivalent (mmbOE) in 2016, a record for the Company. The PNG LNG Project continued to perform well above nameplate capacity and is arguably one of the best new LNG projects to have been brought on-stream this decade. However, the global oil and LNG price environment remained challenging over the year. In response, the Company continued to drive down its operating costs, with 2016 unit production costs 30% lower than in 2014. Core net profit, excluding one-off items, was US\$106.7 million, a creditable result given weak commodity prices.

We continued to invest in our high value growth opportunities over the year. To optimise the value of our LNG assets, in May we announced an agreed offer to acquire InterOil Corporation, together with a back-to-back Memorandum of Understanding with Total SA (Total) to on-sell some of the assets. The bid was designed to consolidate our position in the world class Elk-Antelope gas fields in PRL 15, as well as act as a catalyst to develop this gas resource cooperatively with the PNG LNG Project. In July, InterOil announced that it had received a superior proposal from Exxon Mobil Corporation (ExxonMobil).

Your Board considered carefully whether to submit a revised offer, but we decided it was not in the best interests of shareholders to do so, based on our view that the likelihood of a cooperative development is increased if ExxonMobil becomes a PRL 15 Joint Venture partner. ExxonMobil has subsequently completed its acquisition of InterOil and discussions regarding a collaborative approach to LNG expansion in PNG have commenced, advancing many of our original aims.

In light of our high returning growth opportunities, the Board believes that our proportionate

dividend policy, whereby the Company pays out between 35% and 50% of core profit to shareholders, remains appropriate, providing both short and long term returns to shareholders. As a result, an ordinary dividend of 3.5 US cents per share was paid for 2016, compared to a total of 10 US cents per share for 2015. Our dividend reinvestment plan remains suspended.

During the year the Board approved a new Climate Change Strategy. This outlines our support for global efforts to implement an effective global climate agreement, market mechanisms and other measures which improve business certainty. This year, we have significantly increased the disclosure of our climate change risks and opportunities and will continue to make further improvements aligned with the recommendations of the Task Force on Climate Related Financial Disclosures.

There were a number of changes to the Oil Search Board during 2016. Bart Philemon and Ziggy Switkowski both retired from the Board. Bart's tenure will be remembered for his vast experience in PNG and his passion towards contributing to better outcomes for its people. Ziggy brought valuable learnings and insight from his highly successful career as an executive and a director in a range of industries. I would particularly like to thank Ziggy for his stewardship as Chairman of the People and Nominations Committee.

We are delighted that Fiona Harris agreed to re-join the Board after a period of absence and we also welcome Mel Togolo to the Board. Fiona and Mel have already brought substantial strengths in a variety of areas to Board deliberations.

In September 2016, we announced the creation of three Independent Member roles at the Board Committee level for suitably qualified PNG citizens. Richard Kuna, Mary Johns and Serena Sasingian are our first appointees. All hold senior positions in PNG government or business and will strengthen the Board Committees through their experience, local knowledge and well-established in-country networks. Although not members of the Board, these appointees will be expected to contribute to the effective functioning and execution of duties and responsibilities of the relevant Board committees, while receiving training and hands-on exposure to governance practices at Oil Search.

Looking to 2017 and beyond, recent actions by OPEC to restrict oil supply have helped stabilise the oil price and we expect prices to continue to improve slowly over the next few years, albeit with periods of high volatility. Our cash flow break-even oil price, after sustaining capital expenditure, debt servicing and principal repayments, is less than US\$30 per boe. This places the Company in an excellent position to continue to invest in value-accretive LNG expansion in PNG. Given our material interests in both the PNG LNG Project and in PRL 15, Oil Search is well placed to benefit from the timely and cooperative development of our substantial existing gas resources. We will also continue to invest in exploration and appraisal. The recent gas discovery at Muruk highlights the quality of our exploration acreage. Our financial strength allows us to respond to opportunities as they arise and to commit capital in the best interests of the Company and its shareholders.

All of these activities will take place with the highest focus on ensuring

a safe operating environment for all stakeholders. The substantial improvement in our TRIR in 2016, from 1.91 to 1.53 incidents per million hours worked, was a pleasing outcome and the implementation of a Process Safety Improvement Plan also had positive results. Continuous improvements in all areas of safety remain a key objective for the Company.

Led by your Managing Director and his highly capable executive team, Oil Search has performed well in what has been a difficult market environment. We continue to see the Company as being extremely well positioned to deliver LNG into a regional market where demand will continue to grow over the long term. Oil Search has a high quality asset base, as well as a track record of reliability and flexibility. With these characteristics, the Company has strong foundations that will enable it to meet the challenges and opportunities that lie ahead. Thank you to all employees of Oil Search for your contributions in 2016 and thanks also to my Board colleagues for their support and guidance in what has been another exciting year. Finally, I must acknowledge the support of you, our shareholders, during a challenging period in the oil and gas industry. Your Board is focused on improving efficiency and productivity to preserve operating margins, while setting its sights squarely to a horizon of exciting growth longer term in Papua New Guinea.



Richard Lee
CHAIRMAN



Update from **PETER BOTTEN**

Oil Search has entered 2017 with an unprecedented platform for growth. In 2016, we achieved record production levels, booked major increases in both 1P and 2P reserves and 2C contingent resources and discovered a new gas resource in the PNG Highlands. In addition, the recent completion of ExxonMobil's purchase of InterOil has triggered discussions for a cooperative approach to LNG expansion. Our quality operations, strong balance sheet, world class partners and excellent PNG relationships provide a firm foundation from which to deliver significant value for all stakeholders.



KEY DEVELOPMENTS IN 2016

During 2016, Oil Search recorded the highest production in the Company's history, driven by an excellent performance from the PNG LNG Project and output from our operated oil and gas fields that was above expectations. We continued to reduce production costs, which were a very competitive US\$8.50 per boe in 2016, 30% lower on a per unit basis than they were three years ago. Despite significantly lower realised oil and gas prices, we generated positive

operating cash flows, which were more than sufficient to fund all capital expenditures, as well as scheduled project financing repayments. Oil Search ended 2016 in a stronger financial position than we entered it, reducing net debt by US\$242 million over the year.

Following an independent recertification, our PNG LNG Project reserves increased materially and we also booked a substantial increase in 2C contingent resources in the Elk-Antelope fields. The Company now has a 1P reserve life of 16 years

and a 2P reserve life of 18 years. Including 2C contingent resources, much of which has a high chance of development, our reserve and resource life is a very healthy 44 years.

While unsuccessful, our bid for InterOil in 2016 has acted as a catalyst for a collaborative approach to the development of new LNG trains in PNG. This expansion is underpinned by more than 10 trillion cubic feet gross of discovered undeveloped gas, in which Oil Search has

material equity interests. We have commenced discussions with our partners regarding the development of these resources, utilising the existing downstream infrastructure of the world class PNG LNG Project. This will deliver expansion at a very competitive capital cost and with significant ongoing operating cost savings, in a timeframe to meet an anticipated shortfall in supply of LNG in the Asia Pacific region in the early 2020s.

STRONG OPERATING AND RESERVE POSITION

The PNG LNG Project has established PNG as a reliable supplier of high heating value gas to the Asian region. The Project continues to operate well above its 6.9 MTPA nameplate capacity, producing at an average rate of 7.9 MTPA during 2016. We expect the operator, ExxonMobil, to continue to optimise the facilities, which will translate into further improvements in operating performance from 2017 onwards. The recertification of the PNG LNG Project gas fields, which was completed during 2016, resulted in a 50% increase in Oil Search's PNG LNG reserves on a 1P basis and a 12% increase on a 2P basis. This increase supports the strong production rates being delivered by the PNG LNG Project and allows the co-venturers to explore the opportunity to place volumes in excess of existing contracts into additional short-medium term contracts, subject to market conditions. It also allows non-PNG LNG Project gas resources to be dedicated to LNG expansion.

OPERATIONAL AND PROCESS SAFETY

Our goal at Oil Search is incident-free operations, where no one gets hurt and we have minimal negative impact on the environment.

The Company recorded a 2016 TRIR of 1.53 per million hours worked, a 20% improvement from our 2015 TRIR of 1.91. We introduced a safety improvement plan during the year, in response to an increase in our TRIR in the first half of 2016. The plan focused on increasing the leadership presence in the field and enhancing operational awareness of safety in a number of key areas. This resulted in a meaningful reduction in recordable incidents in the second half of the year. In addition, we identified an opportunity to work with our contractor partners to improve their safety processes.

Process safety performance continues as a key focus in our production and drilling areas. During 2016, we completed several engineered projects to reduce safety risks and introduced more robust process safety reporting systems, which will support continued improvements. While our safety record places us in the top quartile amongst our peers, we will continue to evolve our processes and embed safety into our culture.

PRL 15 RESOURCE GROWTH AND A STRENGTHENING PARTNERSHIP

In 2016, Total, the operator of PRL 15, undertook a comprehensive appraisal drilling and testing

programme on the Antelope field in PRL 15. The results of these activities have confirmed that Antelope is a world class gas field and have led to a 23% increase in our estimate of Elk-Antelope 2C contingent resources. Our revised gross resource estimates, of 6.45 tcf of dry gas and 57.4 mmbbl of liquids, are consistent with the certification undertaken by two independent experts during the year.

In late 2016, the PRL 15 Joint Venture was granted a five year extension to the Petroleum Retention Licence (PRL). Terms of the PRL extension include that Front End Engineering and Design (FEED) must be undertaken within a two year timeframe. This provides the Joint Venture with a clear line of sight to project milestones.

PROGRESS TOWARDS COOPERATIVE LNG EXPANSION

As mentioned by our Chairman, in May 2016, we announced the proposed acquisition of PRL 15 Joint Venture partner, InterOil Corporation, and a Memorandum of Understanding with Total for a back-to-back farm-out of certain InterOil assets. In July 2016, ExxonMobil submitted a superior offer for InterOil. We decided not to compete with ExxonMobil by increasing our offer, given that



Hides Gas Conditioning Plant, NW Highlands, PNG.

almost all our bid objectives, of achieving a cooperative, integrated development agenda, are enhanced by ExxonMobil having interests in the PNG LNG Project and in the Elk-Antelope and P'nyang fields. Oil Search received a break-fee from ExxonMobil, which more than covered our bid costs. ExxonMobil's acquisition of InterOil was completed in February 2017 and detailed discussions with ExxonMobil and Total have now commenced regarding how we will collaboratively develop new LNG trains in PNG.

During the year, Oil Search undertook a refresh of the major Strategic Review it completed in 2014. A key component of the refresh was assessing the various commercial models that can deliver material capital and operating cost savings through cooperation between the P'nyang and Elk-Antelope joint ventures and the PNG LNG Project, as well as determining the key activities required to underpin the next phase of LNG growth in PNG. This work has provided an excellent platform for our discussions with ExxonMobil and Total on the optimal development path. There is recognition among all parties that these negotiations and subsequent activities, including fiscal discussions with the PNG Government, FEED, marketing and financing studies, need to be undertaken in a timely manner. While there are a range of complex issues to be resolved, we are targeting a project sanction decision in late 2018/early 2019.

EXPLORATION SUCCESS

In late 2016, the Muruk 1 exploration well in PPL 402 discovered gas in the primary objective, the Toro reservoir. Given Muruk's proximity to the existing Hides infrastructure and the strong alignment of ownership interests in PPL 402 and the PNG

LNG Project, if appraisal is successful, this discovery has the potential to be a source of highly cost-competitive gas and may provide options for field phasing for LNG expansion. The Joint Venture intends to appraise the discovery with up to three sidetracks, to be drilled in 2017, and up to two step-out wells, to be drilled in 2018.

The discovery also de-risks adjacent prospects and highlights the quality of our PNG acreage portfolio, which has been materially expanded and high-graded during 2017. Following a comprehensive review of PNG's prospectivity in 2015 and 2016, we are now convinced that there is significant remaining gas and oil potential in PNG. Our acreage position is capable of supporting a high quality, consistent exploration programme which has the potential to drive top quartile growth for the next five to ten years.

CONTRIBUTING TO A STABLE OPERATING ENVIRONMENT

Oil Search understands that a stable operating environment is essential for delivering economic benefits to the Company and our partners, whether they are landowners, the PNG Government, our joint venture partners or shareholders. The ability of Oil Search to work cooperatively with, and create alignment between, multiple different stakeholders is one of our competitive strengths.

The Company has a comprehensive strategy of partner and community engagement, involving multi-faceted programmes of capacity building in governments and communities, infrastructure development, provision of health care, women's empowerment and provision of power solutions, all designed to contribute to social and economic development in PNG. The work we do with our in-country partners, which is recognised internationally, sets us apart from our peers. Our objective



Oil Search has committed K185 million (US\$56 million) to the Oil Search Foundation over five years, from 2016 to 2020.

is to set the standard for private sector contributions to sustainable development in PNG.

The Oil Search Foundation, a not-for-profit organisation established by Oil Search, works in partnership with Government, communities and other public and private organisations to help PNG achieve its development goals. The Foundation is focused on building the capacity of our partners to deliver services that are most beneficial to communities and are aligned with the Government's national priorities. From an initial focus on delivering extensive health programmes, funded by both Oil Search and other donor partners, the Foundation now has two further development streams – Leadership and Education and Women's Protection and Empowerment. Oil Search has committed K185 million (US\$56 million) to the Foundation over five years, from 2016 to 2020. This is in addition to the Company's direct activities, highlighting the importance Oil Search places on its social programmes, which have a genuine positive impact on local communities.

Availability of power is a significant development challenge in PNG. Oil Search's new PNG power business has been mandated to find power solutions in support of the Government's goals for electrification. Its focus is on creating viable, scalable and competitive power projects that can grow in step with demand. As with everything we do in PNG, our success in this

venture will depend on the strength of partnerships we form, which in this case is with PNG's major energy companies. In September 2016, the Markham Valley Biomass Project, which will deliver up to 30MW of lower carbon power for businesses and communities in the Lae region, entered FEED.

During 2016, Oil Search handed over two public buildings that it completed for the PNG Government under the Infrastructure Tax Credit Scheme. Sir Manasupe Haus houses the Department of the Prime Minister and National Executive Council and the National Football Stadium is putting PNG on the international

sporting map. These projects are two examples of how Oil Search is working with the PNG Government to provide infrastructure that will benefit the community for decades to come.

Oil Search is absolutely committed to ensuring that all our operations are conducted ethically and that we maintain the safety and security of our employees, contractors and the communities within which we operate. To this end, we became a participant in the Voluntary Principles on Security and Human Rights and are now working to further embed human rights principles into all our processes.

PNG 2016 ELECTIONS

PNG will be holding both National and Local Level Government elections during 2017. Over the 87 years we have operated in PNG, we have fostered strong relationships with many governments. We look forward to working with the new Government when it is formed in August and continuing to contribute to the development of PNG and its citizens.



Peter Botten
MANAGING DIRECTOR

OBJECTIVES IN 2017

Execution of our Strategy Refresh findings will be a key focus for Oil Search during 2017. We believe that the coordinated and timely development of PNG's discovered undeveloped gas resources is our single greatest opportunity to create substantial value for the Company, our partners and the PNG Government. With appraisal activities continuing at both P'nyang and Muruk and pre-FEED work at Elk-Antelope, we will progress commercial discussions between the joint ventures and PNG LNG. By the conclusion of 2017 we expect to have achieved:

- ◆ Technical alignment on the integration and the delivery of binding agreements.
- ◆ Concept selection and commencement of upstream and downstream pre-FEED.
- ◆ Commencement of Gas Agreement discussions.

Our operated oil and gas fields remain core assets and continue to generate strong cash flows, the majority of which will be reinvested in our high-returning LNG growth opportunities. During 2017, we will continue to focus on the following:

- ◆ Maintaining personal and process safety as the highest priority, including putting in place a number of initiatives to further improve performance.
- ◆ Maximising production from the oil fields, by optimising facility availability and reliability, well intervention strategies and assessing nearfield drilling opportunities.

- ◆ Ensuring the ongoing reliable delivery of gas from Oil Search's operated fields to the PNG LNG Project and operation of the liquids export system.
- ◆ Appraising the Forelands/Gulf region to assess the potential gas resource upside in the PRL 8 and PRL 9 licence areas.
- ◆ Continuing to grow the exploration portfolio through targeted licence acquisitions.
- ◆ Continuing to assess and develop power opportunities in PNG, including progressing the Biomass project to a Final Investment Decision and optimising options available for commercialising Highlands IPP. Work will also continue on defining development opportunities for non-PNG LNG related fields, including feasibility work on small scale LNG commercialisation.
- ◆ Continuing our comprehensive community programmes, supporting government initiatives for the provision of rural infrastructure and services, while working with all stakeholders to ensure benefits from our projects are efficiently delivered to relevant landowners.
- ◆ Identifying further opportunities to streamline the Company's work practices, processes and procedures.

2016

FINANCIAL MANAGEMENT

With record production and lower operating costs, Oil Search generated healthy operating cash flows in 2016, despite a depressed oil and gas price environment. Our strong financial position means we have the flexibility to fund our existing commitments and pay dividends, as well as fund the value-accretive growth opportunities underpinned by our substantial resource base.



FINANCIAL PERFORMANCE

Oil Search reported a 2016 statutory net profit after tax of US\$89.8 million, compared to a net loss of US\$39.4 million in 2015. Profits were boosted by the break-fee received from ExxonMobil due to the termination of Oil Search's bid for InterOil, with Oil Search realising a net profit of US\$18.7 million after transaction costs. This was offset by a one-off, non-cash restatement of deferred tax balances of US\$35.6 million, following a reduction in the PNG oil field tax rate from 50% to 30%. Our core net profit after tax in 2016, excluding the impact of the InterOil transaction and the deferred tax restatement, was US\$106.7 million, a 70% decline on 2015, primarily due to the materially lower prices realised for both oil and gas.

Annual production of 30.24 million barrels of oil equivalent (mmboe) and sales of 30.59 mmboe were the highest in the Company's history, exceeding last year's production and sales by 3% and 6%, respectively. This record performance was driven by higher output from the PNG LNG Project, which, over 2016, produced at an average rate of 7.9 million tonnes per annum (MTPA), 14% higher than the nameplate capacity of 6.9 MTPA.

Higher sales were offset by a 12% and 33% drop, respectively, in the year-on-year realised oil and condensate price and LNG and gas price, resulting in a 22% decline in our reported sales revenue, from US\$1,585.7 million to US\$1,235.9 million.

Work undertaken across the Company in 2015 and 2016 to drive cost efficiencies continued to yield results. Our production costs decreased from US\$294.8 million in 2015 to US\$257.1 million in 2016. On a per barrel of oil equivalent basis (per boe), production costs declined 16% from US\$10.08 per boe in 2015 to US\$8.50 per boe in 2016. This impressive result reflected the successful implementation of a series of cost reduction programmes and a higher proportion of lower unit cost production from the PNG LNG Project. Other operating costs, including selling and distribution costs, royalties and levies, gas purchase costs and corporate expenses but excluding transaction costs related to the InterOil bid, were US\$131.7 million, a decline of 12% on the previous year.

Exploration costs expensed for the year were US\$53.2 million, up 5% on 2015. This included US\$16.5 million attributable to the unsuccessful Strickland 1 and Strickland 2 wells in PPL 269. Net finance charges

during 2016 were US\$196.0 million, US\$10.9 million higher than in 2015, primarily due to finance leases associated with a new LNG tanker servicing the PNG LNG Project's increased sales volumes.

No impairment charges were recorded during 2016, reflecting the robust economics of Oil Search's producing assets even in a low oil price environment.

The effective tax rate on statutory profit was 51.5%, which reflected a one-off, non-cash restatement of deferred tax balances due to a reduction in the PNG oil field tax rate from 50% to 30%, effective from 1 January 2017.

CASH FLOWS

Operating cash flow for 2016 was US\$555.1 million, a 42% decrease on 2015. This reflected the impact of substantially lower realised oil and gas prices, partially offset by a 6% increase in hydrocarbon sales volumes. While we continued to invest in our high quality growth assets in PNG, we reduced our in-field activities due to the continued low oil price environment. Combined with a lower spend on exploration and evaluation, investing cash flow was 57% down on 2015, at US\$232.3 million.

LIQUIDITY AND CAPITAL MANAGEMENT

At the end of 2016, our net debt was US\$3,076.6 million, comprising cash of US\$862.7 million and debt of US\$3,939.4 million outstanding under the PNG LNG project finance facility. Oil Search repaid US\$289.3 million of PNG LNG project finance debt during the period.

Liquidity, comprising cash and US\$750 million of undrawn corporate facilities, totalled US\$1.61 billion at the end of the year. Oil Search's US\$500 million facility expires on 31 October 2017. In early 2017, the Company commenced refinancing this facility, with strong interest shown from the bank market.

A 2016 final unfranked dividend of 2.5 US cents per share was declared, taking the total unfranked dividend for 2016, including the one US cent per share interim dividend, to 3.5 US cents per share. This represents a dividend payout ratio of 50% based on core profit.

FINANCIAL PERFORMANCE SUMMARY

YEAR TO 31 DECEMBER		2016	2015	% change
Production	mmboe	30.24	29.25	3
Sales	mmboe	30.59	28.76	6
Average realised oil and condensate price	US\$/bbl	45.04	51.36	(12)
Average realised LNG and gas price	US\$/mmBtu	6.36	9.44	(33)
Revenue from operations	US\$m	1,235.9	1,585.7	(22)
EBITDAX ⁽¹⁾	US\$m	852.2	1,151.3	(26)
Depreciation and amortisation	US\$m	(436.7)	(407.8)	7
Exploration costs expensed	US\$m	(53.2)	(50.9)	5
InterOil break-fee (net)	US\$m	18.7	–	N.M
EBIT ⁽¹⁾	US\$m	381.0	692.6	(45)
Impairment loss	US\$m	–	(399.3)	N.M
Net interest expense	US\$m	(196.0)	(185.1)	6
Profit before tax	US\$m	185.0	108.3	71
Taxation	US\$m	(95.2)	(147.6)	(36)
Net profit/(loss) after tax⁽²⁾	US\$m	89.8	(39.4)	N.M
Impairment (net of tax)	US\$m	–	399.3	N.M
InterOil break-fee (net of tax)	US\$m	(18.7)	–	N.M
PNG tax law changes	US\$m	35.6	–	N.M
Core profit ⁽¹⁾	US\$m	106.7	359.9	(70)
Basic EPS ⁽²⁾	US¢/share	5.9	(2.6)	N.M
Basic EPS before significant items	US¢/share	7.0	23.6	(70)
Dividends per share	US¢/share	3.5	10.0	(65)
Operating cash flow	US\$m	555.1	952.7	(41)
Net debt	US\$m	(3,076.7)	(3,318.2)	(7)

1. EBITDAX (earnings before interest, tax, depreciation/amortisation, non-core activities, impairment and exploration), EBIT (earnings before interest and tax) 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.

2. Includes significant items.

OBJECTIVES IN 2017

Given the current uncertain oil price environment, our focus in 2017 and beyond will be to continue to look for ways to optimise our cost base across all levels of the organisation. Oil Search is in a strong financial position, with a break-even oil price after all costs, sustaining capital requirements, interest and principal repayments of less than US\$30 per boe.

We remain focused on growing our LNG business in PNG through investment in our existing assets, progressing

cooperative development opportunities with our partners and through the strategic expansion of our exploration portfolio.

The Company's strong liquidity position, which will be maintained by the refinancing of our US\$500 million facility in early 2017, means we expect to be able to fund all committed expenditures, including capital costs, scheduled debt payments and dividends, from operating cash flows and existing cash.

Oil Search

EXECUTIVE TEAM



1. PETER BOTTEN, CBE

Managing Director

Peter was appointed Managing Director of Oil Search in 1994. He has extensive worldwide experience in the oil and gas industry, previously holding various senior technical, managerial and board positions in a number of listed and government owned organisations. He is currently a Council Member of the Australia PNG Business Council, Director of the Oil Search Foundation and Chairman of Business for Millennium Development Australia.

2. GERE AAOPI, CBE

*Executive General Manager,
Stakeholder Engagement*

Gerea was appointed to the Executive Leadership Team in 1998 and joined the Board as an Executive Director in 2006. Prior to joining Oil Search, Gerea was Managing Director of Telikom PNG Ltd, held several senior positions in the PNG public service and served as the Secretary of the Department of Finance and Planning.

3. MICHAEL DREW

*Executive General Manager,
General Counsel*

Michael joined Oil Search in mid-2014, having had more than 22 years' international oil and gas legal experience. Michael began his legal career in private practice at Linklaters, London. In 2001, Michael joined BP PLC and, in 2010, he was appointed Associate General Counsel BP responsible for global upstream businesses.

4. STEPHEN GARDINER

*Chief Financial Officer and
Group Secretary*

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

5. PAUL CHOLAKOS

*Executive General Manager,
Technical Services*

Paul joined Oil Search in 2010, after more than 25 years' experience in the international oil and gas and mining industries. He was appointed EGM, Technical Services in 2015, having previously held the roles of EGM, PNG Operations and EGM, Project Development. Paul played a significant part in the Company's transition to a major LNG exporter through overseeing the Oil Search-operated elements of the PNG LNG Project.

6. DR JULIAN FOWLES

*Executive General Manager,
PNG Business Unit*

Julian joined Oil Search in 2012, after a 23-year career with a number of large international oil and gas companies, including 16 years with Shell. His worldwide experience encompasses technical and senior executive management across the spectrum of exploration, development and production operations and new business.

7. MICHAEL HERRETT

*Executive General Manager,
Human Resources*

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

8. IAN MUNRO

*Executive General Manager,
Gas Business Development*

Ian joined Oil Search in August 2013 to drive growth of the Company's gas business and deliver opportunities for gas commercialisation. Ian's career spans more than 27 years in the oil and gas industry, including senior technical and commercial roles at Mobil, ExxonMobil and Woodside Petroleum.

9. DR KEIRAN WULFF

*Executive General Manager,
Exploration and New Business*

Keiran re-joined Oil Search in January 2015, having previously worked for the Company between 1995 and 2008 in senior roles including as Chief Operating Officer. Keiran has over 30 years' worldwide experience in the oil and gas industry. Prior to re-joining Oil Search, Keiran was Managing Director of Buru Energy Limited and also established Aligned Energy Ltd, a biomass-to-power company focused on developing countries.

2016

PRODUCTION

Total production in 2016 was 30.24 million barrels of oil equivalent (mmboe), a record result for the Company and 3% higher than in the previous year. The PNG LNG Project continued to perform strongly, operating at an average production rate of 7.9 million tonnes per annum (MTPA) during 2016, 14% above nameplate capacity. Production from the Oil Search-operated oil and gas fields was also above expectations, largely due to increased gas sales to the PNG LNG Project.



PNG LNG PROJECT

The PNG LNG Project contributed 23.42 mmboe net to Oil Search in 2016, of which 19.97 mmboe was LNG and 3.45 mmboe liquids (condensate and naphtha).

The Project operated consistently above the nameplate capacity of 6.9 MTPA, averaging 7.9 MTPA in 2016. Facility processing performance improved progressively over the year, reaching an annualised production rate of 8.3 MTPA in the fourth quarter, the highest quarterly

rate since production commenced in 2014. These excellent results were achieved despite the plant experiencing a brief shut-down during the second quarter, the first time since production began in 2014, and a small reduction in gas flows and LNG production in the third quarter due to a landowner protest at the Hides Gas Conditioning Plant (HGCP). Both issues were resolved quickly and safely, with minimal impact to overall production levels.

The result also reflected strong upstream deliverability and high levels of reliability from all components of the PNG LNG Project infrastructure, including the Hides wells, the Oil Search-operated Associated Gas (AG) fields, the HGCP and the pipeline network.

Importantly, the Project recorded zero Lost Time Incidents during the year, continuing its excellent safety record.

The PNG LNG Project resources were recertified by Netherland, Sewell and Associates, Inc. (NSAI) during 2016, resulting in a material uplift in our reserves, particularly at the 1P level (see 2016 Reserves and Resources Report on p48 for details).



First loading of new LNG tanker, Kumul, at PNG LNG jetty near Port Moresby, PNG.

PNG LNG PROJECT PARTNERS

Strong demand for PNG LNG gas

During the year, the Project sold 108 LNG cargoes, comprising 89 under contract and 19 on the spot market, with two cargoes on the water at the end of the year, destined for contract customers. The full contracted volumes of 6.6 MTPA were taken by the Project's long term customers (Jera, Osaka Gas, Sinopec and CPC). In addition, the Project placed all its spot volumes, to a diverse and high quality customer base in the East Asia region. The strong demand for the Project's gas reflects its high heating value (making it very suitable for Asian reticulation networks), the Project's geographic proximity to sources of demand and its reputation as a reliable supplier of LNG. Of the 19 spot cargoes sold during the year, 12 were to various contract and non-contract customers in Japan.

32 cargoes of Kutubu Blend, comprising production from the Oil Search-operated PNG oil fields and condensate from the PNG LNG Project, as well as ten cargoes of naphtha from the PNG LNG Project, were also sold during 2016.

Ongoing PNG LNG development activities

FEED on the tie-in of the Angore gas field (Pipeline and Surface Facilities Project), was undertaken during 2016. The project, to tie-in the Angore A1 and A2 wells, which were drilled on the Angore field in 2015, to existing infrastructure, is on schedule for completion in mid-2019. In addition, the Hides F1 well tie-in activities progressed during the year, with completion expected in early 2017.

The operator, ExxonMobil, continued to increase production through improved operating

PNG LNG PROJECT CO-VENTURERS

	% Interest
ExxonMobil	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

	MTPA
Sinopec (China)	2.0
Jera (Japan)	1.8
Osaka Gas (Japan)	1.5
CPC (Taiwan)	1.2

efficiency and optimisation measures. Since the start-up of PNG LNG, there has been a focus on steadily increasing production rates at the HGCP and the LNG plant. The increase in capacity has resulted from a systematic approach to examining operating data and optimising process controls. The operator has indicated it will continue to evaluate plant capacity and opportunities to maximise production from the Project.

Oil Search's contribution to the PNG LNG Project

The Oil Search-operated AG and SE Gobe fields delivered gas to the Project at an average rate of 138 million standard cubic feet per day (mmscf/day) during 2016, representing approximately 13% of the total gas delivered to the LNG plant. The Kutubu, Gobe Main and SE Gobe fields contributed an average of 65.1 mmscf/day, 36.4 mmscf/day and 37.0 mmscf/day, respectively, over the year.



The Oil Search-operated AG and SE Gobe fields delivered gas to the Project at an average rate of 138 million standard cubic feet per day (mmscf/day) during 2016, representing approximately 13% of the total gas delivered to the LNG plant.

The Kumul Marine Terminal handled 11.0 mmbbl (approximately 30,100 bbl/day) of condensate from the PNG LNG Project during 2016. The facility and its associated 270 kilometres of pipeline from the Highlands to the terminal, continue to operate with a high level of efficiency, safety and uptime.

PNG LNG beneficiary identification and ownership

During the year, the PNG Government continued the Landowner Benefits Identification Programme, aimed at identifying the landowners eligible to receive benefits from the PNG LNG Project.

Under the terms of the 2009 Umbrella Benefits Sharing Agreement, landowner groups and

Provincial Governments are entitled to acquire an additional 4.27% equity stake in the Project from the PNG Government. Discussions were held during the year between the Government and landowner groups on determining a new purchase price structure, to reflect the decline in oil and gas prices, and on securing debt funding. The proposed transaction will be effected through the transfer of shares in Kumul Petroleum

(PNG Government) to landowners. Following completion, which is planned to occur in 2017, the PNG Government's effective interest will reduce to 12.5%, while landowner interests will increase to 7.1%.

PNG OPERATED OIL AND GAS PRODUCTION

In 2016, Oil Search achieved total net operated production (excluding gas production from the AG fields) of 6.83 mmbbl, produced at a gross average rate of 36,112 boepd. This was 3% higher than in 2015, largely due to a higher level of gas sales from the SE Gobe field to the PNG LNG Project.

Net crude oil production for the year was 5.02 mmbbl, with the Kutubu complex and Moran fields contributing more than 98% of total oil produced. Gas and liquids production was 1.81 mmbbl, comprising 1.21 mmbbl from the Hides Gas-to-Electric (GTE) Project and 0.60 mmbbl from SE Gobe gas sales to the PNG LNG Project. This compared to net oil production of 5.51 mmbbl and gas and liquids production of 1.52 mmbbl in 2015.

Production from the Kutubu complex declined by 14% during the year. Oil Search continued to actively manage the production from these mature fields with successful zone changes during the period at Agogo and Usano, as well as a better than expected response to gas injection at the Hedinia Digimu field. The fields were, however, impacted by a range of factors including flow line repairs, downtime at the Agogo Processing Facility and a short production curtailment due to weather issues at the Kumul Marine Terminal.

Moran production increased 5% in 2016, with wells drilled during 2015 continuing to positively impact production performance. In addition, the reinstatement of production from the Moran 1XST4

2016 PRODUCTION SUMMARY⁽¹⁾

YEAR TO 31 DECEMBER	2016	2015	% Change
GAS PRODUCTION	mmscf	mmscf	Net to OSH
PNG LNG Project LNG ⁽²⁾	101,827	96,646	+5
Hides GTE gas production ⁽³⁾	5,573	5,312	+5
SE Gobe gas to PNG LNG ⁽⁴⁾	3,060	1,886	+62
Total gas	110,460	103,844	+6
OIL AND LIQUIDS PRODUCTION	mmbbl	mmbbl	
Kutubu complex	3.28	3.80	-14
Moran	1.64	1.56	+5
Gobe Main	0.02	0.03	-20
SE Gobe ⁽⁶⁾	0.08	0.12	-35
SE Mananda	-	-	N/A
Total Oil	5.02	5.51	-9
PNG LNG Project liquids	3.45	3.27	+5
Hides GTE liquids ⁽³⁾	0.11	0.11	+1
Total liquids	8.59	8.89	-3
TOTAL PRODUCTION ⁽⁵⁾	mmboe	mmboe	
	30.24	29.25	+3

1. Numbers may not add due to rounding.

2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.

3. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides GTE Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes include approximately 2% unrecovered process gas.

4. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.

5. Gas and LNG volumes for 2016 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.

6. Oil Search share in SE Gobe reduced from 25.55% to 22.34% on 1 February 2016.



Oil Search achieved total net operated production of 6.83 mmbbl, produced at a gross average rate of 36,112 boepd. This was 3% higher than in 2015, largely due to a higher level of gas sales from the SE Gobe field to the PNG LNG Project.

B block well, which occurred six months ahead of schedule, had a positive impact on output. Improvements in production were partially offset by the absence of gas injection at the Moran 4X well, which was shut-in throughout the year due to integrity issues. Planning is underway to complete a workover of this well in 2017, in order to reinstate injection. Weather and restrictions on storage also impacted production during the year.

Gross oil production rates at the Gobe Main and SE Gobe fields declined by 20% and 27%, respectively. These fields now operate primarily as gas producers in support of the PNG LNG Project, with SE Gobe and Gobe Main exporting 26.9 billion cubic feet (bcf) gross of gas to the Project during the year. On 1 February 2016, Oil Search's economic share of the SE Gobe gas unit reduced from 25.55% to 22.34%, in line with previously agreed amendments to the relevant field unitisation and operating agreement. Oil Search's registered interests in PDL 3 and PDL 4 remain unchanged.

Gas sales from the Hides GTE Project to the Porgera Gold Mine increased 5% in 2016. Volumes in the prior year were negatively impacted by a major drought in PNG that resulted in the temporary closure of the Porgera mine.



Two-way engagement with landowners and the community is essential to developing the resources of PNG.

Oil Search facilitates stable operating environment

As a PNG company with 87 years of experience in PNG, our strong relationships with community, government and business mean we are often uniquely placed to be able to assist in aligning relevant parties and reaching solutions to problems.

In 2016, we continued to work with community members and government representatives to help support our joint venture partners. During the year, several Oil Search senior stakeholder engagement staff worked on secondment to Total, enabling Total to draw on our extensive PNG experience to help ensure an engagement approach in PRL 15 and the surrounding area that supports the achievement of outcomes in a timely manner.

At the PNG LNG Project, in August, landowners from Hela Province began a peaceful protest at the HGCP, seeking a dialogue with the Government regarding progressing land title and benefits distribution issues. Oil Search helped to facilitate communication between the PNG Government and local landowner groups so a mediation meeting could take place. The meeting resulted in a Memorandum of Understanding (MOU) that satisfied all parties and the protests stopped. Implementation of the terms of the MOU has been delayed by legal action by other landowners in the region, with resolution currently being sought.

OPERATED OIL AND GAS FIELD PARTNERS ⁽¹⁾

% INTEREST

	Kutubu complex (PDL 2)	Moran Unit (PDL 2/5/6)	Gobe Main (PDL 4)	SE Gobe Unit (PDL 3/4)
Oil Search	60%	49.5%	10%	22.3%
ExxonMobil	14.5%	26.8%	14.5%	7.7%
Barracuda Limited (Santos)	–	–	–	7.5%
Merlin Petroleum Company (JX Nippon)	18.7%	8.3%	73.5%	39.1%
Southern Highlands Petroleum Co (JX Nippon)	–	–	–	18.8%
Kumul Petroleum (PNG Government)	–	11.3%	–	–
Landowner interests	6.8%	4.1%	2.0%	4.6%
	100.0%	100.0%	100.0%	100.0%

1. Numbers may not add due to rounding.



Regular equipment maintenance in a harsh environment is essential to maintaining plant integrity and improving process safety.

Associated Gas Acceleration opportunity

In 2015, Oil Search commenced work on the Associated Gas Acceleration (AGA) opportunity, a project designed to accelerate the volume of gas being delivered from the Kutubu, Agogo and Moran fields to the PNG LNG Project. One of the key drivers of this project was a desire to optimise the expenditures required to maintain upstream gas production, given the strong operating performance of the PNG LNG trains. During 2016, the Company worked with the PNG LNG operator and other joint venture partners to consider the best way to optimise production from these fields and increase the capacity of the Central Processing Facilities and Agogo Production Facilities.

The project team completed their screening study work during 2016. The recent recertification and

material increase in reserves of the PNG LNG Project fields has reduced the requirement for additional gas from the AG fields at present. Oil Search will continue working with the PNG LNG operator to assess future opportunities to optimise delivery of Associated Gas into the PNG LNG Project.

PROCESS SAFETY

A Process Safety Improvement Plan (PSIP) was launched in 2013. The aim of the PSIP was to provide the Company with a clear picture of its production safety risks and to accelerate improvements to ensure that appropriate controls were in place to manage and mitigate these risks. Since then, significant work has been undertaken to ensure our management system incorporates the Oil Search approach to managing process safety. Since its launch, risk management relating to

the Company's production assets in PNG has improved substantially. In 2016, we delivered a major improvement in process safety event performance, from three Tier 1 and five Tier 2 Process Safety Events (PSE) in 2015, to zero Tier 1 and two Tier 2 PSEs in 2016. With the aims of the PSIP now achieved, ongoing management of process safety will be guided by our Process Safety Management Framework and Behaviours. Oil Search continues to work with all staff and contractors to build their understanding and management of process safety risks and to embed a culture of safety at all levels of the workforce.

OBJECTIVES IN 2017

During 2017, Oil Search will focus on optimising the output of its mature oil fields through reliable and sustainable reservoir and facilities performance. A number of well work activities, which were uneconomic in 2016 due to the weak oil price environment, are planned to be undertaken in 2017. These activities are expected to help mitigate the natural decline in production from our mature oil fields.

The PNG LNG operator, ExxonMobil, has indicated it intends to continue to systematically examine operating data and process controls to maximise production from the Project in a capital efficient manner.

In addition, the significant increase in PNG LNG 1P reserves will enable the Project to explore opportunities to contract the material surplus uncontracted production, subject to market conditions.

Safety remains fundamental to everything we do. While our safety performance in 2016 was pleasing, we are targeting improvements in all safety metrics by continuing

to embed a culture of safety into the entire organisation.

Oil Search's 2017 full year production is anticipated to be in the range of 28.5 – 30.5 mmboe, as follows:

2017 PRODUCTION GUIDANCE⁽¹⁾

Oil Search-operated PNG oil and gas	5.5 – 6.5 mmboe ⁽²⁾⁽³⁾
PNG LNG Project	
LNG	101 – 104 bcf
Power	600 – 650 mmscf
Liquids	3.0 – 3.5 mmbbl
Total PNG LNG Project	23.0 – 24.0 mmboe⁽²⁾
Total production	28.5 – 30.5 mmboe

- Numbers may not add due to rounding.
- 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.
- Includes SE Gobe gas sales.

2016

GAS GROWTH

With approximately 10 trillion cubic feet (tcf) of discovered undeveloped gas within the Elk-Antelope and P'nyang fields, Oil Search is confident that there are sufficient discovered resources in PNG to underpin at least two additional PNG LNG-sized LNG trains. The recent Muruk discovery may provide additional optionality for sourcing gas.

Oil Search and its partners are committed to pursuing a cooperative development that ensures capital is efficiently allocated, maximising returns for all stakeholders.



MAKING PROGRESS ON A COOPERATIVE LNG EXPANSION

Oil Search made material progress on its high value LNG growth opportunities in 2016, driven by resource upgrades in key gas fields, the entry of ExxonMobil into the Elk-Antelope fields and expressions of support for cooperative LNG expansion in-country by key stakeholders.

We believe that PNG is uniquely positioned to satisfy the growing

demand for LNG in the Asia Pacific region. The outstanding performance of the PNG LNG Project has established PNG as a reliable producer of high heating value gas that provides buyers with geographic diversification. In addition, PNG has substantial undeveloped gas resources, a stable fiscal regime, a supportive Government and world class operators, which, when combined with Oil Search's 87 years of in-country experience, creates an ideal environment for LNG expansion.

At present there is approximately 10 tcf of discovered, undeveloped 2C contingent resource within the Elk-Antelope field, in PRL 15 and the P'nyang field in PRL 3 (subject of an application licence, APDL 13), sufficient to support two additional four million tonnes per annum (MTPA) LNG trains. Subject to its successful appraisal, the recent Muruk discovery, which is located along trend from the Hides field, approximately 21 kilometres from the nearest PNG LNG infrastructure, could increase the options for development and improve expansion economics.

Oil Search is committed to ensuring that the next phase of LNG development in PNG is undertaken in a capital efficient manner, which will benefit not only the Company and its partners but also the PNG Government, landowners and the people of PNG. We estimate that US\$2-3 billion in capital costs and approximately US\$125 million per annum in operating costs could be saved by locating new LNG trains at the PNG LNG plant site. ExxonMobil, operator of the PNG LNG Project and the P'nyang gas field, and Total, operator of the Elk-Antelope fields, have expressed their willingness



There is significant capacity for expansion at the PNG LNG plant site.

SOURCES OF GAS FOR LNG EXPANSION



to evaluate options leading to optimal cooperative outcomes for LNG development. The recent completion of the acquisition of InterOil by ExxonMobil and the resulting entry of ExxonMobil into PRL 15 has opened the way to formal discussions, which will allow the participants to move to the project planning stage.

PNG LNG RECERTIFICATION PROVIDES COMMERCIAL FLEXIBILITY

NSAI completed a recertification of the resources in all the PNG LNG fields during 2016. Oil Search used NSAI's new data as the basis for the Company's 2016 reserve report. This resulted in a 50% increase in

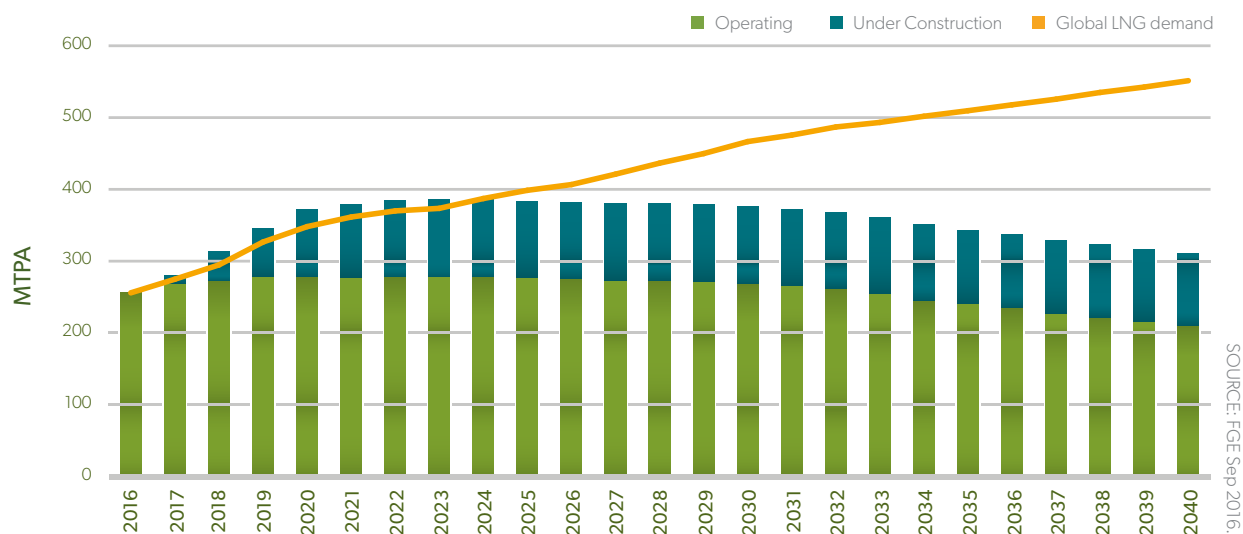
"ExxonMobil will work with co-venturers and the government to evaluate processing of gas from the Elk-Antelope field by expanding the PNG LNG Project. This would take advantage of synergies offered by expansion of an existing project to realize time and cost reductions that would benefit the PNG Treasury, the government's holding in Oil Search, other shareholders and landowners."

– ExxonMobil news release of intention to acquire InterOil, 21 July 2016

the Company's 1P PNG LNG gas reserves compared to the 2015 reserve booking (equivalent to a 2.8 tcf increase on a gross basis). The material uplift in reserves means the gas fields currently dedicated to the PNG LNG Project can support the plant's production rates, which are consistently well

above nameplate capacity. In turn, this allows the Project to enter into additional term or spot sales, depending on market conditions. The reserve increase also reaffirms the availability of non-PNG LNG gas fields to support LNG expansion opportunities.

GLOBAL LNG SUPPLY-DEMAND BALANCE



ELK-ANTELOPE (PRL 15)

During 2016, Total, the operator of PRL 15 which contains the Elk-Antelope fields, continued to appraise the Antelope gas field. An extended well test on Antelope 5, completed in the first quarter, confirmed the reservoir quality and connectivity seen in the initial production test undertaken in 2015. The Antelope 6 well, drilled on the eastern flank of the field, was also flow tested, confirming connectivity with both Antelope 1 and Antelope 5 and indicating good deliverability from the field. Log interpretations from Antelope 6 have demonstrated the presence of three dolomite intervals with good reservoir quality.

The Antelope 7 appraisal well was spudded in early November with the objective of providing structural control and reservoir definition in the poorly defined western flank. Following drilling difficulties, a mechanical sidetrack was drilled to approximately 2,300 metres to fulfil appraisal requirements. The sidetrack, Antelope 7ST1, was drilled to the target depth for the appraisal section without penetrating

carbonate, which is in line with our base case interpretation. In early 2017, Antelope 7ST1 was being deepened to test the Antelope Deep prospect, a separate feature below the primary target.

Following the successful appraisal campaign, during 2016 we undertook a full technical assessment of the results. Our estimate of 2C gross contingent resources in the Elk-Antelope fields has increased from 5.3 tcf of raw gas to 6.45 tcf of dry gas and 57.4 million barrels (mmbbl) of condensate (equivalent to 6.53 tcf of raw gas).

These estimates are consistent with the average of the two independent certifications undertaken during the year by world-class certifiers, Gaffney Cline & Associates and NSAI, in accordance with the Sale and Purchase Agreement between Oil Search and the sellers of the PAC LNG Group of Companies (PAC sellers). As the average certified 2C resource was less than 7.0 tcf, Oil Search was not required to make an additional payment to the PAC sellers at this stage.

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

P'NYANG (PRL 3)

Planning for the P'nyang South 2 well in PRL 3 progressed during the year. Working closely with ExxonMobil, Oil Search will operate key aspects of the well on behalf of the Joint Venture. This working arrangement will leverage Oil Search and ExxonMobil's respective strengths, potentially reducing both timelines and operating costs, and demonstrates the strong working relationship that exists within the Joint Venture and the benefits of partnership. The well

is expected to commence drilling in the second half of 2017, after the wet season. The primary objective of the well is to migrate 2C resource to 1C resource, with a certification of the resources in the field planned following completion of drilling.

Pre-FEED studies and field work are scheduled to take place in 2017, to improve execution planning for field development. Regular meetings between the Department of Petroleum and Energy and the PRL 3 Joint Venture are planned, to progress the offer of a Petroleum Development Licence, currently subject to an application (APDL 13) and the negotiation of a new Gas Agreement leading to development of the field.

LNG MARKET OUTLOOK

During 2016, three new LNG projects came on-stream globally, with a capacity of 22 MTPA. At the same time, demand from a number of large LNG buyers was impacted by lower economic growth, resulting in a sharp decline in spot LNG prices in the first half of 2016. Towards the end of the year, LNG spot prices increased as a result of seasonal demand coinciding with reduced production availability, due to outages at a number of suppliers.

Further LNG supply will come on-stream from several new projects in Australia and the US over 2017 and 2018, which may lead to short term pressure on LNG spot prices. However, the number of countries importing LNG has increased significantly, stimulated by lower LNG prices and the use of lower-capital cost floating storage and regasification units. We anticipate that these players will absorb much of the growing supply.

With few new projects having been sanctioned in the past two years and strong ongoing growth in demand for LNG, particularly in the Asian region, markets are expected to fully rebalance in the early 2020s, with new supply required to meet both market growth and expiring contracts.

GLOBAL LNG PROJECT DEVELOPMENT COST OUTLOOK

With a lower commodity price environment resulting in less capital being allocated to the industry, there have been material reductions in the cost of new LNG developments. Industry consultants, Wood Mackenzie, consider that a 20-30% reduction in development costs is achievable for projects sanctioned in the next few years.

SMALL SCALE LNG DEVELOPMENT OPTIONS

Development of the Company's smaller gas fields in the Gulf, Western and Highlands Provinces has historically focused on providing backfill gas to PNG LNG or to other proposed large-scale LNG projects. During 2016, considerable work took place on reviewing the opportunities for small scale LNG (0.5 – 1.5 MTPA). We believe that a market opportunity exists to sell gas to both regional markets in PNG and to other countries in the Pacific region, which would provide the opportunity for near-term development of these resources. Other domestic markets in PNG include the use of gas for power generation, as well as fuel for regional mining and industrial applications.

During 2017, we plan to commence an appraisal programme on the Barikewa and Kimu fields and will appraise the Uramu field in 2018, to confirm the resource base for potential small scale LNG development activities.

OBJECTIVES IN 2017

During 2017, Oil Search plans to work closely with its partners towards commercialising additional LNG trains in PNG with gas sourced from the NW Highlands and onshore Gulf, in a way that maximises the economic and social benefits to all stakeholders.

Key activities will include:

- ◆ The completion of appraisal activities on the Elk-Antelope field.
- ◆ The drilling of P'nyang South 2, followed by resource certification.
- ◆ Completion of technical studies on integration and commercial discussions between the P'nyang and Elk-Antelope joint ventures and PNG LNG, followed by the negotiation of binding agreements.
- ◆ Concept select and upstream and downstream pre-FEED activities for LNG expansion.
- ◆ Commencement of Gas Agreement discussions with the PNG Government.

2016

EXPLORATION AND NEW BUSINESS

Oil Search's exploration business had many successes in 2016. These ranged from the Oil Search-operated gas discovery at Muruk to the acquisition of new licences with material potential. In addition, the Company attracted quality new companies to farm-in to Oil Search licences where our equity levels were considered too high and conducted a major regional seismic programme that has delineated several exciting new exploration prospects.



KEY EXPLORATION DEVELOPMENTS IN 2016

Over the past two years, Oil Search has taken advantage of the downturn in the oil industry to systematically enhance its portfolio in PNG. We have focused on those areas identified by the 2015 "whole of country" review, which are capable of supporting long term expansion of PNG's LNG industry, as well as on new frontier areas considered to have LNG-scale opportunities. Oil Search's portfolio has been expanded significantly, with three

new licence applications granted and three farm-ins successfully completed in 2016. Negotiations are continuing on a number of other licences applications and farm-ins, which we expect to complete in 2017. Our strategic approach also involves working with selected partners to balance risk while holding appropriate participation levels in opportunities that have the potential to add material gas resources to the Company's portfolio.

Oil Search's portfolio is now capable of supporting a multi-year,

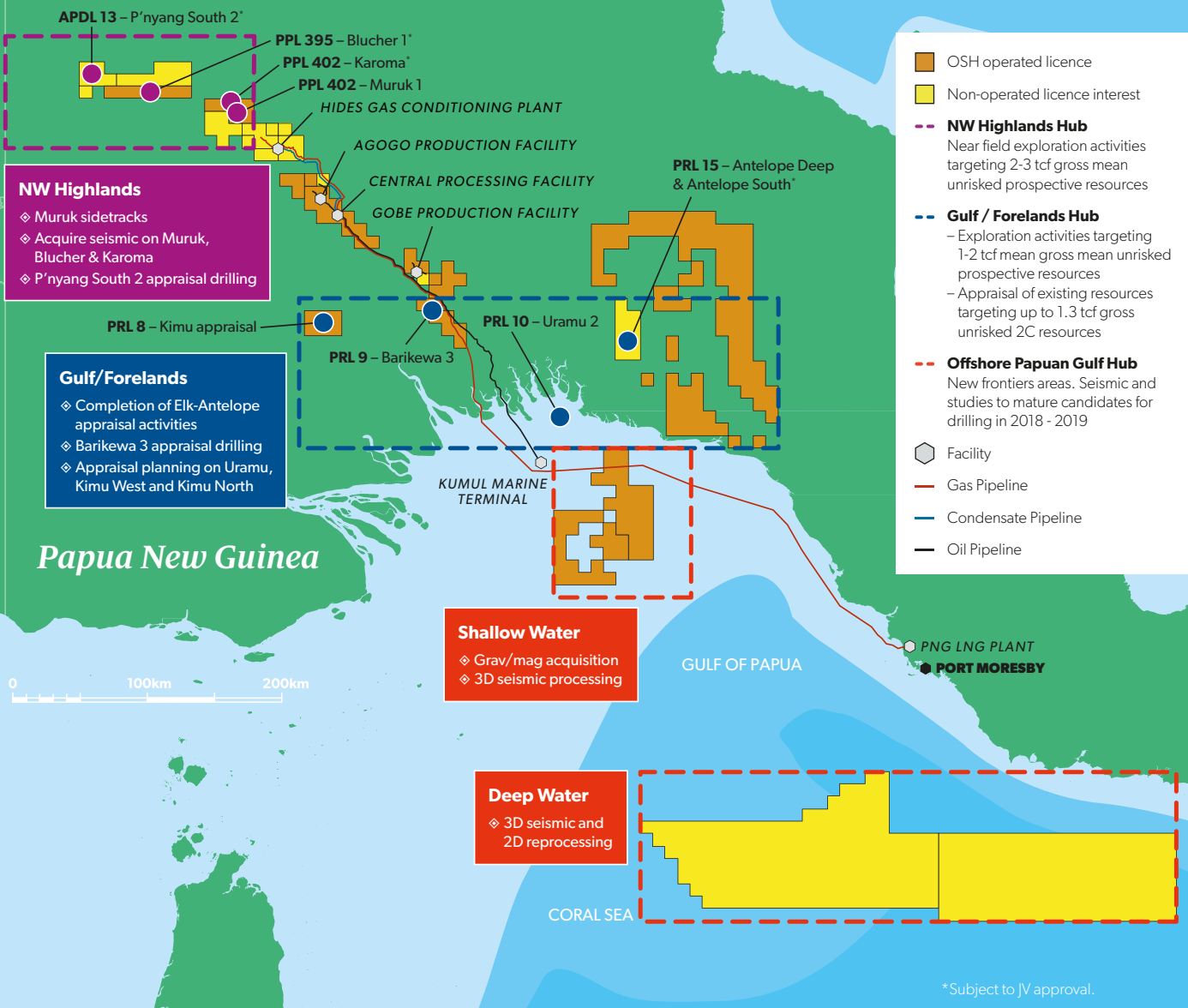
high quality exploration drilling programme that will test areas with significant resource potential. We are targeting to drill four to five wells per year, with an annual exploration and appraisal budget of US\$200-300 million (subject to oil prices).

The Muruk gas discovery in the Oil Search-operated PPL 402 licence is an exciting result that has validated Oil Search's exploration strategy. Identified by seismic acquired in 2015 and drilled towards the end of 2016, the well discovered gas and, subject to the results of the sidetrack currently underway, an active appraisal drilling programme is planned for 2017 and 2018. The Muruk discovery is located between the Hides and Juha gas fields and is only 21 kilometres from the nearest PNG LNG Project infrastructure. Consequently, if appraisal is successful, it could be easily tied-in to existing infrastructure. Importantly, the Muruk discovery has upgraded several further prospects identified by the 2016 seismic programme, on-trend between Hides and P'nyang. Further seismic will be acquired on this trend in 2017, with additional drilling planned for 2018.

2016 EXPLORATION HIGHLIGHTS

- ◆ The exciting Muruk gas discovery, which may have the potential to support LNG expansion.
- ◆ Delineation of three additional prospects adjacent to, and on trend with, Muruk with combined unrisks potential mean resources of 4 – 6 tcf.
- ◆ Upgrading of the resource potential at Kimu and remapping at Barikewa and Uramu.
- ◆ Acquisition of three licences through licence applications and three licences via farm-ins.
- ◆ Farm-out of one licence.
- ◆ Delineation of a number of new prospects and leads with material resource potential.

2017 PLANNED EXPLORATION ACTIVITY



EXPLORATION ACTIVITIES

North West (NW) Highlands

During the year Oil Search tested 2 – 4 tcf of mean gross prospective resources in the NW Highlands through the drilling of the Muruk and Strickland wells.

The Muruk 1 exploration well in PPL 402 (OSH 37.5%), operated by Oil Search, was spudded in

November 2016. The well was drilled through the primary reservoir objective (Early Cretaceous sandstone of the Toro Formation) to a total depth of 3,130 metres. Logs were run and samples recovered which confirmed the discovery of a new gas field. Analysis of downhole fluid samples recovered to surface indicates gas of a similar composition to Juha, with a condensate yield closer to Hides.



We are targeting to drill four to five wells per year with an annual exploration budget of US\$200-300 million (subject to oil prices).

Muruk 1 well in the NW Highlands of PNG.



In early 2017, a northeast oriented geological sidetrack was kicked off, to evaluate the structure and investigate the extent of hydrocarbons. The PPL 402 Joint Venture, comprising Oil Search, ExxonMobil and Santos, intends to drill at least one and possibly two additional sidetracks from the current location and, subject to the results, will commence preparations for appraisal drilling in 2018.

The Muruk discovery has significantly reduced the uncertainty of a number of leads and prospects on-trend and with similar attributes to Muruk, including the Karoma prospect in PPL 402. These prospects will be matured further during 2017. We estimate that the gross unrisks mean resource potential of these related prospects is in the range of 4 – 6 tcf, with drilling targets to be confirmed by seismic in 2017.

The Strickland 1 and Strickland 2 exploration wells were both drilled during 2016. Neither of the wells encountered significant hydrocarbons and as a result, were plugged and abandoned.

Gulf and Forelands

Oil Search has identified an estimated 1 – 2 tcf of contingent resource potential in the Gulf and Forelands region, in and around existing gas discoveries.

Drilling at Barikewa 3, an appraisal well located three kilometres northwest of the Barikewa 1 well in PRL 9, is planned to commence in the second half of 2017. In 2016, an access road was built from the original Barikewa 1 wellpad to the Barikewa 3 location. This road is expected to deliver a significant reduction in the cost of wellpad preparation, rig mobilisation and drilling support.

In PRL 8 (Kimu), a 2016 seismic programme has helped demonstrate that the Kimu field is likely to be larger than previously mapped. Detailed planning has commenced for drilling one firm and one contingent appraisal well in 2018, in conjunction with the Barikewa 3 well.

In PRL 10 (Uramu), a shallow water site survey was undertaken to confirm access routes and investigate



After relocating 15 households and gardens at the Kobalu settlement in 2015 in preparation for the Muruk drilling campaign, in 2016, Oil Search undertook resettlement activities in accordance with the Temporary Resettlement and Livelihood Restoration Plan agreed with the community.

seabed conditions. This work will support the selection of an optimal rig to drill an appraisal well, located approximately two kilometres north of Uramu 1, in 2018.

Preliminary civil and logistics planning and survey work took place in PPL 339, which contains the Kalangar gas prospect. Engagement with the local community also took place, to ensure that we are ready to undertake timely site preparation and drilling once the award of a licence extension has been received.

Offshore Papuan Gulf

In anticipation of the award of several shallow water licence applications, we took advantage of cost effective contractor services to invest in state of the art 3D seismic processing. When processing is complete, analysis of this data is expected to help mature a portfolio of prospects for drilling in this highly prospective area.

Seismic data acquisition, processing and innovation

Oil Search acquired two seismic surveys in PNG during the first half of 2016. The first was the 73 kilometre P'nyang South seismic survey (covering portions of PPL 395, PPL 464 and PRL 3 in the NW Highlands) and the second was the 53 kilometre Kimu seismic survey between the Turama and Guavi Rivers, in the Gulf and Forelands region. In 2016, we made our seismic data more productive by applying new technology and workflows to our in-house seismic processing. This has already resulted in substantial survey cost savings on a per kilometre basis. In addition, Oil Search has continued its collaboration with research institutions to ensure that we are at the leading edge of cost-effective developments in this important phase of the exploration process.

Revitalised licence portfolio

During 2016, Oil Search submitted five applications for exploration licences and one application for a retention licence. In late December, we received the grant document for PPL 487 (Oil Search – 50%, non-operator), as well as offer documents for APPL 504 (Oil Search – 100%, operator) and APPL 507 (Oil Search – 50%, non-operator) from the PNG Minister for Petroleum and Energy. This progress is encouraging and is an important step forward as we seek to broaden our exploration footprint in PNG.

EXPLORATION PARTNERSHIPS

Oil Search has gained access to the leading edge of geoscience through our ongoing collaboration with established research institutions. We are industry partners in three major studies:

- ◆ Aberdeen University's Fold and Thrust Research Group.
- ◆ Sydney-Melbourne-Adelaide Universities' Basin Genesis Hub.
- ◆ Utah University's PNG Source Rock Study.

Delivering innovation is vital as we work to deliver more exploration activity in a cost-effective manner. Our work involves challenging established paradigms, whether they relate to the acquisition and processing of data, the application of technology, optimising workflows or more effective partnering and collaboration.



Acquiring seismic in the NW Highlands of PNG.

In addition to these applications, the Company actively pursued entry into licences of interest through farm-ins. During the year, we farmed-in to PPL 374 and PPL 375 with ExxonMobil (Oil Search – 40%, non-operator in both licences). The blocks, located in the offshore Papuan Gulf in water depths ranging from 1,000 metres to 2,500 metres, cover a combined area of approximately 25,000 square kilometres. We also completed

the purchase of 100% of PPL 395 from Taurus Oil Limited. We are pursuing a number of other farm-in opportunities, to ensure that we have access to PNG's most prospective exploration acreage.

Prior to drilling Muruk, we farmed-out a 12.5% interest in PPL 402 (Oil Search – 37.5%, operator) to Santos, one of our PNG LNG partners, to ensure ongoing alignment in the potential future development of any discovery.

STAGED WITHDRAWAL FROM MENA

Kurdistan Region of Iraq (Taza PSC)

Advanced 3D seismic processing of seismic data acquired in the Taza PSC (Oil Search – 60%, operator) was completed in the first half of 2016. After carefully examining the results of this data, we concluded that significant further appraisal would be required to establish commerciality of the Taza discovery and that more value-accretive opportunities exist in PNG. Following testing of the farm-out market, Oil Search decided to surrender the licence. This has resulted in the de-booking of 20.3 mmbbl of 2C contingent oil and 6.3 bcf of 2C contingent gas.

Oil Search's exit from the Taza PSC in the Kurdistan Region of Iraq required us to permanently abandon the three wells we had drilled, remove all traces of the operation, rehabilitate the land where our well pads were located and wind down our office in Sulaymaniyah.

Departing from a project can have a significant impact on host communities. Consequently, we undertook a process of consultation with all stakeholders to communicate our plan in a considerate and transparent manner. In addition, we carried out the following:

- ◆ Rehabilitation: We cleared sites of all introduced materials and other features, such as roads, were removed. The sites were re-contoured or left as is, depending on the landowner's preference. We received acceptance and consent forms from all landowners, indicating their satisfaction with our rehabilitation activities.
- ◆ Waste removal: Drill cuttings were chemically treated and disposed of in accordance with local regulations. We transported other hazardous and non-hazardous waste to certified landfill sites.
- ◆ Recycling and repurposing: Wherever possible, we donated items such as fencing and

usable building materials to local landowners or police. We handed our water supply, pumps and water trucks to the local water authority for commercial use.

This work was concluded with a site visit by government representatives, at which an Abandonment Report, outlining the steps that had been taken at the site, was accepted.

Yemen (Block 7)

In the second quarter of 2015, Oil Search entered into an agreement to sell its interest in Block 7 (Oil Search – 34%, operator) to a subsidiary of Petsec Energy Limited. At the end of 2016, the sale was pending completion, with the Block remaining in a state of force majeure due to the security situation in-country. 1.6 mmbbl of oil have consequently been de-booked from 2C contingent resources.

Work underway on the Tari power hook-up trial in Hela Province, PNG.



A PARTNER OF CHOICE

Oil Search has a long history of exploration in PNG. The Company has PNG's most comprehensive and highest quality technical database. In addition, we are experienced in operating in PNG's challenging terrain and have developed fit-for-purpose processes and procedures to safely and efficiently acquire field data, conduct seismic surveys and manage the drilling of heli-supported wells.

Together with our technical strength, we have a proven track record of working in cooperation with the community. All of these characteristics position Oil Search as a partner of choice for oil and gas companies seeking to explore in PNG.

PNG POWER

As part of our commitment to creating a stable operating environment in PNG, during 2016, Oil Search, in partnership with key energy companies in PNG, continued to seek opportunities to deliver reliable access to power that can improve the country's development and the population's wellbeing.



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

Working with PPL, Oil Search has been instrumental in improving power supply in Tari. The town

now has reliable, 24-hour per day generation. We have also continued to progress distribution of power across the Hela Community, with new power lines and connections. A power hook-up trial continued during 2016, while a study agreement with Kumul Petroleum Holdings, to explore the collaboration of Oil Search with Kumul across a range of potential PNG power projects, was signed.

OBJECTIVES IN 2017

During 2017, we plan to:

- ◆ Continue appraisal activities on the Muruk gas discovery, through further sidetracks and, subject to the results, prepare for additional drilling in 2018. In addition, we will acquire seismic on the adjacent Karoma prospect, to mature it for drilling in 2018, as well as on other prospects on-trend with Muruk.
- ◆ In the second half of the year, commence a multi-well drilling programme in the onshore Gulf region, with wells planned at Barikewa and Kimu West.
- ◆ Close negotiations on several licence applications and farm-ins, further enhancing our exploration acreage footprint. In addition, we expect to formalise exploration risk-sharing discussions with strategically aligned partners.
- ◆ Continue to build on the PNG-wide prospectivity review completed in 2016, which underpins our exploration strategy.
- ◆ Work with local authorities and the PNG Government to deliver scalable, reliable power to PNG industry and its people.

Social RESPONSIBILITY

Partnering, collaboration and strong relationships underpin our success in PNG. Building on activities in previous years, 2016 saw the Company deliver sustainable development outcomes that not only support Oil Search's strategic goals but will also have a lasting impact on the quality of life in PNG. The Company set firm foundations for future performance with the approval of two important strategies, our 2020 Social Responsibility Strategy and Climate Change Strategy.



MAKING A DIFFERENCE

Making positive contributions to sustainable development in PNG remains a core objective for Oil Search and is the major aim of our Social Responsibility Strategy. We regard sustainable development as an important means through which we can manage socio-political risk, ensure operational stability and deliver outcomes that benefit

not just the communities in which we operate but also our shareholders.

During 2016, Oil Search conducted a review and update of its Social Responsibility Strategy. Endorsed by the Board's Health, Safety and Sustainability (HSS) Committee in October, the 2020 Social Responsibility Strategy provides a clear direction for our activities going forward,

with measurable outcomes and a clear business rationale. It demonstrates our response to current issues and trends such as climate change, responsible supply chain management and human rights and prioritises where we will focus our efforts. It sets two measurable goals that address our deep connection to PNG and ensure we can be proud of our activities and performance.

2020 SOCIAL RESPONSIBILITY STRATEGY

The Company's vision is to generate top quartile returns for shareholders through excellence in socially responsible oil and gas exploration and production.

GOALS

Making PNG lives better

We aspire to set the standard for private sector contributions to sustainable development in PNG.

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.

OBJECTIVES

- ◆ Work collaboratively with government, communities and other partners in innovative ways.
- ◆ Generate shared value and a sustainable positive impact in PNG.
- ◆ Embed social responsibility considerations into how we work.
- ◆ Ensure continued improvement in areas of our performance that are important to stakeholders.
- ◆ Be transparent about our priorities, performance and challenges.

WORKING WITH GOVERNMENT

Delivering infrastructure

Infrastructure Tax Credit Scheme (ITCS) projects have been an efficient way of delivering important infrastructure across the country for many years. Under the scheme, the Government selects the project it wishes to be constructed, which Oil Search then delivers, using our logistics and project controls, safety protocols and governance processes.

In 2016, Oil Search spent US\$32.2 million to progress 12 projects for the PNG Government under the ITCS. These projects are planned to reach practical completion in 2017 and include road infrastructure and hospital and school redevelopments in the Hela and Southern Highlands provinces.

Following practical completion in late 2015, in 2016 we finalised and handed over ownership of two key ITCS projects, Sir Manasupe Haus and the National Football Stadium, to the Government. In February, the Department of the Prime Minister and National Executive Council moved into Sir Manasupe Haus, allowing them to centralise personnel and reduce reliance on multiple leased spaces.

In February 2016, the National Football Stadium hosted its first game between the PNG Hunters and Australian NRL team, the Penrith Panthers. The Stadium was the home ground to the PNG Hunters for the Queensland Cup competition, as well as hosting the FIFA Women's Under-21's World Cup and a number of Digicel Cup Games. It is the only venue in PNG with the level of amenity and security to meet



Oil Search Foundation partnered with Buk bilong Pikinini to deliver literacy programmes and associated libraries at schools in Hela Province.

Australian National Rugby League standards. The Stadium is helping promote the pursuit of sporting achievement in PNG and is an excellent international showcase for the country. In 2017, it will host several matches for the Rugby League World Cup.

In 2017, construction will commence on APEC Haus in Port Moresby, a new function centre that will house the Asia-Pacific Economic Cooperation (APEC) Summit in 2018.

Improving health services

Oil Search and the Oil Search Foundation (the Foundation) work closely with PNG's national and provincial government agencies to strengthen health service provision, improve infrastructure and enhance health outcomes. We are particularly active in remote and rural areas where health facilities are scarce, over-burdened and under-resourced.

In 2016, the Company and the Foundation signed a partnership agreement with the Hela Provincial

Health Authority, to substantially increase the capacity and capabilities of the Hela Provincial Hospital. This hospital is the only source of critical and specialist health services for 300,000 local people in the Tari area. Under the agreement, we provide advice, resources and support in several key areas, including recruitment, systems and service standards. Since October 2015, Oil Search has delivered US\$2.3 million of improvements to the hospital's facilities, including a new tuberculosis (TB) ward.

In June 2016, the Foundation signed a Health Services Partnership Agreement with the Southern Highlands Provincial Health Authority, which will enable us to support health initiatives in the Southern Highlands.

Legislative reform

During 2016, we contributed our perspectives on tax reform, a review of the ITCS Guidelines and key energy and biodiversity legislation and policy to relevant government bodies.

IN 2016, AT HELA PROVINCIAL HOSPITAL

- ◆ 40,000 people presented to out-patients.
- ◆ 1,000 survivors of family and sexual violence received specialised treatment.
- ◆ Nearly 100 people were treated for TB in the new TB Ward.
- ◆ Over 1,000 babies were born under supervision and 70 women underwent emergency caesarean section surgery.
- ◆ More than 800 patients had major surgery.

A STRATEGIC BIODIVERSITY APPROACH

In 2016, we conducted a biodiversity risk assessment for all licences and adjoining areas. It identified areas as being high, medium or low biodiversity value by assessing the prevalence of intact, remnant and untouched forests, threatened flora and fauna and endemic species. In 2017, we will combine this information with the results of an assessment of the residual impacts arising from our activities. A plan to manage our impacts will be put into place for any gaps or opportunities identified. We will continue to engage with the Government on the implications of proposed changes to environmental legislation, which require resource companies to invest in biodiversity offsets for future projects.

During the year we continued to work with the Lake Kutubu Wildlife Management Authority and Conservation and Environmental Protection Agency (CEPA), to support efforts to manage and protect the lake's biodiversity. This included conducting a net swapping programme, which enables villagers to swap their existing fishing nets for nets more likely to target the larger, introduced tilapia fish and allow smaller endemic species to escape. We will explore further opportunities to partner and collaborate with our peers and other organisations on biodiversity outcomes in 2017.

WORKING WITH COMMUNITY

Literacy and education

Over the past few years, Oil Search and the Foundation have initiated a range of programmes that improve literacy and education outcomes in host communities. These activities have a positive flow-on effect to women's empowerment, health and other sustainable development priorities.

In 2016, the Foundation partnered with Buk bilong Pikinini, in a new initiative to deliver early childhood development and literacy programmes and associated libraries at schools in Hela Province. The Company also worked with the PNG Government and local communities to upgrade schools, with our employees contributing more than 4,000 books to schools through a Company-wide book drive.

We are planning to deliver more initiatives in 2017, to improve literacy and education opportunities. We also plan to develop a more holistic, targeted approach by Oil Search and the Foundation to improving local education opportunities and leadership capabilities.

Women's Empowerment

Gender-based violence and discrimination are widespread in PNG, which has a significant negative impact on women's



Oil Search has delivered US\$2.3 million of improvements to Hela Provincial Hospital's facilities and in 2016, we provided advice, resources and support that has considerably increased the hospital's capabilities.

empowerment and advancement at work and in the community.

Raising awareness and changing ingrained attitudes are essential. More than 360 Oil Search employees participated in the 2016 Ending Violence Against Women Health Challenge, which included a fitness competition and a women's protection awareness test.

In 2016, the Foundation launched a small grants scheme as part of its Women's Protection and Empowerment programme, awarding ten grants of up to US\$1,300 to individuals to expand or deliver training, awareness and education initiatives in this area. The Foundation continued to help provide essential support to survivors of gender-based violence through funding the Family Support Centre (FSC) in Tari.

With the goal of helping to increase women's employment, health and education prospects, the Foundation signed a two-year partnership agreement in August



Since October 2015, Oil Search has delivered US\$2.3 million of improvements to the Hela Provincial Hospital, including a new TB ward.

with Marie Stopes PNG (MSPNG). The MSPNG team will work with the Gulf, Hela and Southern Highlands Provincial Health Authorities to provide an estimated 5,200 family planning services, as well as sexual and reproductive health care.

Business skills and financial literacy

In 2016, Oil Search spent US\$52 million, or 15%, of our overall supplier and contractor spend with PNG landowner companies (Lancos). Given the importance of Lancos to our operational continuity and success, assisting them to strengthen their business systems, processes and compliance is an ongoing focus area for Oil Search.

To help improve financial literacy and promote inclusion, in 2016 Oil Search facilitated community visits by representatives of the

Bank of South Pacific (BSP) and the National Development Bank (NDB), the second year we have done this. We connected the banks with more than 180 interested Lancos and other enterprises, many of them run by women, and provided logistical support for their representatives and participants to attend.

Challenging the idea that only men can be income-earners, Oil Search continued to support more than 300 women who are establishing small sustainable agricultural businesses in the Southern Highlands, Hela and Gulf Provinces. In 2016, we facilitated training sessions in basic bookkeeping and how to handle and pack food and we supplied transport, building and solar power assistance.

WASTE TREATMENT IMPROVEMENTS AT PRODUCTION SITES

Due to the lack of waste processing facilities in PNG, waste treatment is a key issue at many of our locations. The Company continues to explore new ways to manage and treat its waste products. In November 2016, we commissioned a new high-temperature incinerator at the Kutubu Waste Management Area that has:

- ◆ Reduced air emissions and the time waste is stored.
- ◆ Increased waste handling capacity.
- ◆ Improved our ability to safely dispose of redundant liquid chemicals onsite.
- ◆ Reduced maintenance costs.

We have also established a bio-remediation facility, to process hydrocarbon-contaminated sand organically onsite.



Oil Search provides materials and collaborates with local communities to build needed infrastructure in PNG.

CLIMATE CHANGE STRATEGY

Our Climate Change Strategy was approved by the Board and HSS Committee in October 2016 and will be reviewed at least annually. It reflects the consensus view obtained from leading energy authorities, including the International Energy Agency 2016 World Energy Outlook and various 2016 Wood Mackenzie publications, as well as major oil and gas peers. The Strategy reflects our alignment with the intent and principles of the Oil and Gas Climate Initiative and formalises several existing initiatives.

2016 marked the final year of our five-year operational emissions reduction programme. Our emissions in 2016 were 941 ktCO₂-e and our emissions intensity was 46 ktCO₂-e/mmboe. Compared to an emissions intensity of 93 ktCO₂-e/mmboe in 2009, this represents a 50% reduction and outperforms our target level



Our objective is to set the standard for private sector contributions to sustainable development in PNG and to exceed stakeholder expectations for governance, environmental and social performance.



Oil Search and the Oil Search Foundation work closely with PNG's national and provincial government agencies to enhance health outcomes.

of a 12% reduction in emissions intensity by 2016 against a 2009 baseline. This reduction was a result of ongoing flare reduction initiatives and, to a lesser extent, the increasing proportion of gas in our production mix.

HUMAN RIGHTS

In late 2016, Oil Search became a participant in the Voluntary Principles on Security and Human Rights (VPSHR), a set of principles designed to guide companies in maintaining the safety and security of their operations within an operating framework that encourages respect for human rights.

As a participant, the Company implements the VPSHR principles into business activities. This work was already underway and continued in 2016. We have integrated human rights principles into our processes for stakeholder engagement and consultation, security, compensation, risk assessments, land access and resettlement, social impact assessment and management and as indicators in baseline studies and breaches. The VPSHR extends to how we manage third party suppliers.

For further information on social responsibility at Oil Search, see the Social Responsibility Report Microsite: <http://socialresponsibility.oilsearch.com>

OBJECTIVES IN 2017

During 2017, we plan to:

- ◆ Continue our work on 12 ITCS projects. Construction will also commence on APEC Haus, a new iconic function centre that will house the APEC Summit in 2018.
- ◆ Through the Foundation, develop a holistic, targeted approach to improving education opportunities and leadership capabilities in PNG and delivering more high school literacy and education initiatives.
- ◆ Continue to fine tune our approach to sustainable development, to ensure we meet the needs of the communities in which we operate and the priorities of the PNG Government.

Organisational CAPABILITY

Oil Search's employees are key contributors to the Company's success. In 2016 Oi Search recognised and valued employees' hard work, passion and commitment through a competitive remuneration structure with industry leading benefits. In addition, we further promoted and embedded a range of diversity and development initiatives.



SUPPORTING DIVERSITY AND INCLUSION

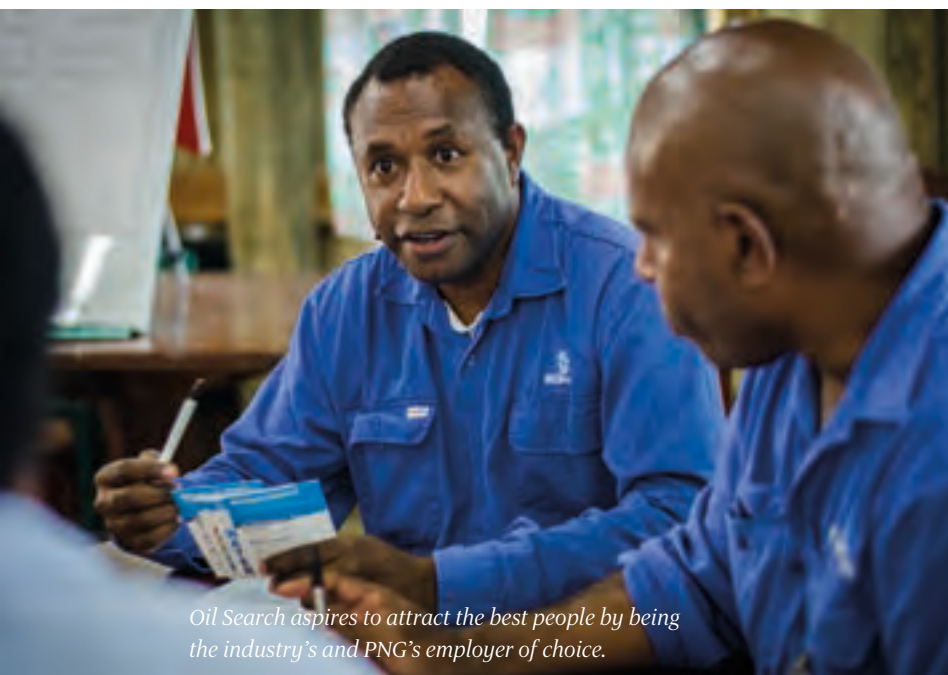
Oil Search's Diversity and Inclusion Strategy focuses on improving our performance on increasing female and PNG national representation in our workforce. We take a proactive, strategic approach to this challenge and measure our success using a number of indicators, including the diversity outcomes of leadership and Board appointments, succession planning and our graduate and apprentice programmes.

Developing PNG citizens

Oil Search is a PNG company. Having a strong local representation in the workforce is an important element of the Company's socio-economic contribution to PNG and supports our commitment to being industry leaders in employment practice. During the year, we continued to progress against our targets by implementing several strategies that are designed to increase the number of PNG citizen employees at all levels.

A major initiative for 2016 was the introduction of a formal, structured Citizen Development Programme (CDP). This supports our goal to increase the number of PNG citizens in leadership roles by using a targeted approach that provides high-performing citizen employees with individually tailored development opportunities and pathways. The programme provides on-the-job experience, skills and capability training and ongoing support, including personalised leadership coaching.

Oil Search invested significantly in the CDP during the year, establishing a support infrastructure that includes a citizen General Manager, a dedicated citizen development team and local and expatriate organisational development specialists. The multi-year programme was allocated a US\$2 million per annum budget. To maximise its efficiency and effectiveness, it is integrated with other workforce planning initiatives,



Oil Search aspires to attract the best people by being the industry's and PNG's employer of choice.



At the end of 2016, 23% of Oil Search's leadership roles were filled by PNG citizens, a 2% increase on 2015.

PROGRESS AGAINST OIL SEARCH'S DIVERSITY AND INCLUSION GOALS

OBJECTIVE	STATUS	RESULTS IN 2016
Increase percentage of females in leadership roles by 2017	On track	The number of females in leadership roles increased from 18% in 2015 to 21% in 2016.
Increase percentage of PNG citizens in leadership roles by 2017	On track	The percentage of PNG citizens in leadership roles increased from 21% in 2015 to 23% in 2016.
Increase percentage of female graduates and apprentices by 2017	On track	The percentage of female graduates and apprentices decreased from 38% and 36% in 2015 to 26% and 34% respectively. This was due to the Business Optimisation Programme in late 2015. We remain on track to meet our overall target in 2017.
Increase representation of females and PNG citizens in succession plans for leadership and management roles	On track	The representation of females and PNG citizens in succession plans has increased from 27% and 22% in 2015, to 33% and 38% respectively in 2016.

it aligns with the objectives of Oil Search's Diversity and Inclusion Strategy and is supported by staff awareness and management support campaigns.

At the end of 2016, 23% of Oil Search's leadership roles were filled by PNG citizens, an increase of 2% on 2015.

Board diversification

To be truly effective, a diversity and inclusion strategy must be supported from the top down and demonstrated at the most senior levels of an organisation. In October, the Oil Search Board announced an initiative that supports this approach and aligns with the Company's commitment to expand and improve PNG's talent pool.

The Board created a new role, Independent Member, and appointed three experienced and suitably qualified PNG citizens, Richard Kuna, Mary Johns and Serena Sasingian to sit on the Company's Board Committees in this capacity. These appointments will provide Directors with access

to additional invaluable local insights and in-country networks. The Independent Members will benefit from the unique experiences and exposure that governing a large listed company can provide in PNG.

During 2016, Mel Togolo CBE and Fiona Harris replaced Bart Philemon and Dr Ziggy Switkowski as Board Directors. Fiona's appointment to the Board means that together with Dr Eileen Doyle, there are now two women on the Oil Search Board of nine Directors and four women on the various Board Committees.

Removing barriers for women

During the year, we held cross-organisation focus groups in PNG and Australia where staff could voice their views on diversity and offer workshop suggestions. Several ideas that arose from the workshops were discussed at a dedicated Board Diversity and Inclusion workshop, where Directors reviewed the Company's progress against strategic targets and discussed new approaches with senior management. Some ideas were endorsed and



Changes during 2016 increased our Board's diversity, with the appointment of two women as Directors and three PNG citizens in the newly-created role of Independent Member.

acted on immediately, including the extension of Company superannuation contributions for staff who continue on unpaid parental leave after their period of paid leave. This new employee benefit, which was introduced in July 2016, sets Oil Search apart from its peers in Australia and PNG.

Improving the safety of female workers in remote locations is essential if more women are to be attracted to roles in these areas. The PNG Business Coalition for Women (BCFW) has partnered with the International Monetary Fund to address this issue through a training programme. In May, Oil Search employees participated in the pilot programme, which provided them with the tools and training to conduct



Oil Search is working to ensure more women and PNG citizens are included in leadership and management succession planning.

women's workplace safety audits, together with a forum for providing feedback on the pilot and discussing related topics.

Unconscious bias is a common barrier to improving diversity and inclusion in the workplace as it can affect managers' decision-making in areas such as recruitment and advancement. In September, unconscious bias training sessions were held with members of senior management in Sydney, Port Moresby and the Field. In addition, an unconscious bias awareness session was held with the Executive team and participants of the Oil Search Accelerated

Development Programme. Unconscious bias training will be rolled out further into the organisation in 2017.

Succession planning

Oil Search is working to ensure more women and PNG citizens are included in leadership and management succession plans. The representation of these two groups in the Company's succession plans increased from 27% and 22%, respectively, in 2015, to 33% and 38%, respectively, in 2016.

In a highly competitive talent market, decisions regarding the recruitment, development and advancement of skilled people can be critical for business success. To make informed decisions about relevant needs and strategies, executives and managers need access to as much information as possible about employees. To meet this need, we reviewed the Company's talent and succession process in 2016, leading to a simplified, broader approach.

The changes assisted decision-making in areas such as identifying suitable candidates for the CDP. They also enabled the identification of talent gaps and supported the use of external recruitment to fill them. This followed on from the outcomes of the Business Optimisation Programme in 2015, which enhanced the Company's talent pool by recruiting external talent into newly-created positions, including at senior management level.

DEMONSTRATING COMPANY VALUES

Employee giving

In 2016, Oil Search employees actively displayed our values and behaviours and our commitment to improving the lives of people in PNG by giving. This included the following:

- ◆ Nine employees and members of their families raised over US\$680 to support Cheshire Disability Services in Port Moresby, which provides meals and health care supplies for residents.



A major initiative for 2016 was the introduction of a formal, structured Citizen Development Programme with a US\$2 million per annum budget and a dedicated General Manager and team.

- ◆ We donated enough rice, noodles, biscuits, tinned food, cooking oil and laundry detergent to ensure 160 patients could complete their TB treatment at Kikori Hospital in the Gulf Province. This meant 100% of patients admitted from January to September were able to remain in hospital for the duration of their treatment.
- ◆ 36 employees donated 31 litres of blood to the Port Moresby General Hospital Blood Bank.

During the year, we launched an awards programme to recognise employees who demonstrate the Oil Search behaviours in their job and selected five winners.

Code of Conduct

The Code of Conduct is at the centre of Oil Search's ability to uphold the ethical business practices that attract stakeholder loyalty and protect the Company's ability to do business. It applies to anyone who carries out business on Oil Search's behalf and is periodically assessed against the Company's

changing business needs and evolving stakeholder expectations.

In 2016 the Code was reviewed and revised and the refreshed version was approved by the Board in October. It now includes some additional elements, including new guidance around relationships with contractors and other stakeholders. The Code is embedded with four key principles to inform all expected decision-making, actions and behaviour and upholds the principles of the United Nations Global Compact and the United Nations Voluntary Principles for Security and Human Rights.

All reported breaches of our Code of Conduct were investigated in 2016. After investigation, two written warnings were issued and four terminations occurred as a result of breaches relating to harassment and bullying, drugs and alcohol and health, safety, environment and security. No breaches were reported through the Whistle-blower Hotline.

During the year, the Company's expectations around whistle-blower protection, gifts and entertainment, conflicts of interest, business

partners and political donations were updated into a revised Corruption Prevention Procedure. By the end of the year, 99% of all employees and on-site consultants had completed Corruption Prevention training.

PARTNERING WITH EMPLOYEES

In a highly competitive skills market, Oil Search aspires to attract the best people by being the industry's and PNG's employer of choice. As PNG's largest company, we are also committed to expanding the national skills base and leading the way in employment practice.

Throughout 2016, we facilitated open, honest employee feedback and input, further strengthened the Company's commitment to diversity and inclusion and continued to expand and enhance development and advancement opportunities.



By the end of the year, 99% of all employees and on-site consultants had completed Corruption Prevention training.

OBJECTIVES IN 2017

In 2017 and beyond, Oil Search will continue to evolve its culture to embed its diversity and development initiatives. We plan to:

- ◆ Develop a formal, Company-wide employee participation and engagement programme that makes our employee volunteering and giving activities more effective.
- ◆ Analyse gender-based pay equity in Australia and PNG and resolve any inequities.
- ◆ Conduct an employee engagement survey to, among other issues, assess employee attitudes towards diversity and inclusion.
- ◆ Carry out unconscious bias training for managers and above.
- ◆ Introduce individual CDP development plans that balance on-the-job experiences, exposure to management, coaching and education and identify support that participants need from the business.
- ◆ Identify opportunities to attract more female applicants for technical roles.
- ◆ Roll out Code of Conduct refresher training to all employees and contractors.
- ◆ Run workshops on good governance practices for our new Independent Committee Members, Executive team and senior managers.

Reserves and RESOURCES

Despite a year of record production, the Company's proved (1P) gas reserves increased by 49%, to 2,151 bcf, and proved and possible (2P) gas reserves increased by 11%, to 2,425 bcf, reflecting a major upgrade in PNG LNG Project reserves following an independent recertification. There were also material 2C contingent resource additions at Elk-Antelope, which took the Company's total 2C contingent gas resources to 3,709 bcf, a large proportion of which has a high probability of development.



MAJOR INCREASES IN GAS RESERVES AND RESOURCES IN 2016

Oil Search recorded material upgrades in both reserves and resources during 2016.

The Company's 1P and 2P gas reserves increased by 49% and 11%, respectively, driven by a recertification of the PNG LNG resources by Netherland, Sewell and Associates, Inc (NSAI).

Oil Search's 2C contingent gas and condensate resources at the Elk-Antelope fields in PRL 15 increased by 254 bcf and 13 mmbbl, respectively,

following appraisal activities and an extensive technical assessment of the resource during the year.

The relinquishment of the Taza licence in Kurdistan and the sale of the entity holding our interest in the Block 7 licence in Yemen, resulted in the removal of 21.9 mmbbl of 2C contingent oil and 6.3 bcf of contingent gas resources.

Based on 2016 production of 30.24 million barrels of oil equivalent (mmboe), Oil Search has a 1P reserves life of 16 years and a 2P reserves life of 18 years. The Company's 2P reserves and 2C resources life is 44 years.

OIL AND GAS RESERVES

At 31 December 2016, the Company's 1P reserves were 62.3 mmbbl of oil and condensate and 2,150.7 bcf of gas. 2P reserves were 75.7 mmbbl of oil and condensate and 2,424.9 bcf of gas.

The key changes in 1P and 2P reserves since 31 December 2015, which are summarised in *Tables 1 and 2*, are as follows:

PNG LNG Project

- ◆ During the year, NSAI were engaged by the PNG LNG Project Operator, ExxonMobil, to assess resources in all Project fields, taking into account the significant development and production activity which has occurred since their last detailed field certification in 2009. Oil Search participated extensively in the recertification exercise and assisted the certifier specifically with the assessment of the Associated Gas fields.
- ◆ For each field, NSAI assessed original gas-in-place (OGIP) and estimated ultimate recoveries (EUR) to subsequently determine the portfolio



PNG LNG Project jetty near Port Moresby, PNG.



OGIP and EUR estimates. Field production performance, well deliverability and compositional modelling were also considered. An independent flow stream model was used to determine probabilistic production forecasts.

- ◆ NSAI's assessment of EUR, before allowance for historical production, fuel and flare, shrinkage and economic limit, has added 3.5 tcf and 2.3 tcf to the Project fields' gross resource base on a 1C and 2C basis, respectively, compared to their previous certification in 2009. On a 2C basis, this corresponds to a gross EUR of 11.5 tcf.
- ◆ Oil Search has elected to use the estimates from NSAI's recertification of PNG LNG resources as the basis for the Company's 2016 Reserves and Resources Statement. Resource estimates, after historical production and

allowance for fuel, flare and shrinkage, have been adjusted for economic limit using Oil Search's corporate assumptions, which include sensitivities to upside and downside price forecasts. On this basis, the Company's share of PNG LNG 1P reserves has increased by 50%, as shown in *Table 2*. Contributions to this outcome derive from both the gas and associated gas (AG) fields, with the AG fields (operated by Oil Search) contributing 26% of the overall increase. The increase in gas reserves has resulted in an associated increase in 1P Project condensate of 13.3 mmbbl, largely due to the additional gas reserves at Hides.

- ◆ On a 2P basis, PNG LNG gas reserves have increased by 352.8 bcf or 12%, as shown in *Table 2*. The AG fields have contributed 41% of the

overall increase. Prior to 2016, Oil Search's PNG LNG Project reserve bookings in the 1P category were based on NSAI estimates, while the 2P reserve bookings were based on a combination of NSAI, PNG LNG Project operator estimates and internal assessments. Consequently, as part of the reserves migration process, the changes in 1P reserves are proportionally higher than the changes in 2P reserves.

- ◆ In the 2P category, PNG LNG oil and condensate reserves have decreased by 3.0 mmbbl, principally as a result of changes in forecast gas and associated liquids production in some of the fields, together with some minor changes related to processing conditions in the plant.

Other

- ◆ Reserves at 31 December 2015 have been adjusted for record net production in 2016 of 8.5 mmbbl of oil and condensate and 105.8 bcf of gas⁽¹⁾.
- ◆ There have been no changes to the EUR for oil in the Moran, Kutubu complex and Gobe oil fields. Remaining reserves in both the 1P and 2P categories reflect the year-end 2015 position less 2016 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.

CONTINGENT RESOURCES

At the end of 2016, the Company's 2C contingent resources comprised 3,709.2 bcf of gas, up from 3,610.0 bcf at the end of 2015, and 48.3 mmbbl of oil and condensate, down from 57.1 mmbbl.

The key changes in 2C contingent resources since 31 December 2015, which are summarised in *Tables 1 and 2* are as follows:

- ◆ The addition of 253.9 bcf of gas and 13.1 mmbbl of condensate at PRL 15, which reflects the Company's revised best technical estimate of resources in the Elk and Antelope fields. The reported volumes now differentiate between dry gas and condensate and reflect gross field reserves of 6.45 tcf dry gas and 57.4 mmbbl condensate (or 6.53 tcf raw gas, up from 5.3 tcf in the previous booking). The reported volumes are consistent with those recently
- certified by NSAI (6.06 tcf raw gas) and Gaffney, Cline & Associates (6.88 tcf).
- ◆ A reduction of 148.4 bcf in PNG LNG gas as a result of the movement of 2C volumes into the 2P category.
- ◆ A reduction of 20.3 mmbbl oil and 6.3 tcf gas net entitlement at Taza following relinquishment of the licence.
- ◆ A reduction of 1.6 mmbbl oil at Al Measher-1 following the sale of the entity holding our interest in the Yemen Block 7 licence.

Note that resource estimates for the recent gas and condensate discovery at the Muruk 1 exploration well have not been stated. This is because drilling operations are still underway and further appraisal activity is expected to take place.

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

Central Processing Facility, NW Highlands, PNG.



RESERVES AND RESOURCES

As highlighted in *Table 4*, at the end of 2016, Oil Search's total 2P oil and condensate reserves and 2C contingent oil and condensate resources were 124.0 mmbbl and the Company's total 2P gas reserves and 2C contingent gas resources were 6,134.1 bcf.

ELK-ANTELOPE (PRL 15) INCREASE IN BOOKED 2C CONTINGENT RESOURCE

1,219.4 bcf raw gas was 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.

In December 2016, a five year extension to the retention lease, first granted in November 2010, was granted by the PNG Government. Following additional drilling and testing, an extensive technical assessment of the resource has been undertaken using the following information gained from the appraisal programme:

- ◆ Data from formation logging and stratigraphy encountered in new wells.
- ◆ Updated structural mapping and geological interpretation.
- ◆ Drill stem, interference and injectivity testing from several Antelope wells.
- ◆ Core analysis, including SCAL, to constrain reservoir parameters.
- ◆ Reservoir modelling (geological and simulation), which incorporates revised depositional and diagenetic models and petrophysical interpretation and allows an assessment of the key uncertainties which impact resource estimates.

On the basis of this study, contingent resource volumes have been assessed by combining in-place volume estimates from geological modelling with recovery estimates from simulation modelling. A combination of deterministic and probabilistic methods has been used.

This has resulted in the addition of 253.9 bcf of gas and 13.1 mmbbl of condensate to the 2C contingent resource estimate for the field.

The reported volumes now differentiate between dry gas and condensate and reflect gross field reserves of 6.45 tcf of gas and 57.4 mmbbl of condensate (or 6.53 tcf raw gas, up from 5.3 tcf in the previous booking). The reported volumes are consistent with those recently certified by NSAI (6.06 tcf of raw gas) and GCA (6.88 tcf).

The Elk-Antelope resources are considered to be contingent on a number of factors, including additional appraisal drilling and technical studies, the confirmation of a commercially viable development project, acceptable project financing and the negotiation of, and commitment to, future LNG contracts.

GOVERNANCE AND 2017 AUDIT PLAN

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

- ◆ A Technical Reserves Committee (TRC) which assesses all proposed changes and additions to the Company's reserves and resources database, utilising advice and contributions from peer review and subject matter experts, where appropriate.

- ◆ The TRC reports to the Reserves Operating Committee (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 any anticipated changes may or may not be material). The Gobe fields were audited at year-end 2015 by independent auditor, NSAI. The Kutubu and Moran oil fields were audited in 2014, 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 2017.

PRL 3

Gas resources at P'nyang in PRL 3 are expected to be certified following the drilling of the P'nyang South 2 well, which is expected to commence in the second half of 2017.

PRL 15

Two independent audits of the resources at Elk-Antelope were undertaken by NSAI and GCA in 2016 as part of the First PAC Certification. The Second PAC Certification will occur one year after delivery of the first commercial LNG cargo.

TABLE 1**2016 OIL AND CONDENSATE RESERVES AND RESOURCES RECONCILIATION WITH 2015***

PROVED OIL AND CONDENSATE RESERVES (MILLION BARRELS)

Licence/Field	End 2015 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 Reserves
PDL 2 – Kutubu complex	15.4	3.3	–	–	12.1
PDL 2/5/6 – Moran Unit	8.6	1.6	–	–	7.0
PDL 4 – Gobe Main	0.1	0.0	–	–	0.0
PDL 3/4 – SE Gobe	0.2	0.1	–	–	0.2
PDL 1 – Hides GTE	–	–	–	–	–
PNG LNG Project	33.2	3.5	13.3	–	43.1
Total	57.5	8.5	13.3	–	62.3

PROVED AND PROBABLE OIL AND CONDENSATE RESERVES (MILLION BARRELS)

Licence/Field	End 2015 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 Reserves
PDL 2 – Kutubu complex	20.0	3.3	–	–	16.7
PDL 2/5/6 – Moran Unit	12.2	1.6	–	–	10.6
PDL 4 – Gobe Main	0.1	0.0	–	–	0.1
PDL 3/4 – SE Gobe	0.3	0.1	–	–	0.3
PDL 1 – Hides GTE	–	–	–	–	–
PNG LNG Project	54.5	3.5	(3.0)	–	48.0
Total	87.2	8.5	(3.0)	–	75.7

2C CONTINGENT OIL AND CONDENSATE RESOURCES (MILLION BARRELS)

Licence/Field	End 2015 2C Resources	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 2C Resources
PNG LNG Project oil and condensate	1.7	–	0.0	–	1.6
Other PNG oil and condensate	33.6	–	13.1	–	46.7
Middle East oil and condensate	21.9	–	–	(21.9)	–
Total	57.1	–	13.1	(21.9)	48.3

* See notes on page 55.

TABLE 2**2016 GAS RESERVES AND RESOURCES RECONCILIATION WITH 2015***

PROVED GAS RESERVES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2015 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 Reserves
PDL 2 – Kutubu complex	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	13.8	3.1	–	–	10.7
PDL 1 – Hides GTE	4.1	1.0	–	–	3.2
PNG LNG Project	1,423.9	101.8	814.7	–	2,136.8
Total	1,441.8	105.8	814.7	–	2,150.7

PROVED AND PROBABLE GAS RESERVES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2015 Reserves	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 Reserves
PDL 2 – Kutubu complex	–	–	–	–	–
PDL 2/5/6 – Moran Unit	–	–	–	–	–
PDL 4 – Gobe Main	–	–	–	–	–
PDL 3/4 – SE Gobe	17.2	3.1	–	–	14.2
PDL 1 – Hides GTE	6.0	1.0	–	–	5.0
PNG LNG Project	2,154.7	101.8	352.8	–	2,405.6
Total	2,177.9	105.8	352.8	–	2,424.9

2C CONTINGENT GAS RESOURCES (BILLION STANDARD CUBIC FEET)

Licence/Field	End 2015 2C Resources	Production	Discoveries / Extensions / Revisions	Acquisitions / Divestments	End 2016 2C Resources
PNG LNG Project Gas	208.3	–	(148.4)	–	60.0
Other PNG Gas	3,395.3	–	253.9	–	3,649.3
Middle East Gas	6.3	–	–	(6.3)	–
Total	3,610.0	–	105.6	(6.3)	3,709.2

* See notes on page 55.

TABLE 3**DEVELOPED AND UNDEVELOPED RESERVES***

DEVELOPED RESERVES (NET TO OIL SEARCH)

Licence/Field	Oil Search Interest %	PROVED (1P)		PROVED AND PROBABLE (2P)	
		Developed Oil and Condensate mmbbl	Developed Gas bcf	Developed Oil and Condensate mmbbl	Developed Gas bcf
PDL 2 – Kutubu complex	60.0%	9.3	–	13.7	–
PDL 2/5/6 – Moran Unit	49.5%	4.5	–	7.7	–
PDL 4 – Gobe Main	10.0%	0.0	–	0.1	–
PDL 3/4 – SE Gobe	22.3%	0.2	10.7	0.3	14.2
PDL 1 – Hides GTE	16.7%	–	3.2	–	5.0
Oil fields and Hides GTE reserves	–	14.0	13.9	21.8	19.2
PNG LNG Project reserves	29.0%	32.1	1,597.4	35.5	1,764.1
Sub-total developed reserves	–	46.1	1,611.3	57.2	1,783.3

UNDEVELOPED RESERVES (NET TO OIL SEARCH)

Licence/Field	Oil Search Interest %	PROVED (1P)		PROVED AND PROBABLE (2P)	
		Undeveloped Oil and Condensate mmbbl	Undeveloped Gas bcf	Undeveloped Oil and Condensate mmbbl	Undeveloped Gas bcf
PDL 2 – Kutubu complex	60.0%	2.8	–	3.0	–
PDL 2/5/6 – Moran Unit	49.5%	2.5	–	2.9	–
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	–	5.2	–	5.9	–
PNG LNG Project reserves	29.0%	11.0	539.4	12.6	641.6
Sub-total undeveloped reserves	–	16.2	539.4	18.5	641.6
Total developed and undeveloped reserves	–	62.3	2,150.7	75.7	2,424.9

* See notes on page 55.

TABLE 4**TOTAL RESERVES AND RESOURCES SUMMARY**

RESERVES AND RESOURCES AT 31 DECEMBER 2016 (NET TO OIL SEARCH)

Licence/Field	Oil Search Interest %	PROVED (1P)		PROVED AND PROBABLE (2P)	
		Total Oil and Condensate mmbbl	Total Gas bcf	Total Oil and Condensate mmbbl	Total Gas bcf
RESERVES					
PDL 2 – Kutubu complex	60.0%	12.1	–	16.7	–
PDL 2/5/6 – Moran Unit	49.5%	7.0	–	10.6	–
PDL 4 – Gobe Main	10.0%	0.0	–	0.1	–
PDL 3/4 – SE Gobe	22.3%	0.2	10.7	0.3	14.2
PDL 1 – Hides GTE	16.7%	–	3.2	–	5.0
Oil fields and Hides GTE reserves	–	19.3	13.9	27.7	19.2
PNG LNG Project reserves ⁽⁵⁾	29.0%	43.1	2,136.8	48.0	2,405.6
Sub-total developed reserves	–	62.3	2,150.7	75.7	2,424.9
CONTINGENT RESOURCES		1C		2C	
PNG LNG Project gas, oil and condensate		–	–	1.6	60.0
Other PNG gas, oil and condensate ⁽⁷⁾		–	–	46.7	3,649.3
Middle East gas, oil and condensate ⁽⁷⁾		–	–	–	–
Sub-total resources		–	–	48.3	3,709.2
Total reserves and resources		62.3	2,150.7	124.0	6,134.1

NOTES

- Numbers may not add due to rounding.
- Oil field proved reserves (1P) and proved and probable (2P) reserves are as certified by independent auditor Netherland, Sewell & Associates, Inc. (NSAI) in 2014 and 2015. 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.
- Crude oil, and separator and plant condensates.
- For the PNG LNG Project, shrinkage has been applied to raw gas for the field condensate, plant liquids recovery and fuel and flare.
- 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.
- 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%).
- 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 and Flinders, 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 evaluation date for these estimates is 31 December 2016.

- 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.

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.

2016

LICENCE INTERESTS

LICENCE INTERESTS AS AT 1 MARCH 2017

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	71.251	Oil Search
APDL 13	P'nyang	38.512 ⁽¹⁾	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, lehi	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 ⁽²⁾	Oil Search
PPL 374		40.00 ⁽³⁾	ExxonMobil
PPL 375		40.00 ⁽⁴⁾	ExxonMobil
PPL 385		100.00	Oil Search
PPL 395		100.00 ⁽⁵⁾	Oil Search
PPL 402		50.00 ⁽⁶⁾	Oil Search
PPL 464		50.00	ExxonMobil
PPL 487		50.00	ExxonMobil
PPL 504		100.00 ⁽⁷⁾	Oil Search
PPL 507		50.00 ⁽⁷⁾	ExxonMobil
Yemen			
Block 7		34.00 ⁽⁸⁾	Oil Search

1. The PDL application submitted by the PRL 3 Joint Venture in respect of the P'nyang field in December 2015 remains pending Ministerial grant.
2. Total's farm-in to PPL 339 completed on 1 March 2017.
3. In August 2016, Oil Search entered into an agreement with CNOOC and ExxonMobil under which Oil Search will potentially acquire a 40% interest in PPL 374. Oil Search received notification of the regulatory approval of its acquisition in late February 2017.
4. In August 2016, Oil Search entered into an agreement with CNOOC and ExxonMobil under which Oil Search will potentially acquire a 40% interest in PPL 375. Oil Search received notification of the regulatory approval of its acquisition in late February 2017.
5. Oil Search's sale to ExxonMobil of a 50% interest in PPL 395 remains subject to regulatory approval.
6. 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). After completion of the transaction, Oil Search will hold a 37.5% interest in the licence.

7. Pending Ministerial grant.
 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.
- * A PRL application has been lodged over the Flinders and Hagana Gas Fields which are part of PPL 244. The application is pending Ministerial grant.
- ** Topfile applications for new PPLs were lodged over former PPLs 233, 234, 260, 277 and 294. In respect of the former PPL 234, a new PPL (PPL 504) has been offered to, and accepted by, Oil Search and is pending Ministerial grant. In respect of the former PPL 294, a new PPL (PPL 507) has been offered to, and accepted by, Oil Search and ExxonMobil and is pending Ministerial grant.



[*< Open for Licence Interests Map*](#)

2016

LICENCE INTERESTS

LICENCE INTERESTS AS AT 1 MARCH 2017

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	71.251	Oil Search
APDL 13	P'nyang	38.512 ⁽¹⁾	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, lehi	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 ⁽²⁾	Oil Search
PPL 374		40.00 ⁽³⁾	ExxonMobil
PPL 375		40.00 ⁽⁴⁾	ExxonMobil
PPL 385		100.00	Oil Search
PPL 395		100.00 ⁽⁵⁾	Oil Search
PPL 402		50.00 ⁽⁶⁾	Oil Search
PPL 464		50.00	ExxonMobil
PPL 487		50.00	ExxonMobil
PPL 504		100.00 ⁽⁷⁾	Oil Search
PPL 507		50.00 ⁽⁷⁾	ExxonMobil
Yemen			
Block 7		34.00 ⁽⁸⁾	Oil Search

- The PDL application submitted by the PRL 3 Joint Venture in respect of the P'nyang field in December 2015 remains pending Ministerial grant.
- Total's farm-in to PPL 339 completed on 1 March 2017.
- In August 2016, Oil Search entered into an agreement with CNOOC and ExxonMobil under which Oil Search will potentially acquire a 40% interest in PPL 374. Oil Search received notification of the regulatory approval of its acquisition in late February 2017.
- In August 2016, Oil Search entered into an agreement with CNOOC and ExxonMobil under which Oil Search will potentially acquire a 40% interest in PPL 375. Oil Search received notification of the regulatory approval of its acquisition in late February 2017.
- Oil Search's sale to ExxonMobil of a 50% interest in PPL 395 remains subject to regulatory approval.
- 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). After completion of the transaction, Oil Search will hold a 37.5% interest in the licence.

- Pending Ministerial grant.
 - 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.
- * A PRL application has been lodged over the Flinders and Hagana Gas Fields which are part of PPL 244. The application is pending Ministerial grant.
- ** Topfile applications for new PPLs were lodged over former PPLs 233, 234, 260, 277 and 294. In respect of the former PPL 234, a new PPL (PPL 504) has been offered to, and accepted by, Oil Search and is pending Ministerial grant. In respect of the former PPL 294, a new PPL (PPL 507) has been offered to, and accepted by, Oil Search and ExxonMobil and is pending Ministerial grant.



Commitment to

GOOD GOVERNANCE



1. RJ Lee (Chairman)
2. PR Botten
3. G Aopi
4. KG Constantinou
5. EJ Doyle
6. FE Harris
7. AJ Kantsler
8. KW Spence
9. MP Togolo

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.



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 2016.

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 summarises the relevant sections of the Corporate Governance Statement and records 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 2017 Notice of 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 2016 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

Principle 1: Lay solid foundations for management and oversight (cont.)

1.6	Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors. Disclose whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Compliant – process for annual director performance reviews disclosed in the Corporate Governance Statement. Director performance reviews completed in 2016.
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 2016.

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 – seven of nine directors are assessed as independent
2.5	The chair of the board should be an independent director. The chair should not be the same person as the CEO.	Compliant – Chairman is non-executive 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.
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ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS

HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS

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 2016 Financial Report.
4.3	Ensure external auditor attendance and availability at the AGM to answer questions from security holders relevant to the audit.	Compliant – Company's auditor, from Deloitte Touche Tohmatsu, attended the 2016 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.
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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.
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ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS

HOW OIL SEARCH SATISFIES THE RECOMMENDATIONS

Principle 7: Recognise and manage risk (cont.)

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 2016.
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 and related Procedure on the Company's website.

2016

CONSOLIDATED FINANCIAL REPORT

for the year ended 31 December 2016

CONSOLIDATED FINANCIAL REPORT

for the year ended 31 December 2016

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DIRECTORS' REPORT

for the year ended 31 December 2016

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

DIRECTORS

The names, details and shareholdings of the directors of the Company in office during or since the end of the financial year are:

Mr RJ Lee, AM, BEng (Chem) (Hons), MA (Oxon), FAICD, (Chairman - Non-Executive Director), 66 years

Mr Lee joined the Board on 9 May 2012 and was appointed Chairman on 28 February 2013. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is a Director of Newcrest Mining Limited and Chairman of Ruralco Holdings Limited. He is the former Chairman of the Australian Institute of Company Directors. *Ordinary shares, fully paid: 96,829*

Mr PR Botten, CBE, BSc, ARSM, (Managing Director), 62 years

Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is a former President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is Chairman of Business for Development, the Hela Provincial Health Authority and the National Football Stadium Trust in Port Moresby. Mr Botten is also a Director of AGL Energy. *Ordinary shares, fully paid: 2,594,082; Performance Rights: 785,500; Restricted shares: 228,875*

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

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

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

Sir Kostas joined the Board on 16 April 2002. He is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Sir Kostas is Chairman of various companies, including Airways Hotel and Apartments Limited, Lamana Hotel Limited, Lamana Development

Limited, Alotau International Hotel and Bank of South Pacific Limited. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Loloata Island Resort Limited in Papua New Guinea. Sir Kostas is also Vice Chairman of the Employers Federation of Papua New Guinea and Honorary Consul for Greece in Papua New Guinea. *Ordinary shares, fully paid: nil*

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

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

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

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

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

Dr Kantsler joined the Board on 19 July 2010. Dr Kantsler worked with Woodside Petroleum for 15 years, where he was Executive Vice President Exploration and New Ventures from 1995 to 2009 and Executive Vice President Health, Safety and Security. Before joining Woodside Petroleum, Dr Kantsler had extensive experience with the Shell Group of Companies working in various exploration roles in Australia and internationally. Dr Kantsler has been a director of Forte Consolidated Limited and Savcor Group Limited. He was also Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years, where, as well as being chairman of several of APPEA's committees, he was Chairman from 2000 to 2002. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations from 2003 to 2009. He is Managing Director of Transform Exploration Pty Ltd and President of the Chamber of Commerce and Industry, WA. *Ordinary shares, fully paid: 45,736*

DIRECTORS' REPORT

for the year ended 31 December 2016

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

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

Mr KW Spence, BSc (Geophysics) (Hons), (Non-Executive Director), 63 years

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

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

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

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

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

GROUP SECRETARY

Mr SW Gardiner, BEc (Hons), FCPA, 58 years

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in corporate finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009. *Ordinary shares, fully paid: 431,081; Performance Rights: 169,697; Restricted shares: 39,178*

RESULTS AND REVIEW OF OPERATIONS

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

Further details on the Group's operating and financial performance can be found in the 'Operating and Financial Review' on page 69.

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is the exploration for oil and gas fields and the development and production of such fields. This is carried out as both the operator and non-operator participant in the exploration, development and production of hydrocarbons.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY FUTURE DEVELOPMENTS

Refer to the 'Operating and Financial Review' on page 69 for details on likely developments and future prospects of the Group.

ENVIRONMENTAL DISCLOSURE

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

DIRECTORS' REPORT

for the year ended 31 December 2016

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

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

CORPORATE INFORMATION

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

SHARE BASED PAYMENT TRANSACTIONS

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

As at 31 December 2016, there were 1,497,709 share rights (2015: 1,018,608), nil share appreciation rights (2015: 1,225,800), 2,857,354 performance rights (2015: 3,422,243) and 1,201,233 restricted shares (2015: 976,157) granted over ordinary shares exercisable at various dates in the future, subject to meeting applicable performance hurdles, and at varying exercise prices (refer to note 20 for further details).

COMMITTEES OF THE BOARD

During the year ended 31 December 2016, the Company had an Audit and Financial Risk Committee, a Corporate Actions Committee, a Health, Safety and Sustainability Committee and a People and Nominations Committee.

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

Audit and Financial Risk Committee: Dr AJ Kantsler (Committee Chairman), Dr EJ Doyle⁽¹⁾, Mr B Philemon⁽²⁾, Dr ZE Switkowski⁽³⁾ and Mr MP Togolo⁽⁴⁾. Mr RJ Lee is an ex-officio attendee of this Committee;

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

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

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

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

Independent Committee Members

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

for the year ended 31 December 2016

ATTENDANCES AT DIRECTORS' AND COMMITTEE MEETINGS

The number of meetings of directors (including meetings of Committees of the Board) held during the year and the number of meetings attended by each director were as follows:

DIRECTORS	DIRECTORS' MEETINGS	AUDIT AND FINANCIAL RISK	CORPORATE ACTIONS	HEALTH, SAFETY AND SUSTAINABILITY	PEOPLE AND NOMINATIONS
Number of meetings held	14	4	4	4	4
Number of meetings attended					
Mr G Aopi	13/14	–	–	3/4	–
Mr PR Botten	14/14	–	4/4	–	–
Sir KG Constantinou	13/14	–	–	4/4	4/4
Dr EJ Doyle	14/14	3/3	1/2	3/4	–
Dr AJ Kantsler	12/14	4/4	4/4	4/4	–
Mr RJ Lee	14/14	4/4	4/4	4/4	4/4
Mr B Philemon	11/12	3/3	–	–	2/2
Mr KW Spence	14/14	–	4/4	4/4	4/4
Dr ZE Switkowski	13/14	4/4	2/4	–	4/4
Mr MP Togolo	3/3	1/1	–	–	2/2

Note: The Managing Director and Chief Financial Officer attend Committee meetings at the request of the Committees. Other members of the Board have attended various Committee meetings during the year. These attendances are not included in the above table.

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

The People and Nominations Committee of the Board is responsible for reviewing compensation for the directors and staff and recommending compensation levels to the Board. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis with reference to relevant employment market conditions, with the overall benefit of maximising shareholder value by the retention of high quality personnel. To achieve this objective, the Board links a component of executive director and other staff emoluments to the Group's financial and operational performance.

Details of the amount, in US dollars, of each element of the emoluments for the financial year for directors and executives of the Group are disclosed in note 21 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS, EMPLOYEES AND AUDITORS

During the financial year, the Group paid premiums to insure all directors, officers and employees of the Group against claims brought against the individual while performing services for the Group and against expenses relating thereto. The amount of the insurance premium paid during the year has not been disclosed as it would breach the confidentiality clause in the insurance policy.

The Group has agreed to indemnify the directors, officers and employees of the Group against any liability to another person other than the Group or a related body corporate for an act or omission that may arise from their positions as directors, officers and employees of the Group, to the extent permitted by the PNG Companies Act 1997.

No indemnity has been granted to an auditor of the Group in their capacity as auditor of the Group.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

During the year the auditor, Deloitte Touche Tohmatsu, provided non-audit financial services for the Group. These services are outlined in note 24 to the financial statements. Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 101.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

There were no other significant events after balance date.

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OPERATING AND FINANCIAL REVIEW

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

1. FINANCIAL OVERVIEW

1.1 Summary of Financial Performance

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

- (1) mmboe = million barrels of oil equivalent. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
- (2) bbl = barrel of oil.
- (3) mmBtu = million (10⁶) British thermal units.
- (4) Other operating costs exclude InterOil acquisition related costs of \$29.3 million.
- (5) Other income excludes \$48.0 million received from the break-fee relating to the InterOil transaction.
- (6) EBITDAX (earnings before interest, tax, depreciation/amortisation, non-core activities, impairment and exploration) and Core profit (net profit after tax before significant items) are non-IFRS measures that are presented to provide a more meaningful understanding of the performance of Oil Search's operations. The non-IFRS financial information is derived from the financial statements which have been subject to audit by the group's auditor.

Note: Numbers may not add due to rounding.

Production and Revenue

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

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

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

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

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

Production and other operating costs

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

	PRODUCTION COSTS	
US\$ MILLION	2016	2015
PNG LNG	150.6	149.9
PNG oil and gas	106.5	144.9
	257.1	294.8

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

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

Depreciation and amortisation

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

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

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

Exploration costs expensed

In line with the Group's successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other support costs related to exploration activity were expensed during the year and resulted in a pre-tax charge of \$53.2 million. This included \$16.5 million attributable to Strickland 1 and Strickland 2 wells in PPL 269.

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

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

Net finance costs

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

Taxation

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

1.2 Summary of Financial Position

Net debt

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

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

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

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

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Operating and Financial Review

Investment expenditure

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

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

(1) Includes \$53.2 million (2015: \$50.9 million) of exploration costs expensed during the year.

(2) Excludes finance leased assets that are recognised as other plant and equipment.

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

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

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

1.3 Operating cash flows

YEAR TO 31 DECEMBER (US\$ MILLION)	2016	2015	% CHANGE
Net receipts	783.4	1,204.3	-35
Net interest paid	(187.0)	(166.2)	+13
Tax paid	(41.3)	(85.4)	-52
Operating cash flow	555.1	952.7	-42
Net investing cash flow	(232.3)	(535.6)	-57
Net financing cash flow	(370.6)	(466.8)	-21
Net cash outflow	(47.7)	(49.7)	-4

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

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

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

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

1.4 Reserves and Resources

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

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

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

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

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2. OVERVIEW OF OPERATIONS

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

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

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

2.1 Activities in PNG

2.1.1 PNG LNG Project

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

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

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

2.1.2 Operated oil and gas production

Kutubu (PDL 2 – 60.0%, operator)

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

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

Production rates from Agogo remained strong, supported by sustained, low GOR production from the forelimb wells and a successful zone change in the ADD 2 well.

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

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

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

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

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

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

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

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

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

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

The key focus for the year was the continued ramp up in gas exports to the PNG LNG Project. In total, more than 26.9 bcf of gas (gross) was supplied to the PNG LNG Project from the Gobe

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fields during the year. Sustained stable operation of the Gobe plant and facilities was achieved with 100% uptime in the second half of the year.

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

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

2.1.3 2016 Production Summary⁽¹⁾

YEAR TO 31 DECEMBER	2016		2015		% CHANGE	
	GROSS DAILY PRODUCTION (BOPD)	NET TO OSH (MMBBL)	GROSS DAILY PRODUCTION (BOPD)	NET TO OSH (MMBBL)	GROSS DAILY PRODUCTION	NET TO OSH
Oil Production						
Kutubu	14,918	3,279	17,325	3,797	-14%	-14%
Moran	9,068	1,643	8,635	1,560	+5%	+5%
Gobe Main	658	0,024	827	0,030	-20%	-20%
SE Gobe	915	0,076	1,255	0,117	-27%	-35%
SE Mananda	–	–	–	–	N/A	N/A
Total PNG Oil	25,559	5,022	28,041	5,505	-9%	-9%
PNG LNG Project Liquids	32,514	3,451	30,921	3,273	+5%	+5%
Hides Liquids	308	0,113	306	0,112	+1%	+1%
Total Liquids	58,381	8,586	59,268	8,890	-1%	-3%
Gas production	mmscf/d	mmscf	mmscf/d	mmscf		
PNG LNG Project LNG	959.25	101,827	912.93	96,646	+5%	+5%
Hides Gas Production ⁽²⁾	15.23	5,573	14.55	5,312	+5%	+5%
SE Gobe Gas to PNG LNG	37.02	3,060	20.22	1,886	+83%	+62%
Total Gas	1,011.50	110,460	947.70	103,844	+7%	+6%
	boepd	mmboe	boepd	mmboe		
Total Production⁽³⁾	256,715	30,245	245,094	29,251	+5%	+3%

(1) Numbers may not add due to rounding.

(2) Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes include approximately 2% unrecovered process gas.

(3) Gas and LNG volumes for 2016 and 2015 have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. This reflects the energy content of the Company's gas reserve portfolio. Minor variations to the conversion factors may occur over time.

2.1.4 Gas expansion activities

P'nyang gas field, PRL 3, PNG

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

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

Elk-Antelope gas fields, PRL 15, PNG

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

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

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

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

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

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

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

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

NW Highlands

The Muruk 1 exploration well in PPL 402 (OSH – 50%, reducing to 37.5%) spudded in November 2016 and reached a total depth of 3,130 metres in late December. Gas was encountered in the primary reservoir objective (Early Cretaceous sandstone of the Toro Formation). Logs were run and samples recovered which confirmed the discovery of a new gas field 22 kilometres northwest of the nearest PNG LNG Project infrastructure and adjacent to the Hides and Juha gas fields. The entire reservoir sequence was gas saturated and at the end of the year,

preparations were underway to drill a sidetrack (Muruk 1 ST1), to constrain the configuration of the northern flank of the structure. Subject to the results of the first sidetrack additional sidetracking may be undertaken from the original Muruk well location to assist in defining the structural configuration near the crest of the structure and to test the deliverability of the Toro reservoir at the Muruk location. Given the potential size of the structure and hydrocarbon column height, it is unlikely that the sidetracks will define the gas / water contact. Additional appraisal drilling is under discussion with the Joint Venture with the plan to drill a new offset well to test the down-dip extent of hydrocarbons within the Toro Formation, which is required to determine the ultimate size of the Muruk field.

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

Forelands/Gulf Region

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

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

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

2.1.5 New licences in PNG

Oil Search, together with ExxonMobil, entered into agreements with Gini Energy Limited, a subsidiary of CNOOC Limited, to farm in to two offshore deep-water, frontier blocks, PPL 374 and PPL 375, in the eastern Gulf of Papua. Subject to Department of

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Petroleum and Energy approval, Oil Search and ExxonMobil will each hold 40% in each block and Gini will retain a 20% interest. The blocks cover a combined area of almost 25,000 square kilometres, in water depths ranging from 1,000 metres to 2,500 metres. The licence farm-in is in line with the Company's strategy to increase its exploration exposure in areas that have the potential to support the Company's LNG expansion plans.

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

2.1.6 Power

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

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

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

2.2 Middle East and North Africa

2.2.1 Kurdistan Region of Iraq

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

2.2.2 Yemen

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

2.3 Corporate Activity

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

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

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

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

3. BUSINESS STRATEGY AND OUTLOOK

3.1 Business Strategy

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

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

- ◆ Optimising the value of existing Oil Search oil and gas assets through safe, reliable and sustainable operations.
- ◆ Commercialising additional LNG trains, with gas sourced from the NW Highlands and Gulf Hubs, and ensuring optimal commercial integration between projects.
- ◆ Exploring for high value oil and gas accumulations in PNG with a clear monetisation pathway.
- ◆ Seeking monetisation opportunities for existing stranded gas fields in PNG.
- ◆ Developing options for material growth beyond the next phase of LNG expansion.
- ◆ Maintaining Oil Search as a leading corporate citizen in PNG and promoting a stable operating environment.
- ◆ Enhancing organisational capabilities to deliver our strategic commitments.
- ◆ Optimising capital and liquidity management to support investment and reward shareholders.

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

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

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

3.2 Outlook

Key activities in 2017 are expected to include the following:

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

3.3 Material business risks

The scope of the Group's operations, the nature of the oil and gas industry and external economic factors mean that a range of factors may impact results. Material business risks that could impact Oil Search's results and performance are described below.

These risks are not the only risks that may affect the Group. Additional risks and uncertainties not presently known to management or that management currently believe not to be material may also affect Oil Search's business.

Financial and Liquidity risks

Pricing risk

Oil Search's business is heavily dependent on prevailing market prices for its products, primarily oil and gas. Changes in the prices of these commodities will impact the Group's revenue and cash flows.

International oil and gas prices fell significantly during 2015 and 2016 and conditions are expected to continue to remain challenging for the industry for at least the next 12 months. There are a number of macroeconomic factors that influence oil pricing, over which Oil Search has no control.

Oil Search has executed long term sales and purchase agreements for the supply and sale of its LNG production, with pricing mechanisms already established under these agreements.

The Group's financial risk management strategy to address commodity price risk is outlined in note 26 in the financial statements. The Group's Audit and Financial Risk Committee is responsible for reviewing the policies, processes, practices and reporting systems covering the Group's exposure to financial risks.

Future operating and capital cost requirements

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

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

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Operating and Financial Review

Operational risks

Production

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

Safety and environmental

Oil and gas producing and exploration operations are also exposed to industry operational safety risks including fire, explosions, blow outs, pipe failures, as well as transport and occupational safety incidents. Major environmental risks include accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. The occurrence of any of these risks could result in substantial losses to the Group due to injury or loss of life; damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; cleanup responsibilities; regulatory investigation and penalties or suspension of operations. Damages occurring to third parties as a result of such risks may also give rise to claims against the Group.

The Group's Health, Safety, Environment and Security (HSES) Policy details the Company's commitment to achieving incident free operations through the provision of effective HSES management across all of its operations and worksites. The Policy is implemented via a number of underpinning procedures, steering groups and incentive measures to ensure high standards of HSES management. In addition, the Group's drilling, production, processing, refining and export activities in PNG operate under an environmental management system that is certified as ISO 14001 compliant.

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

Cyber security

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

The Group manages operational risk through a variety of means including; strict adherence to its operating standards, procedures and policies; staff competency development and training programs and through the effective use of a Group-wide risk management system to ensure that the Group's operational

controls are continuously improved. In addition, the Group has insurance programmes in place that are consistent with good industry practice.

Reserves, resource and development risks

Reserves decline and replacement

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

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

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

Reserves and resource estimates

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

Additionally, oil and gas reserves and resources assume that the Group continues to be entitled to production licences over the fields and that the fields will be produced until the economic limit of production is reached. If any production licences for fields are not renewed or are cancelled, estimated oil and gas reserves and resources may be materially impacted.

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The Group employs the appropriate internal expertise to estimate reserves and resources and to prepare the Annual Reserves Statement in compliance with the ASX listing rules. In addition, proven (1P) and proven and probable (2P) oil and gas field reserves are periodically certified by independent auditors.

Project development and execution

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

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

External and Stakeholder

Legislative and regulatory risk

Oil Search has interests in international jurisdictions and therefore the business is subject to various national and local laws and regulations in those jurisdictions. Changes in government policy, the fiscal regime, regulatory regime or the legislative framework could impact the Group's business, results from operations or financial condition and performance.

The possible extent of such changes that may affect the Group's business activities cannot be predicted with any certainty. The effects of any such actions may result in, amongst other things, increased costs, whether in the nature of capital or operating expenses, taxes (direct and indirect) or through delays or the prevention of the Group to be able to execute certain activities.

Companies in the oil and gas industry may be subject to pay direct and indirect taxes, royalties and other imposts in addition to normal company taxes. The Group's profitability may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies.

In addition to changes in existing tax laws, risk is also embedded in the interpretation or application of existing tax laws, especially where specific guidance is unavailable or has not been tested in the tax jurisdiction.

Political, community and other stakeholders

The developing countries in which Oil Search has interests in expose the organisation to different degrees of political and commercial risk. The profitability of our operating assets may be adversely impacted by political stability, land ownership disputes, benefits delivery delays, and community issues as well as war, civil unrest and terrorism. Oil Search's ability to acquire, retain and gain full value from licences may also be affected by a number of political and social issues such as differing political agendas and decision making, environmental and social policy and the impact of bribery and corruption. Further, the media, non-government organisations and other activists may play an increasing role at local, national and international levels influencing political policy and community actions or otherwise impacting the organisation's reputation. Delays in government led infrastructure development can also impact the commercial outcome of projects.

Oil Search operates under its Stakeholder Engagement standards and policies which require transparent, open, pro-active communication and cooperation between company and government at all levels. Oil Search operates dedicated teams to manage government relations, which amongst other things, are targeted towards minimising risk that could arise out of potential fiscal, tax, resource investment, infrastructure access or regulatory and legal changes. Oil Search has in place a comprehensive corruption prevention framework.

Oil Search also strives to minimise any negative impact of the Group's operations on local society, culture and environment while contributing to local community and economic development and leaving a positive legacy. The Group spends considerable time, effort and expense in working with government and communities, led by a dedicated Stakeholder Engagement team. The Health, Safety and Sustainability Committee oversight of the strategies and processes adopted by management and monitors the Group's performance in these areas.

Joint venture risk

Oil Search derives significant revenues and growth through joint venture arrangements. The use of joint ventures is common in the oil and gas industry and usually exists through all stages of the oil and gas lifecycle. Joint venture arrangements, amongst other things, can serve to mitigate the risk associated with exploration success and capital intensive development phases. However, failure to establish alignment between joint venture participants and with Government, poor performance of joint venture operators or the failure of joint venture partners to meet their commitments and share of costs and liabilities could have a material impact on the Group's business.

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

DIRECTORS' REPORT

Remuneration Report



Letter from

KEITH SPENCE

Chair of the People & Nominations Committee

Dear Fellow Shareholders,

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

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

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

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

Changes to fixed remuneration during 2016

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

Short Term Incentive outcome for 2016

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

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

During the year the focus was on:

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

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

Strong performance across all operational and growth elements of the scorecard produced an STI outcome that was capped at 100% of Opportunity. Consistent with the approach taken last year, where the Board clawed back STI from the 2015 pool due to a substantial downgrade in the 2C resource booked for Taza, the Board again exercised its discretion to claw back STI from the 2016 pool to account for the elimination of the residual Taza resource. Post this claw back, the STI pool was 95% of Opportunity.

Vesting of Long Term Incentive awards from 2014

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

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

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

Changes to the LTI Performance hurdles effective for 2017

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

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

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

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

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

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

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

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

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



Keith Spence

CHAIR, PEOPLE & NOMINATIONS COMMITTEE

DIRECTORS' REPORT

Remuneration Report

This report has been prepared in accordance with section 300A of the Australian *Corporations Act 2001* and summarises the arrangements in place for the remuneration of directors, Key Management Personnel and other employees of Oil Search for the period from 1 January 2016 to 31 December 2016. Although it is not a requirement for PNG companies, Oil Search has voluntarily complied with section 300A of the Australian *Corporations Act 2001* to ensure it meets current best practice remuneration reporting for ASX listed companies.

1. REMUNERATION POLICY

The objectives of the Oil Search remuneration policy are to:

- ◆ Attract, retain and motivate the talent necessary to create value for shareholders;
- ◆ Reward Key Management Personnel and other employees fairly and responsibly, having regard to the performance of Oil Search, the competitive environment and the individual performance of each employee; and
- ◆ Comply with all relevant legal and regulatory provisions.

Oil Search's approach to remuneration is based upon "Reward for Performance", and remuneration is differentiated based on various measures of corporate, business unit/function and individual performance.

Remuneration for non-executive directors was established using data from external independent consultants which is updated from time to time and takes into account:

- ◆ The level of fees paid to non-executive directors of other ASX listed corporations of a similar size and complexity to Oil Search;
- ◆ The international scale of Oil Search activities;
- ◆ Responsibilities of non-executive directors; and
- ◆ Work requirements of Board members.

2. SHARE TRADING POLICY

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

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

- ◆ All Other Employees – any employee or contractor who is not classified as a Restricted or Prescribed Employee.

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

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

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;

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Remuneration Report

- ◆ 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 and;
- ◆ Approving the terms and conditions and contracts for any new Key Management Personnel and other direct reports of the Managing Director.

The Committee must comprise at least three non-executive directors.

The members of the Committee during 2016 were:

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

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

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

At the Committee's invitation, the Managing Director, Executive General Manager Human Resources, and Rewards Manager attend meetings in an advisory capacity and co-ordinate the work of external, independent advisors as requested. All executives are excluded from any discussions impacting their own remuneration.

Under its Charter, the Committee must meet at least four times a year. The Committee formally met four times during 2016 and the Committee Members' attendance records are disclosed in the Directors' Report. A copy of the charter of the Committee is available on Oil Search's website in the Corporate Governance section.

To ensure it remains up to date with market practice, the Committee engages independent external advisors from time to time. Table 2 summarises work undertaken by external consultants at the Committee's request in 2016 and also notes additional work undertaken by the same consultants on behalf of management. While none of the Committee's engagements were for work which constituted Remuneration Recommendations for the purposes of the Australian *Corporations Act 2001*, findings were reported directly to the Committee or the Board.

Table 2 – External Consultants Engaged by the Committee in 2016

CONSULTANT	COMMITTEE AND BOARD ENGAGEMENTS	MANAGEMENT ENGAGEMENTS
Aon Hewitt	Executive remuneration benchmarking.	Various salary surveys for non-executive positions.
Orient Capital	Annual reporting in relation to Total Shareholder Return calculations to determine vesting of Performance Rights.	Quarterly Long Term Incentive Plan vesting updates. Regular analysis of the Company's shareholder registry.

4. REMUNERATION STRUCTURE

Oil Search's remuneration structure comprises four elements:

- ◆ Total Fixed Remuneration (TFR);
- ◆ Short-Term Incentive (STI);
- ◆ Long-Term Incentive (LTI); and
- ◆ Occasional Retention Awards of Restricted Shares for key and critical staff.

The mix of remuneration elements for individual employees is dependent on their level and role within Oil Search, with the proportion of "at risk" performance-related remuneration (STI and LTI elements) increasing with greater seniority.

Total Fixed Remuneration (TFR)

The target ranges for TFR payable for roles in the organisation, including those for Key Management Personnel are 80% – 120% of competitive benchmarks. An independent external remuneration consultant is engaged by the Committee from time to time to provide competitive benchmark data for Key Management Personnel roles.

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

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

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Short-Term Incentive (STI)

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

The size of the STI pool is directly related to corporate performance through a scorecard which includes a range of key measures that directly affect Shareholder Value and which are directly linked to the Oil Search Strategic Plan.

At the start of each year, the Board determines the hurdles and target levels of performance which form the STI scorecard.

At the end of the year, the Board approves an overall STI pool based on the level of achievement against the hurdles that were determined at the start of the year.

The STI pool is then distributed to employees taking into account:

- ◆ The contribution of the employee's division to the achievement of the organisational objectives; and
- ◆ The individual performance of the employee.

The target levels of performance set by the Board are challenging and if achieved deliver the payment of 50% of STI Opportunity.

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

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

Short Term Incentive award objectives and outcomes

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

Table 3 – Short Term Incentive scorecard measures and outcomes

SCORECARD ELEMENT	MEASURE	ALIGNMENT OF PERFORMANCE AND REWARD	WEIGHTING	2016 OUTCOME ⁽¹⁾
OPERATIONAL MEASURES (55%)	Safety	Rewards a continuous focus on safe and reliable operations measured through a combination of lagging (Total Recordable Injury Rate) and leading (High Potential Incident Rate) indicators.	10%	
	Production	Rewards the achievement of the budgeted operated and non-operated production volumes – the largest contributors to short term financial performance	20%	
	Costs	Rewards achievement of incurring below budget controllable field and corporate costs.	20%	
	EBITDAX	Rewards achievement of profitability of the business against budget.	5%	
GROWTH MEASURES (45%)	2C Gas Resources	Rewards the discovery or acquisition of new 2C gas resources, providing the resources required to undertake major gas projects or expansions	15%	
	2C Oil Resources	Rewards the discovery or acquisition of new 2C oil resources, increasing the scale of the company's oil producing activities.	15%	
	Strategic and growth initiatives	Rewards the delivery of milestones that ensure the progressive achievement of strategic plan objectives.	15%	

(1) Performance Level achieved pre clawback:

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

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

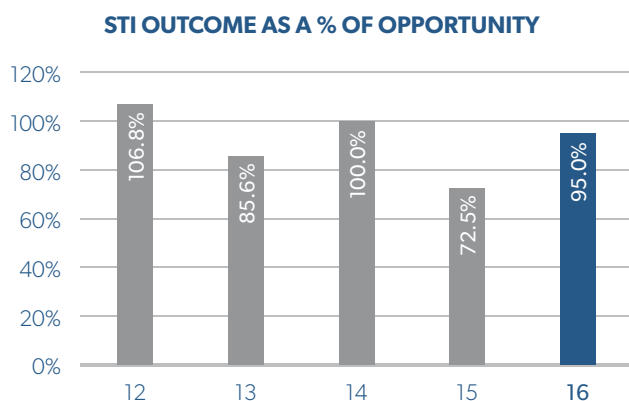
Table 4 illustrates the STI pool as a percentage of STI Opportunity over the period 2012 to 2016.

DIRECTORS' REPORT

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Table 4 – STI Awards to Employees

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



Incentives – Executives

Performance Rights

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

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

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

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

For awards made since 2012 the two peer groups have been:

- ◆ The ASX50 (excluding property trusts and non-standard listings); and
- ◆ The constituents of the Standard & Poor's Global 1200 Energy Index (S&P Global 1200 Energy Index).

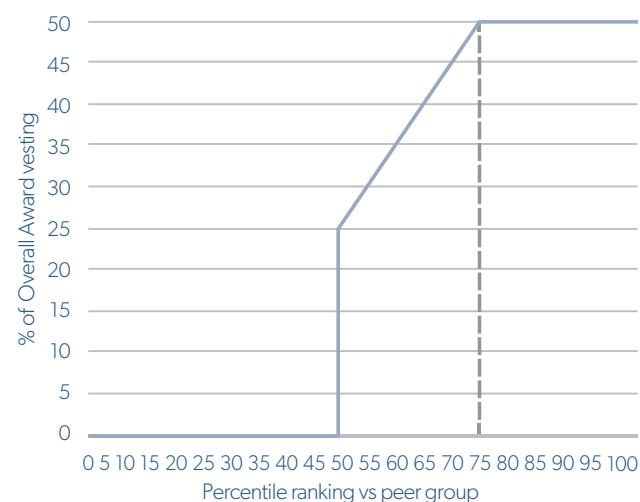
The Board considers that these peer groups are appropriate. Aligning half of LTI awards against the ASX50 peer group rewards executives when Oil Search's TSR outperforms against other large listed Australian companies. The S&P Global 1200 Energy Index group rewards executives when Oil Search's TSR outperforms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

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

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

For example, if Oil Search's TSR performance is at or above the 75th percentile TSR performance of both peer groups, 100% of the Performance Rights granted will vest. This is illustrated in Table 5.

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



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

DIRECTORS' REPORT

Remuneration Report

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

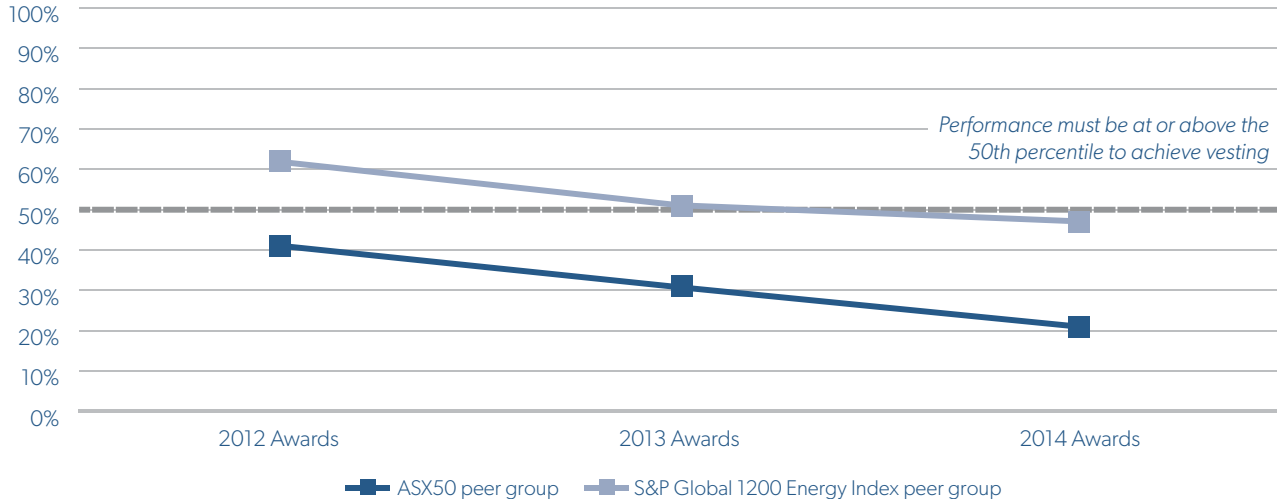
Table 6 – Details of Awards of Performance Rights

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

- (1) TSR is calculated by an independent external consultant and is based on share price changes and dividends paid on the shares over the measurement period. In calculating the TSR it is assumed dividends are reinvested to purchase additional shares of the Company at the closing price applicable on the ex-dividend date.
- (2) TSR outcomes for the purposes of comparison against the S&P Global 1200 Energy Index peer group are measured in US dollars for Oil Search and all constituent companies.
- (3) While the 2014 Performance Rights will not vest until May 2017, Oil Search's relative TSR for the period 1 January 2014 to 31 December 2016 is available.

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

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



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

Deferred STI

The 50% deferred portion of an executive's STI (see section 6 below) is awarded as Restricted Shares under the LTIP. Any dividends payable on Restricted Shares issued as the deferred component of an executive's STI award are paid to the executive.

Long Term Incentives – General Employee Share Plan

Provided that they have demonstrated an acceptable level of personal performance, each permanent employee has the opportunity to participate in the Oil Search Long Term Incentive Plan.

Share Appreciation Rights

For awards made in 2010 to 2013, participation in the general employee share plan was through awards of Share Appreciation Rights

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(SARs). SARs operate in much the same way as Share Options, with an employee only receiving a benefit if the Oil Search share price increases over the vesting period. At the end of the vesting period the share appreciation is calculated and then that value is provided to the individual in Oil Search shares.

SARs are automatically exercised on vesting. If the share price does not increase above the Vesting Price, then the SARs automatically lapse on the vesting date. As a result, the employee only benefits from a grant of SARs if the Oil Search share price increases over the three year vesting period.

Share Rights

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

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

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

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

Long Term Incentives – Retention

Retention Awards of Restricted Shares

In order to assist the Company in retaining key executives and other employees, the Company may issue Restricted Shares. Restricted Shares issued only vest after the employee has completed a specified period of future service with the Company.

Restricted Shares are held on behalf of participants in trust, subject to disposal restrictions and forfeiture conditions, until released under the terms of the Plan.

Retention awards are only made where the Board determines that a significant retention risk exists. In certain cases for senior new hires, awards of Restricted Shares are made in lieu of equity forgone with previous employers.

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

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

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

Long Term Incentive Plan Rules

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

The Company may use newly issued or existing shares (for example, through purchase on market) to satisfy awards.

DIRECTORS' REPORT

Remuneration Report

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 additional superannuation contributions. However any costs arising from Fringe Benefits Tax (FBT) on salary package items are borne by the executive.

At Risk Remuneration & Relationship to Company Performance

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

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

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

Short Term Incentive

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

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

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

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

	STI OUTCOME AS A % OF OPPORTUNITY	STI OUTCOME AS % OF TFR	
		SENIOR EXECUTIVES	MANAGING DIRECTOR
Minimum	0%	0%	0%
Target	50%	50%	90%
'Opportunity'	100%	100%	180%

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

The STI is awarded in March each year for performance in the previous calendar year.

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

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

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

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

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

Analysis of individual Senior Executive STIs is contained in Tables 15 and 16 below.

Long Term Incentive (LTI) – Performance Rights

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

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

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

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Remuneration Report

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

Table 11 – Allocation of Performance Rights to Key Management Personnel

	2012		2013		2014		2015		2016	
	NO.	VEST	NO.	VEST	NO.	VEST ⁽¹⁾	NO.	VEST	NO.	VEST
Directors										
P Botten	248,700	36.9%	240,000	26.1%	222,600	0%	236,000	2018	326,900	2019
G Aopi	53,600	36.9%	52,300	26.1%	48,500	0%	51,400	2018	64,100	2019
Executives										
P Cholakos	55,900	36.9%	53,900	26.1%	50,000	0%	53,009	2018	66,087	2019
M Drew ⁽²⁾	–	–	–	–	5,500	0%	11,660	2018	14,537	2019
J Fowles	55,300	36.9%	54,900	26.1%	51,000	0%	54,025	2018	67,353	2019
S Gardiner	44,700	36.9%	52,300	26.1%	49,700	0%	52,697	2018	67,300	2019
M Herrett	–	–	45,200	26.1%	42,500	0%	45,081	2018	56,203	2019
I Munro	–	–	18,700	26.1%	49,400	0%	52,331	2018	65,243	2019
K Wulff	–	–	–	–	–	–	55,638	2018	69,365	2019
Former Executives										
G Darnley-Stuart	26,100	36.9%	53,200	26.1%	49,400	0%	52,331	2018	–	–
M Kay			22,668	0%	49,400	0%	52,331	0%	–	–

(1) The vesting date of the 2014 Performance Rights is 19 May 2017. As described above, Oil Search's TSR for the period 1 January 2014 to 31 December 2016 will result in nil vesting.

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

Corporate Financial Performance

Table 12 illustrates Oil Search's financial performance over the past five years, which may be compared with the levels of STI and LTI awards granted to Key Management Personnel and detailed above.

Table 12 – Oil Search's Five Year Performance

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

(1) Comprising an ordinary dividend of 8 US cents per share, a special dividend of 4 US cents per share and an interim dividend of 2 US cents per share.

(2) The closing price of Oil Search shares is taken on the last day of the financial year. The closing share price at the start of the 5 year period (31 December 2010) was \$7.04.

(3) The TSR has been calculated by an independent external consultant and is based on share price increases and dividends paid on the shares over the three year period up to and including 31 December of the year they are reported against.

DIRECTORS' REPORT

Remuneration Report

6. REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

For this section of the report, Key Management Personnel excludes non-executive directors, whose remuneration is disclosed in Section 9. The Key Management Personnel for the purposes of this section are the following employees:

Mr Peter Botten CBE – Managing Director

Incumbent for the full year

As the Managing Director, Peter has the overall responsibility for effectively managing Oil Search and achieving the corporate objectives. He is also responsible for ensuring that strategies agreed with the Board are implemented.

Mr Gereia Aopi CBE – Executive General Manager Stakeholder Engagement

Incumbent for the full year

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

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

Mr Paul Cholakos – Executive General Manager Technical Services

Incumbent for the full year

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

Mr Michael Drew – Executive General Manager & General Counsel

Appointed from 19 October 2016

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

Dr Julian Fowles – Executive General Manager PNG Business Unit

Incumbent for the full year

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

Mr Stephen Gardiner – Chief Financial Officer & Group Secretary

Incumbent for the full year

Stephen's role is to manage the corporate finance, treasury, tax and audit functions for the Company as well as all Group Secretarial matters. He is also responsible for delivering an appropriate financial control and reporting framework. Prior to this position, Stephen held the position of EGM Sustainability, Corporate Services & Group Secretary.

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

Incumbent for the full year

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

Mr Ian Munro – Executive General Manager – Gas Business Development

Incumbent for the full year

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

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

Incumbent for the full year

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

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Former Executives

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

Incumbent until 31 December 2016

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

Mr Matthew Kay – Executive General Manager – Strategy & Commercial

Incumbent until 11 January 2016

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

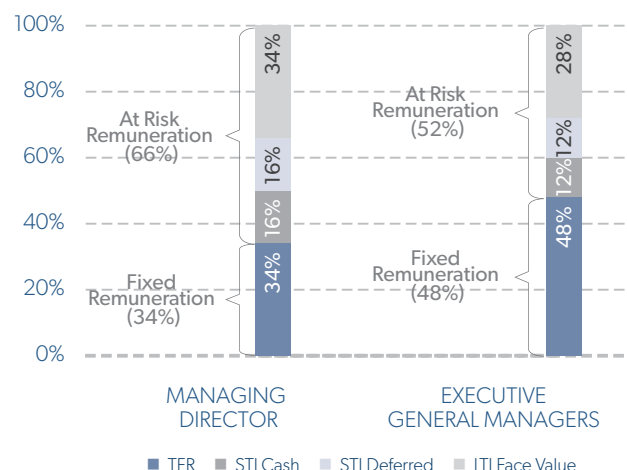
The remuneration philosophy outlined above is applied consistently to the Company's Key Management Personnel. The following table shows the remuneration breakdown for current Key Management Personnel.

2016 Key Management Personnel Remuneration Mix

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

Table 13 – Key Management Personnel Remuneration Mix

The remuneration mix and quantum for the Managing Director and Executive General Managers is aligned with the Company's targeted market positioning.



The pay mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of target (50% opportunity) and LTI awards at 100% of their 'face value' (i.e., not discounted to take account of the performance conditions nor dividends forgone over the vesting period). Percentages shown in the later section on Executive Remuneration reflect actual incentives paid as a percentage of TFR, which includes movements in leave balances, non-monetary benefits and share based payments calculated in accordance with IFRS 2 Share-Based Payment.

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

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

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

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

DIRECTORS' REPORT

Remuneration Report

Table 15 – Key Management Personnel Remuneration (US\$)

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

(1) Includes salaries, allowances, expatriate allowances and movements in annual leave accruals.

(2) Includes the grossed up FBT value of benefits subject to FBT provided to an employee in the year that the FBT is payable.

(3) STI is based on the year that the performance period relates to, regardless of when paid and excludes the 50% which is deferred into Oil Search Shares under the Restricted Share Plan, which is captured in the Restricted Shares data in the Equity section.

(4) Superannuation is the contributions made to an approved superannuation fund.

(5) Long service leave accrual is based on the relevant legislation.

(6) Equity is the expensed value of all Performance Rights or Restricted Shares as calculated under IFRS 2 Share-Based Payment.

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

(8) Remuneration disclosed for Mr Kay in 2016 is for the period 1 January 2016 to 11 January 2016.

DIRECTORS' REPORT

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Table 16 details the vesting profile of the Short Term Incentives awarded as remuneration to each Director of Oil Search and the Key Management Personnel for 2016.

Table 16 – Analysis of STI Included in Remuneration

	INCLUDED IN REMUNERATION (US\$) ⁽¹⁾	% OF STI OPPORTUNITY	CASH	DEFERRED
Directors				
P Botten	2,931,624	100%	1,465,812	1,465,812
G Aopi	505,504	95%	252,752	252,752
Executives				
P Cholakos	521,400	95%	260,700	260,700
M Drew	89,654	95%	44,827	44,827
J Fowles	531,394	95%	265,697	265,697
S Gardiner	530,976	95%	265,488	265,488
M Herrett	443,426	95%	221,713	221,713
I Munro	514,740	95%	257,370	257,370
K Wulff	547,264	95%	273,632	273,632
Former Executives				
G Darnley-Stuart ⁽²⁾	270,915	50%	270,915	–

(1) The value includes 50% of the STI award paid as cash (as reported in Table 15) as well as the 50% to be deferred via the allocation of Restricted Shares that will vest on 1 January 2019.

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

7. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

Table 17 sets out the contractual provisions for current Key Management Personnel. All employees at Oil Search have no contractual entitlement to future increases in remuneration or entitlement to receive any incentives, whether Short Term or Long Term.

Table 17 – Contractual Provisions for Specified Executives

	EMPLOYING COMPANY	CONTRACT DURATION	NOTICE PERIOD COMPANY	NOTICE PERIOD EMPLOYEE	TERMINATION PROVISION
P Botten	POSL	Ongoing	6 months	6 months	18 months Total Fixed Reward
G Aopi	OSPNG	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum 52)
Other EGMs	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)

Remuneration for all employees is reviewed via an annual process across the organisation. Remuneration for the Managing Director and the Key Management Personnel is reviewed by the People and Nominations Committee, which then recommends to the Board:

- ◆ Budgets for TFR increases for the coming year;
- ◆ STI payments for the previous year;
- ◆ STI targets for the coming year; and
- ◆ LTI participation in the coming year.

For all other employees, the Managing Director approves recommendations from senior managers across the organisation, within budgets approved by the Board.

DIRECTORS' REPORT

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8. EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights or Restricted Shares issued in accordance with the Performance Rights Plan or Long Term Incentive Plan. The structure of the Rights is detailed in section 4 on Remuneration Structure.

Rights over Equity Instruments Granted as Remuneration

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

Table 18– Details of Performance Rights Granted during 2016

	NUMBER OF RIGHTS GRANTED DURING 2016	GRANT DATE	FAIR VALUE PER RIGHT (A\$)	EXERCISE PRICE PER RIGHT (A\$)	EXPIRY DATE
Directors					
P Botten	326,900	16 May 2016	3.59	nil	17 May 2019
G Aopi	64,100	16 May 2016	3.59	nil	17 May 2019
Executives					
P Cholakos	66,087	16 May 2016	3.59	nil	17 May 2019
M Drew ⁽¹⁾	14,537	16 May 2016	3.59	nil	17 May 2019
J Fowles	67,353	16 May 2016	3.59	nil	17 May 2019
S Gardiner	67,300	16 May 2016	3.59	nil	17 May 2019
M Herrett	56,203	16 May 2016	3.59	nil	17 May 2019
I Munro	65,243	16 May 2016	3.59	nil	17 May 2019
K Wulff	69,365	16 May 2016	3.59	nil	17 May 2019

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

All Performance Rights expire on the earlier of their expiry date or termination of the individual's employment unless the Board determines otherwise. Performance Rights automatically exercise on the vesting dates detailed in the tables above conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Performance Rights granted in 2016 the earliest exercise date is 17 May 2019.

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

Table 19 – Details of Deferred STI granted as Restricted Shares

	NUMBER GRANTED DURING 2016	GRANT DATE	FAIR VALUE (A\$)	EXERCISE PRICE (A\$)	VESTING DATE
Directors					
P Botten ⁽¹⁾	228,875	13 May 2016	6.75	nil	1 January 2018
G Aopi ⁽¹⁾	37,766	13 May 2016	6.75	nil	1 January 2018
Executives					
P Cholakos	38,953	13 May 2016	6.75	nil	1 January 2018
J Fowles	39,700	13 May 2016	6.75	nil	1 January 2018
S Gardiner	39,178	13 May 2016	6.75	nil	1 January 2018
M Herrett	34,499	13 May 2016	6.75	nil	1 January 2018
I Munro	38,509	13 May 2016	6.75	nil	1 January 2018
K Wulff	43,395	13 May 2016	6.75	nil	1 January 2018
Former Executives					
G Damley-Stuart	38,456	13 May 2016	6.75	nil	1 January 2018

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

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Modification of Terms of Equity Settled Share based Payment Transactions

No terms related to equity-settled share based payment transactions (including Performance Rights and Restricted Shares granted as compensation to Key Management Personnel) have been altered or modified by the issuing entity during the reporting period or the prior period, with the exception of the early vesting of certain allocations for terminating employees.

Exercise of Rights Granted as Remuneration

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

Table 20 – Details of the Exercise of Performance Rights

	NUMBER OF RIGHTS EXERCISED	AMOUNT PAID PER SHARE (A\$)
EXERCISED IN 2016		
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 Damley-Stuart	13,885	nil
EXERCISED IN 2015		
Directors		
P Botten	91,770	nil
G Aopi	19,778	nil
Executives		
P Cholakos	20,627	nil
G Damley-Stuart	9,631	nil
J Fowles	20,406	nil
S Gardiner	16,494	nil
Former executives		
P Caldwell	21,882	nil

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

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

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Table 21 – Details of movements of Performance Rights during 2016

MOVEMENTS DURING THE YEAR									
	GRANT DATE	BALANCE AT 1 JAN 2016	RIGHTS GRANTED	RIGHTS EXERCISED	RIGHTS LAPSED	BALANCE AT 31 DEC 2016	% VESTED IN THE YEAR	% FORFEITED IN THE YEAR	FINANCIAL YEAR OF VESTING
Directors									
P Botten	10/5/13	240,000	–	(62,640)	(177,360)	–	26.1%	73.9%	2016
	19/5/14	222,600	–	–	–	222,600	–	–	2017
	18/5/15	236,000	–	–	–	236,000	–	–	2018
	16/5/16	–	326,900	–	–	326,900	–	–	2019
	Total	698,600	326,900	(62,640)	(177,360)	785,500			
G Aopi	10/5/13	52,300	–	(13,650)	(38,650)	–	26.1%	73.9%	2016
	19/5/14	48,500	–	–	–	48,500	–	–	2017
	18/5/15	51,400	–	–	–	51,400	–	–	2018
	16/5/16	–	64,100	–	–	64,100	–	–	2019
	Total	152,200	64,100	(13,650)	(38,650)	164,000			
Executives									
P Cholakos	24/5/13	53,900	–	(14,067)	(39,833)	–	26.1%	73.9%	2016
	19/5/14	50,000	–	–	–	50,000	–	–	2017
	18/5/15	53,009	–	–	–	53,009	–	–	2018
	16/5/16	–	66,087	–	–	66,087	–	–	2019
	Total	156,909	66,087	(14,067)	(39,833)	169,096			
M Drew	13/10/14	5,500	–	–	–	5,500	–	–	2017
	18/5/15	11,660	–	–	–	11,660	–	–	2018
	16/5/16	–	14,537	–	–	14,537	–	–	2019
	Total	17,160	14,537	–	–	31,697			
J Fowles	24/5/13	54,900	–	(14,328)	(40,572)	–	26.1%	73.9%	2016
	19/5/14	51,000	–	–	–	51,000	–	–	2017
	18/5/15	54,025	–	–	–	54,025	–	–	2018
	16/5/16	–	67,353	–	–	67,353	–	–	2019
	Total	159,925	67,353	(14,328)	(40,572)	172,378			
S Gardiner	24/5/13	52,300	–	(13,650)	(38,650)	–	26.1%	73.9%	2016
	19/5/14	49,700	–	–	–	49,700	–	–	2017
	18/5/15	52,697	–	–	–	52,697	–	–	2018
	16/5/16	–	67,300	–	–	67,300	–	–	2019
	Total	154,697	67,300	(13,650)	(38,650)	169,697			
M Herrett	24/5/13	45,200	–	(11,797)	(33,403)	–	26.1%	73.9%	2016
	19/5/14	42,500	–	–	–	42,500	–	–	2017
	18/5/15	45,081	–	–	–	45,081	–	–	2018
	16/5/16	–	56,203	–	–	56,203	–	–	2019
	Total	132,781	56,203	(11,797)	(33,403)	143,784			
I Munro	10/1/14	18,700	–	(4,880)	(13,820)	–	26.1%	73.9%	2016
	19/5/14	49,400	–	–	–	49,400	–	–	2017
	18/5/15	52,331	–	–	–	52,331	–	–	2018
	16/5/16	–	65,243	–	–	65,243	–	–	2019
	Total	120,431	65,243	(4,880)	(13,820)	166,974			
K Wulff	18/5/15	55,638	–	–	–	55,638	–	–	2018
	16/5/16	–	69,365	–	–	69,365	–	–	2019
	Total	55,638	69,365	–	–	125,003			
Former executives									
G Darnley-Stuart	24/5/13	53,200	–	(13,885)	(39,315)	–	26.1%	73.9%	2016
	19/5/14	49,400	–	–	(6,422)	42,978	–	13.00%	2017
	18/5/15	52,331	–	–	(24,072)	28,259	–	46.00%	2018
	Total	154,931		(13,885)	(69,809)	71,237			
M Kay	24/5/13	22,668	–	–	(22,668)	–	0%	100%	2016
	19/5/14	49,400	–	–	(49,400)	–	0%	100%	2017
	18/5/15	52,331	–	–	(52,331)	–	0%	100%	2018
	Total	124,399			101,731	–			

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Table 22 – Details of movements of Restricted Shares

	MOVEMENTS DURING THE YEAR						% VESTED IN THE YEAR	% FORFEITED IN THE YEAR	FINANCIAL YEAR OF VESTING
	GRANT DATE	BALANCE AT 1 JAN 2016	RESTRICTED SHARES GRANTED	RESTRICTED SHARES VESTED	RESTRICTED SHARES FORFEITED	BALANCE AT 31 DEC 2016			
Directors									
P Botten	19/5/14	99,460	–	(99,460)	–	–	100%	0%	2016
	18/5/15	226,043	–	–	–	226,043	–	–	2017
	13/5/16	–	228,875	–	–	228,875	–	–	2018
	Total	325,503	228,875	(99,460)	–	454,918			
G Aopi	19/5/14	25,996	–	(25,996)	–	–	100%	0%	2016
	18/5/15	39,593	–	–	–	39,593	–	–	2017
	13/5/16	–	37,766	–	–	37,766	–	–	2018
	Total	65,589	37,766	(25,996)	–	77,359			
Executives									
P Cholakos	19/5/14	26,813	–	(26,813)	–	–	100%	0%	2016
	18/5/15	42,506	–	–	–	42,506	–	–	2017
	13/5/16	–	38,953	–	–	38,953	–	–	2018
	Total	69,319	38,953	(26,813)	–	81,459			
M Drew	2/11/15	31,250	–	–	–	31,250	–	–	2017
	Total	31,250	–	–	–	31,250			
J Fowles	19/5/14	27,327	–	(27,327)	–	–	100%	0%	2016
	2/3/15	50,000	–	–	–	50,000	–	–	2017
	18/5/15	41,621	–	–	–	41,621	–	–	2017
	13/5/16	–	39,700	–	–	39,700	–	–	2018
	Total	118,948	39,700	(27,327)	–	131,321			
S Gardiner	19/5/14	26,033	–	(26,033)	–	–	100%	0%	2016
	18/5/15	43,914	–	–	–	43,914	–	–	2017
	13/5/16	–	39,178	–	–	39,178	–	–	2018
	Total	69,947	39,178	(26,033)	–	83,092			
M Herrett	19/5/14	22,481	–	(22,481)	–	–	100%	0%	2016
	18/5/15	36,149	–	–	–	36,149	–	–	2017
	13/5/16	–	34,499	–	–	34,499	–	–	2018
	Total	58,630	34,499	(22,481)	–	70,648			
I Munro	19/5/14	9,258	–	(9,258)	–	–	100%	0%	2016
	7/11/14	40,000	–	(40,000)	–	–	100%	0%	2016
	18/5/15	43,610	–	–	–	43,610	–	–	2017
	13/5/16	–	38,509	–	–	38,509	–	–	2018
	Total	92,868	38,509	(49,258)	–	82,119			
K Wulff	13/5/16	–	43,395	–	–	43,395	–	–	2018
	Total	–	43,395	–	–	43,395			
Former executives									
G Darnley-Stuart	19/5/14	49,400	–	(49,400)	–	–	100%	0%	2016
	18/5/15	40,316	–	–	–	40,316	–	–	2017
	13/5/16	–	38,456	–	–	38,456	–	–	2018
	Total	89,716	38,456	(49,400)	–	78,772			
M Kay	10/1/14	16,200	–	(16,200)	–	–	100%	0%	2016
	18/5/15	41,077	–	–	(41,077)	–	0%	100%	2017
	Total	57,277	–	(16,200)	(41,077)				

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Analysis of Movements in Performance Rights and Restricted Shares

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

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

	GRANTED IN THE YEAR (US\$) ⁽¹⁾	VALUE OF PERFORMANCE RIGHTS EXERCISED AND RESTRICTED SHARES VESTED IN THE YEAR ⁽²⁾			VALUE OF PERFORMANCE RIGHTS LAPSED AND RESTRICTED SHARES FORFEITED IN THE YEAR ⁽³⁾		
		NUMBER	AVERAGE VALUE (US\$)	TOTAL VALUE (US\$)	NUMBER	AVERAGE VALUE (US\$)	TOTAL VALUE (US\$)
Directors							
P Botten	2,022,275	162,100	5.00	810,257	177,360	5.02	890,582
G Aopi	360,821	39,646	4.98	197,601	38,650	4.98	192,637
Executives							
P Cholakos	372,088	40,880	5.00	204,274	39,883	5.02	200,266
M Drew	38,823	–	–	–	–	–	–
J Fowles	379,220	41,655	5.00	208,147	40,572	4.98	202,216
S Gardiner	376,457	39,683	5.00	198,293	38,650	5.02	194,074
M Herrett	323,326	34,278	5.00	171,285	33,403	5.02	167,727
I Munro	367,604	14,138	5.00	70,647	13,820	5.02	69,395
K Wulff	403,147	–	–	–	–	–	–
Former Executives							
G Darnley-Stuart	193,100	40,356	5.00	201,656	39,315	5.02	197,413
M Kay	–	16,200	4.95	80,261	165,476	3.84	634,769

(1) The value for awards granted is the fair value at the time of grant for Performance Rights and the share price on the date of grant for Restricted Shares.

(2) The value for Performance Rights exercised is based on the market price of Oil Search shares on the close of trade on the date of exercise. The value for Restricted Shares is based on the market price of Oil Search shares on the close of trade on the vesting date.

(3) The value for Performance Rights lapsed and Restricted Shares forfeited is based on the market price of Oil Search shares on the close of trade on the date of the lapse or forfeiture.

KMP shareholdings

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

Table 24– Movements in Executive KMP shareholdings

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

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9. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

Remuneration for Non-Executive Directors is determined by reference to relevant external market data and takes into consideration the level of fees paid to directors of other Australian corporations of similar size and complexity to Oil Search, the scale of its international activities and the responsibilities and work requirements of Board members. Remuneration for Non-Executive Directors is subject to the aggregate limit of A\$2,500,000 in any calendar year set by shareholders at the 2013 Annual Meeting.

Remuneration Payable

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

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

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

POSITION	ANNUAL FEE
Chairman of the Board ⁽¹⁾	A\$519,750
Non-Executive Directors other than the Chairman	A\$173,250
Chairman Audit and Financial Risk Committee (additional fee)	A\$49,500
Chairman Health, Safety and Sustainability Committee (additional fee)	A\$38,500
Chairman People and Nominations Committee (additional fee)	A\$38,500
Member Audit and Financial Risk Committee (additional fee)	A\$25,500
Member Health, Safety and Sustainability Committee (additional fee)	A\$22,000
Member People and Nominations Committee (additional fee)	A\$22,000

(1) The fees paid to the Chairman of the Board are inclusive of any Committee Fees.

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

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

There are no provisions in any of the non-executive directors' appointment arrangements for compensation payable on early termination of their directorship.

There is no separate retirement benefits plan or provision for superannuation for Oil Search's non-executive directors.

Details of Directors' Remuneration

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

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

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

DIRECTORS	YEAR	SHORT TERM			POST	LONG	EQUITY		OTHER	TOTAL
		SALARIES FEES AND ALLOW- ANCES	NON- MON- ETARY BENEFITS	SHORT TERM INCENTIVE	EMP'MENT	COMPANY CONTRI- BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFORM. RIGHTS	RESTRICT- ED SHARES	
Executive Directors										
P Botten	2016	1,783,626	206,218	1,465,812	14,478	54,804	776,050	1,206,454	–	5,507,442
Managing Director	2015	1,693,030	72,670	1,154,424	14,341	26,806	830,408	895,438	–	4,687,117
G Aopi	2016	370,474	154,982	252,752	35,347	16,799	165,082	206,891	–	1,202,327
EGM Stakeholder Engagement	2015	389,219	171,327	190,487	39,075	13,010	180,683	192,942	–	1,176,743
Non-Executive Directors										
R Lee	2016	405,611	–	–	–	–	–	–	–	405,611
	2015	391,937	–	–	–	–	–	–	–	391,937
KG Constantinou	2016	180,582	–	–	–	–	–	–	–	180,582
	2015	176,578	–	–	–	–	–	–	–	176,578
EJ Doyle	2016	158,971	–	–	–	–	–	–	–	158,971
	2015	–	–	–	–	–	–	–	–	–
FE Harris ⁽¹⁾	2016	–	–	–	–	–	–	–	–	–
	2015	119,476	–	–	–	–	–	–	–	119,476
A Kanstler	2016	201,039	–	–	–	–	–	–	–	201,039
	2015	197,286	–	–	–	–	–	–	–	197,286
KW Spence	2016	192,856	–	–	–	–	–	–	–	192,856
	2015	189,003	–	–	–	–	–	–	–	189,003
MP Togolo	2016	45,796	–	–	–	–	–	–	–	45,796
	2015	–	–	–	–	–	–	–	–	–
Former Non-Executive Directors										
B Philemon	2016	137,389	–	–	–	–	–	–	–	137,389
	2015	179,214	–	–	–	–	–	–	–	179,214
ZE Switkowski	2016	195,460	–	–	–	–	–	–	–	195,460
	2015	191,638	–	–	–	–	–	–	–	191,638

(1) Ms Harris was reappointed to the Board effective 1 January 2017.

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Equity Participation for Non-Executive Directors

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

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

Table 27 – Non-Executive Director shareholdings

	BALANCE AT 1 JANUARY 2016	NET MOVEMENT DURING 2016	BALANCE AT 31 DECEMBER 2016
KG Constantinou	–	–	–
EJ Doyle	–	30,800	30,800
FE Harris	31,961	–	31,961
AJ Kantsler	45,736	–	45,736
RJ Lee	96,829	–	96,829
KW Spence	25,000	–	25,000
MP Togolo	–	–	–
Former Non-Executive Directors			
B Philemon	7,241	–	7,241
ZE Switkowski	201,829	–	201,829

Signed in accordance with a resolution of the directors.



Richard Lee
CHAIRMAN



PR Botten
MANAGING DIRECTOR

Sydney, 20 February 2016

AUDITOR'S INDEPENDENCE DECLARATION
for the year ended 31 December 2016

Deloitte

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

20 February 2017

Dear Directors,

Oil Search Limited

I am pleased to provide the following declaration of independence to the directors of Oil Search Limited.

As lead audit partner for the audit of the financial statements of Oil Search Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (IESBA) in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Matthew Donaldson
Partner
Chartered Accountants

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

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

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

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2016

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

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

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

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

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2016

CONSOLIDATED	SHARE CAPITAL \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	RESERVE FOR TREASURY SHARES \$'000	EMPLOYEE EQUITY COMPENSATION RESERVE \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
Balance at 1 January 2015	3,147,340	(14,523)	(8,099)	12,236	1,888,522	5,025,476
Dividends provided for or paid	–	–	–	–	(274,085)	(274,085)
Total comprehensive income for the year						
Net loss after tax for the year	–	–	–	–	(39,382)	(39,382)
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	–	(4,218)	–	–	–	(4,218)
Total comprehensive loss for the year	–	(4,218)	–	–	(39,382)	(43,600)
Transactions with owners, recorded directly in equity						
Transfer of vested shares	–	–	11,277	(11,277)	–	–
Employee share-based remuneration	–	–	–	10,199	–	10,199
Purchase of treasury shares	–	–	(8,569)	–	–	(8,569)
Trust distribution	–	–	–	–	(60)	(60)
Total transactions with owners	–	–	2,708	(1,078)	(60)	1,570
Balance at 31 December 2015	3,147,340	(18,741)	(5,391)	11,158	1,574,995	4,709,361
Balance at 1 January 2016	3,147,340	(18,741)	(5,391)	11,158	1,574,995	4,709,361
Dividends provided for or paid	–	–	–	–	(76,135)	(76,135)
Total comprehensive income for the year						
Net profit after tax for the year	–	–	–	–	89,795	89,795
<i>Other comprehensive income:</i>						
Exchange differences on translation of foreign operations	–	1,096	–	–	–	1,096
Total comprehensive profit for the year	–	1,096	–	–	89,795	90,891
Transactions with owners, recorded directly in equity						
Transfer of vested shares	–	–	9,863	(9,863)	–	–
Employee share-based remuneration	–	–	–	5,831	–	5,831
Purchase of treasury shares	–	–	(4,722)	–	–	(4,722)
Trust distribution	–	–	–	–	90	90
Total transactions with owners	–	–	5,141	(4,032)	90	1,199
Balance at 31 December 2016	3,147,340	(17,645)	(250)	7,126	1,588,745	4,725,316

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2016

PARENT	SHARE CAPITAL \$'000	AMALGAM- ATION RESERVE \$'000	RESERVE FOR TREASURY SHARES \$'000	EMPLOYEE EQUITY COMPENSATION RESERVE \$'000	RETAINED EARNINGS / (LOSSES) \$'000	TOTAL \$'000
Balance at 1 January 2015	3,147,340	(2,990)	(5,479)	6,573	148,677	3,294,121
Dividends provided for or paid	–	–	–	–	(274,085)	(274,085)
Total comprehensive income for the year						
Net profit after tax for the year	–	–	–	–	739,159	739,159
Total comprehensive income for the year	–	–	–	–	739,159	739,159
Transactions with owners, recorded directly in equity						
Transfer of vested shares	–	–	11,277	(11,277)	–	–
Employee share-based remuneration	–	–	–	10,199	–	10,199
Purchase of treasury shares	–	–	(8,569)	–	–	(8,569)
Net exchange differences	–	–	–	1	–	1
Total transactions with owners	–	–	2,708	(1,077)	–	1,631
Balance at 31 December 2015	3,147,340	(2,990)	(2,771)	5,496	613,751	3,760,826
Balance at 1 January 2016	3,147,340	(2,990)	(2,771)	5,496	613,751	3,760,826
Dividends provided for or paid	–	–	–	–	(76,135)	(76,135)
Total comprehensive income for the year						
Net loss after tax for the year	–	–	–	–	(629,058)	(629,058)
Total comprehensive loss for the year	–	–	–	–	(629,058)	(629,058)
Transactions with owners, recorded directly in equity						
Transfer of vested shares	–	–	9,863	(9,863)	–	–
Employee share-based remuneration	–	–	–	5,831	–	5,831
Purchase of treasury shares	–	–	(4,722)	–	–	(4,722)
Net exchange differences	–	–	–	(1)	–	(1)
Total transactions with owners	–	–	5,141	(4,033)	–	1,108
Balance at 31 December 2016	3,147,340	(2,990)	2,370	1,463	(91,442)	3,056,741

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

Oil Search Limited (the 'parent entity' or 'Company') is incorporated in Papua New Guinea (PNG). The consolidated financial report for the year ended 31 December 2016 comprises the parent entity and its controlled entities (together, 'the Group').

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the PNG Companies Act 1997. The financial statements have been prepared under the historical cost convention.

(i) Issued standards adopted during year

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(ii) New accounting standards not yet effective

The following new accounting standards are not yet effective but may have an impact on the Group in the financial years commencing 1 January 2017 or later:

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

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

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

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

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

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

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

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

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

The Group has undertaken a detailed assessment of the new requirements based on existing revenue contracts and determined that no material changes in the timing or measurement of revenue would be required under the new standard.

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

◆ *IFRS 16 Leases – effective 1 January 2019*

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

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

(b) Principles of consolidation

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

(i) Business combinations

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

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

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

(ii) Subsidiaries

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

(iii) Joint arrangements

Exploration, development and production activities of the Group are primarily carried out 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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they comprise investments in joint operations.

Joint operations

The Group has accounted for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 25.

(c) Currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

- ◆ assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- ◆ income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- ◆ all resulting exchange differences are recognised in other comprehensive income.

(d) Revenue recognition

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

Liquefied natural gas

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

Oil and condensate

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

Gas

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

Dividend income

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

(e) Borrowing costs

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

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

(f) Share-based remuneration

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(g) Income tax

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

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

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

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

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

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

(h) Inventories

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

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

(i) Exploration and evaluation assets

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

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

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

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

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

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to Oil and Gas Assets – Assets in Development.

Where an ownership interest in an exploration and evaluation asset is exchanged for another, the transaction is recognised by reference to the carrying value of the original interest. Any cash consideration paid, including transaction costs, is accounted for as an acquisition of exploration and evaluation assets. Any cash consideration received, net of transaction costs, is treated as a recoupment of costs previously capitalised, with any excess accounted for as a gain on disposal of non-current assets.

(j) Oil and gas assets

Assets in development

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

Producing assets

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortisation of oil and gas assets

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

Restoration costs

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

(k) Other plant and equipment

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

Depreciation

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

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

(l) Leases

(i) Leased assets

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

(ii) Lease payments

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

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

(m) Impairment of assets

The carrying amounts of all assets, other than inventory, certain financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is an indication of impairment. Where such an indication exists, an estimate of the recoverable amount is made.

For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

Expected future cash flows are the basis for determining the recoverable amount, however, market values are also referenced where appropriate.

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

(n) Employee benefits

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

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

(o) Investments and other financial assets

(i) Investments

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

(ii) Other financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(p) Borrowings

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

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

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

(q) Critical accounting estimates and assumptions

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

Impairment of assets

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

Restoration obligations

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

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

Reserve estimates

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

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

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(i). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income.

The carrying amount of exploration and evaluation assets is disclosed in note 13.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of joint arrangements

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

The Group's interest in joint operations is disclosed in note 25(b). The Group's interest in other arrangements with same legal form as a joint operation but that are not subject to joint control are disclosed in note 25(c).

Deferred taxes

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SEGMENT REPORTING

(a) Information about reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. In 2016, Oil Search has amended its reportable segments to represent the integrated nature of the PNG LNG Project, Associated Gas and related oil fields. It also better aligns with the Group's changed organisational structure and the winding down of activity in the Middle East and North Africa (MENA) region. The comparative balances have been restated to reflect the current period presentation.

PNG Business Unit (PNG BU)

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

Exploration

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

Other

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

(b) Segment information provided to the executive management team

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

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

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

(2) Excludes InterOil acquisition-related costs of \$29.3 million.

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

NOTES TO THE FINANCIAL STATEMENTS

2 SEGMENT REPORTING (CONTINUED)

Geographical segments

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

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

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

	REVENUE		NON-CURRENT ASSETS ⁽¹⁾	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
PNG	1,235,908	1,585,728	8,328,635	8,560,564
Australia	–	–	26,435	17,262
Other	–	–	116,226	104,162
Total	1,235,908	1,585,728	8,471,296	8,681,988

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

Major customers

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

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

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

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

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

3 REVENUE

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Liquefied natural gas sales	759,034	1,043,469	–	–
Oil and condensate sales	383,136	429,543	–	–
Gas sales	33,841	44,802	–	–
Other revenue	59,897	67,914	–	–
Total revenue	1,235,908	1,585,728	–	–

NOTES TO THE FINANCIAL STATEMENTS

4 COST OF SALES

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<i>Costs of production:</i>				
Production costs	(257,104)	(294,818)	–	–
Royalties and levies	(5,432)	(12,376)	–	–
Gas purchases	(14,652)	(20,924)	–	–
Inventory movements	(18,858)	3,738	–	–
	(296,046)	(324,380)	–	–
Selling and distribution costs	(42,786)	(51,467)	–	–
Rig operating costs	(4,314)	(5,858)	–	–
<i>Depreciation and amortisation</i>				
Oil and gas assets	(413,791)	(388,355)	–	–
Marine assets	(6,002)	(3,630)	–	–
Rig assets	(8,014)	(8,121)	–	–
Total cost of sales	(770,953)	(781,811)	–	–

5 OTHER EXPENSES

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Corporate ⁽¹⁾	(41,962)	(50,454)	(7,754)	(10,752)
Exploration costs expensed	(53,164)	(50,889)	(269)	(906)
Power costs expensed	(8,326)	–	–	–
Acquisition related expenses	(29,306)	–	(29,394)	–
Impairment	–	(399,271)	(640,965)	–
Depreciation	(8,895)	(7,647)	–	–
Loss on disposal of non-current assets	(44)	(5,528)	–	–
Other	3,366	(9,494)	90	(14,309)
Foreign currency gain/(loss)	1,287	(2,106)	1,254	(1,795)
Total other expenses	(137,044)	(525,389)	(677,038)	(27,762)

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

6 NET FINANCE COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
The major components of tax expenses are:				
Current tax expense	(9,766)	(28,328)	–	–
Adjustments for current tax of prior periods	5,084	14,250	548	2,798
Deferred tax (expense)/income	(90,555)	(133,558)	(557)	331
Income tax (expense)/benefit	(95,237)	(147,636)	(9)	3,129
Reconciliation of income tax expense to prima facie tax payable:				
Profit/(loss) before tax	185,032	108,254	(629,049)	736,030
Tax at PNG rate for gas and non-oil (30%)	(55,510)	(32,477)	188,715	(220,809)
Remeasurement of deferred tax balances	(34,964)	11,953	–	–
Effect of differing tax rates across tax regimes	(8,363)	(4,503)	–	–
	(98,837)	(25,027)	188,715	(220,809)
Tax effect of items not tax deductible or assessable:				
Over provisions in prior periods	5,084	14,250	548	2,798
Non-deductible expenditure	(7,499)	(140,456)	(193,450)	(7,877)
Non-assessable income	1,818	4,017	210	4,017
Reinstatement deferred tax assets	4,187	–	3,968	–
Exempt dividends	10	15	–	225,000
Other	–	(435)	–	–
Income tax (expense)/benefit	(95,237)	(147,636)	(9)	3,129
Deferred tax (expense)/income recognised in net profit/(loss) for each type of temporary difference:				
Exploration, development and production	(89,943)	(139,791)	220	(442)
Other assets	3,364	2,419	–	–
Provisions and accruals	(844)	(6,893)	156	726
Other items	(2,236)	539	(933)	63
Tax losses	(896)	10,168	–	(16)
Deferred tax (expense)/income	(90,555)	(133,558)	(557)	331
Deferred tax assets				
Temporary differences:				
Exploration, development and production	197,366	248,406	23,160	22,105
Other assets	1,205	–	–	–
Provisions	168,203	149,270	667	726
Other differences	7	–	–	–
Tax losses recognised	7	8,786	–	–
Tax credits	154,007	112,469	–	–
	520,795	518,931	23,827	22,831
Deferred tax liabilities				
Temporary differences:				
Exploration, development and production	645,153	619,155	–	–
Prepayments and receivables	95	888	385	150
Other assets	40,420	11,119	–	–
Other differences	386	–	–	–
	686,054	631,162	385	150

NOTES TO THE FINANCIAL STATEMENTS

8 EARNINGS PER SHARE

	CONSOLIDATED	
	2016 CENTS	2015 CENTS
Basic earnings/(loss) per share	5.90	(2.59)
Diluted earnings/(loss) per share	5.89	(2.59)
	NO.	NO.
Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
Basic earnings per share	1,522,692,587	1,522,692,587
Employee share rights	1,092,703	–
Employee performance rights	1,978,847	–
Diluted earnings per share	1,525,764,137	1,522,692,587

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

9 DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Unfranked ⁽¹⁾ dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividend ⁽²⁾	38,067	60,908	38,067	60,908
	38,067	60,908	38,067	182,723
Unfranked ⁽¹⁾ dividends paid during the year:				
Ordinary – previous year final	60,908	121,815	60,908	121,815
Special – previous year final	–	60,908	–	60,908
Ordinary – current year interim ⁽³⁾	15,227	91,362	15,227	91,362
	76,135	274,085	76,135	274,085

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

(2) On 20 February 2017, the Directors declared a final unfranked dividend of 2.5 cents per ordinary share for the current year (2015: 4 cents final dividend) to be paid on 30 March 2017. The proposed final dividend for 2016 is payable to all holders of ordinary shares on the Register of Members on 8 March 2017 (record date). The proposed final dividend has not been included as a liability in these financial statements.

(3) On 24 August 2016, the Directors declared an interim unfranked dividend of 1 cent per ordinary share (2015: 6 cents interim dividend), paid to the holders of ordinary shares on 29 September 2016.

10 RECEIVABLES

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current				
Trade debtors ^{(1),(2)}	117,312	54,887	–	–
Other debtors ⁽¹⁾	35,400	26,187	–	199
Amounts due from subsidiary entities ^{(3),(4)}	–	–	697,389	1,280,165
	152,712	81,074	697,389	1,280,364

(1) During 2016, no current receivables have been determined to be impaired and no related impairment loss has been charged to the statement of comprehensive income (2015: nil).

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

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

(4) During 2016, the parent entity recognised an impairment provision of \$640.0 million in respect of loans receivable from Oil Search (Middle Eastern) Limited that were advanced for exploration and evaluation activities that were unsuccessful or have ceased.

NOTES TO THE FINANCIAL STATEMENTS

11 INVENTORIES

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current				
At cost				
Materials and supplies	91,455	102,565	–	–
Petroleum products	15,362	34,221	–	–
	106,817	136,786	–	–

12 OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current				
Loan receivable	114,487	104,125	–	–

The loan receivable relates to cash advanced by Oil Search under a farm-in arrangement in respect of an exploration licence that remains subject to government approvals. The balance is comprised of both interest bearing, \$35.9 million (2015: \$32.4 million) and non-interest bearing, \$78.6 million (2015: \$71.8 million) components. Interest accrues at the lesser of 10% per annum or Libor plus 7.5%. An option agreement and a share pledge agreement are held over this receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the borrower. This asset is not past due or impaired at the end of the reporting period. The loan receivable is payable based on contractual arrangements.

13 EXPLORATION AND EVALUATION ASSETS

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
At cost	2,168,035	2,067,115	89,810	84,053
Less impairment	(646,464)	(646,464)	(23,793)	(23,793)
	1,521,371	1,420,651	66,017	60,260
Balance at start of year	1,420,651	1,576,668	60,260	55,932
Additions	151,761	275,699	6,009	2,816
Exploration costs expensed	(53,164)	(50,889)	(269)	(906)
Changes in restoration obligations	2,205	19,474	17	2,418
Net exchange differences	(82)	(1,030)	–	–
Impairment ⁽¹⁾	–	(399,271)	–	–
Balance at end of year	1,521,371	1,420,651	66,017	60,260

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

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

NOTES TO THE FINANCIAL STATEMENTS

14 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
2016							
At cost	446	8,917,085	8,917,085	138,020	84,479	143,546	366,045
Accumulated amortisation, depreciation and impairment	–	(2,270,792)	(2,269,928)	(9,982)	(65,849)	(103,545)	(179,376)
	446	6,646,293	6,646,293	128,038	18,630	40,001	186,669
Balance at 1 January 2016	446	7,023,328	7,023,774	71,121	26,644	30,742	128,507
Additions	9,611	38,250	47,861	62,919	–	17,927	80,846
Transfers	(10,057)	10,057	–	–	–	–	–
Disposals	–	–	–	–	–	(54)	(54)
Changes in restoration obligations	–	(11,551)	(11,551)	–	–	177	177
Net exchange differences	–	–	–	–	–	104	104
Amortisation and depreciation	–	(413,791)	(413,791)	(6,002)	(8,014)	(8,895)	(22,911)
Balance at 31 December 2016	–	6,646,293	6,646,293	128,038	18,630	40,001	186,669
2015							
At cost	446	8,880,329	8,880,775	75,101	84,479	125,392	284,972
Accumulated amortisation, depreciation and impairment	–	(1,857,001)	(1,857,001)	(3,980)	(57,835)	(94,650)	(156,465)
	446	7,023,328	7,023,774	71,121	26,644	30,742	128,507
Balance at 1 January 2015	143,320	7,038,824	7,182,144	8,653	34,765	29,648	73,066
Additions	135,211	111,830	247,041	66,098	–	16,438	82,536
Transfers	(278,085)	278,085	–	–	–	–	–
Disposals	–	–	–	–	–	(5,528)	(5,528)
Changes in restoration obligations	–	(17,056)	(17,056)	–	–	(183)	(183)
Net exchange differences	–	–	–	–	–	(1,986)	(1,986)
Amortisation and depreciation	–	(388,355)	(388,355)	(3,630)	(8,121)	(7,647)	(19,398)
Balance at 31 December 2015	446	7,023,328	7,023,774	71,121	26,644	30,742	128,507

15 PAYABLES

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

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

NOTES TO THE FINANCIAL STATEMENTS

16 PROVISIONS

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

(i) Movement in employee entitlements provision

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

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

(ii) Movement in site restoration provision

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

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

NOTES TO THE FINANCIAL STATEMENTS

17 BORROWINGS

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

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

18 SHARE CAPITAL AND RESERVES

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

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

- (i) The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.
- (ii) The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.
- (iii) The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust and the issue of shares to settle vested share-based obligations.
- (iv) The employee equity compensation reserve is used to record the share-based remuneration obligations to employees in relation to Oil Search Limited ordinary shares as held by the Employee Options and Rights Share Plans and Share Appreciation Rights Share Plans, which have not vested as at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

19 STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Cash at bank and on hand	104,769	183,480	–	103,355
Share of cash in joint operations	24,258	31,221	–	105
Interest-bearing short-term deposits ^{(1),(2)}	733,721	695,778	–	–
	862,748	910,479	–	103,460

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

(2) Includes \$10.1 million (2015: \$10.1 million) in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the \$500 million revolving facility agreement.

(b) Reconciliation of cash flows from operating activities

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

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

(c) Non-cash investing and financing activities

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

NOTES TO THE FINANCIAL STATEMENTS

20 EMPLOYEE BENEFITS AND SHARE-BASED PAYMENTS

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

20 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.

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

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

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

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

EXECUTIVES	2016	2015	2014	2013	2012
Grant date	16 May 2016	18 May 2015	19 May 2014	24 May 2013	21 May 2012
Share price at grant date	A\$6.75	A\$8.15	A\$9.04	A\$8.16	A\$6.72
Fair value	A\$3.59	A\$3.00	A\$5.59	A\$5.28	A\$4.52
Exercise date	17 May 2019	18 May 2018	19 May 2017	20 May 2016	15 May 2015
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
Number of rights					
Balance at 1 January 2016	–	1,020,494	876,265	1,525,484	–
Granted during year	1,154,612	–	–	–	–
Forfeited during year	(12,242)	(103,110)	(78,665)	(1,128,712)	–
Exercised during year	–	–	–	(396,772)	–
Balance at 31 December 2016	1,142,370	917,384	797,600	–	–
Average share price at date of exercise	–	–	–	A\$6.75	–
Balance at 1 January 2015	–	–	934,100	1,610,868	1,525,800
Granted during year	–	1,052,876	–	–	–
Forfeited during year	–	(32,382)	(57,835)	(85,384)	(958,887)
Exercised during year	–	–	–	–	(566,913)
Balance at 31 December 2015	–	1,020,494	876,265	1,525,484	–
Average share price at date of exercise	–	–	–	–	A\$7.70
	2016	2015	2014	2013	2012
Volatility	30%	30%	20%	25%	30%
Dividend yield	0.70%	2.2%	2.2%	0.48%	0.60%
Risk-free interest rate	1.57%	2.1%	2.85%	2.60%	2.43%

Restricted Share Plan

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

Restricted shares are granted under the plan in two situations. Firstly, they were granted as a way of retaining key management and other employees, and, secondly, by way of a mandatory deferral of a portion of a selected participant's short-term incentive award. Awards under the Restricted Share Plan are structured as grants of restricted shares for nil consideration. Restricted shares are held on behalf of participants in trust, subject to the disposal restrictions and forfeiture conditions, until release under the terms of the Plan and in accordance with guidelines approved by shareholders at the Annual Meeting in 2007. There are currently 12 (2015: 14) employees participating in the Restricted Share Plan.

NOTES TO THE FINANCIAL STATEMENTS

20 EMPLOYEE BENEFITS AND SHARE-BASED PAYMENTS (CONTINUED)

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

EXECUTIVES	2016	2016	2016	2016	2015	2015	2015	2014	2014	2014
Grant date	12 Jul 2016	12 Jul 2016	12 Jul 2016	16 May 2016	2 Nov 2015	18 May 2015	2 Mar 2015	7 Nov 2014	14 Oct 2014	14 Oct 2014
Share price at grant date	A\$6.80	A\$6.80	A\$6.80	A\$6.75	A\$7.79	A\$7.33	A\$8.12	A\$8.69	A\$8.43	A\$8.43
Exercise date	10 Jul 2017	10 Jul 2018	10 Jul 2019	1 Jan 2018	30 Oct 2017	1 Jan 2017	31 Dec 2017	1 Mar 2016	1 Oct 2016	1 Oct 2015
Exercise price	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil
Number of shares										
Balance at 1 January 2016	-	-	-	-	31,250	554,829	50,000	40,000	4,889	-
Granted during year	13,380	20,070	33,450	539,331	-	-	-	-	-	-
Forfeited during year	-	-	-	-	-	(41,077)	-	-	-	-
Vested during year	-	-	-	-	-	-	-	(40,000)	(4,889)	-
Balance at 31 December 2016	13,380	20,070	33,450	539,331	31,250	513,752	50,000	-	-	-
Balance at 1 January 2015	-	-	-	-	-	-	-	40,000	4,889	4,889
Granted during year	-	-	-	-	31,250	599,991	50,000	-	-	-
Forfeited during year	-	-	-	-	-	-	-	-	-	-
Vested during year	-	-	-	-	-	(45,162)	-	-	-	(4,889)
Balance at 31 December 2015	-	-	-	-	31,250	554,829	50,000	40,000	4,889	-
EXECUTIVES					2014	2014	2014	2014	2014	2013
Grant date					19 May 2014	19 May 2014	19 May 2014	10 Jan 2014	10 Jan 2014	7 Mar 2013
Share price at grant date					A\$8.80	A\$7.92	A\$7.92	A\$7.72	A\$7.72	A\$7.87
Exercise date					1 Jan 2016	1 Jan 2016	1 Jan 2015	24 Feb 2016	24 Feb 2015	1 Jan 2015
Exercise price					\$A nil	\$A nil	\$A nil	\$A nil	\$A nil	\$A nil
Number of shares										
Balance at 1 January 2016					263,839	15,150	-	16,200	-	-
Granted during year					-	-	-	-	-	-
Forfeited during year					-	-	-	-	-	-
Vested during year					(263,839)	(15,150)	-	(16,200)	-	-
Balance at 31 December 2016					-	-	-	-	-	-
Balance at 1 January 2015					292,328	15,150	15,150	16,200	16,200	321,230
Granted during year					-	-	-	-	-	-
Forfeited during year					-	-	-	-	-	-
Vested during year					(28,489)	-	(15,150)	-	(16,200)	(321,230)
Balance at 31 December 2015					263,839	15,150	-	16,200	-	-

NOTES TO THE FINANCIAL STATEMENTS

21 KEY MANAGEMENT PERSONNEL REMUNERATION

Directors' and executive remuneration

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22 KEY MANAGEMENT PERSONNEL TRANSACTIONS

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

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

(1) Refer to note 20 for key terms.

(2) Number of ordinary shares held at date of ceasing to be key management personnel of the Group.

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

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

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

CONSOLIDATED	TRANSACTIONS VALUE YEAR ENDED 31 DECEMBER	
	2016 \$'000	2015 \$'000
Airways Hotel and Apartments Limited ⁽¹⁾	164	7
Airways Residence Limited ⁽¹⁾	90	122
Alotau International Hotel ⁽¹⁾	1	2
Lamana Hotel Port Moresby ⁽¹⁾	82	41

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

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

NOTES TO THE FINANCIAL STATEMENTS

23 COMMITMENTS

	CONSOLIDATED		PARENT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Finance lease commitments				
<i>Lease of PNG LNG marine vessels</i>				
Payable within 12 months	19,933	10,436	–	–
Payable 1 to 5 years	79,724	41,744	–	–
Payable greater than 5 years	265,358	139,697	–	–
	365,015	191,877	–	–
Future finance charges	(229,610)	(117,858)	–	–
Finance lease liability	135,405	74,019	–	–
Operating lease commitments				
<i>Rental of premises, equipment and LNG charter vessels</i>				
Payable within 12 months	25,618	27,586	–	–
Payable 1 to 5 years	92,201	86,395	–	–
Payable greater than 5 years	148,424	142,123	–	–
	266,243	256,104	–	–
Expenditure commitments				
Capital expenditure commitments	113,019	266,557	16,220	16,220
Other expenditure commitments	125,362	181,864	–	–
	238,381	448,421	16,220	16,220

24 AUDITOR'S REMUNERATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

25 SUBSIDIARIES AND INTERESTS IN JOINT ARRANGEMENTS

(a) Subsidiaries

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

(1) Formerly known as Oil Search (P'nyang) Holdings Limited.

(2) Formerly known as Oil Search (P'nyang) Limited.

(3) Formerly known as New Guinea (Investments) Limited.

(4) Formerly known as New Guinea (Petroleum) Limited.

(5) Oil Search Foundation Limited is Trustee of the Oil Search Foundation Trust, a not-for-profit organisation established for charitable purposes in PNG. This Trust is not controlled by Oil Search and is not consolidated within the Group.

NOTES TO THE FINANCIAL STATEMENTS

25 SUBSIDIARIES AND INTERESTS IN JOINT ARRANGEMENTS (CONTINUED)

(b) Interests in joint operations

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

(i) Exploration licences

	PRINCIPAL PLACE OF BUSINESS	% INTEREST	
		2016	2015
PPL 233 ⁽²⁾	PNG	100.00	52.50
PPL 234 ^{(1),(2)}	PNG	100.00	80.00
PPL 339 ⁽¹⁾	PNG	70.00	70.00
PPL 277 ⁽²⁾	PNG	50.00	50.00
PRL 3	PNG	38.51	38.51
PRL 9 ⁽¹⁾	PNG	45.11	45.11
Block 7 ⁽¹⁾	Yemen	34.00 ⁽³⁾	34.00 ⁽³⁾

(ii) Production assets and other arrangements

	PRINCIPAL PLACE OF BUSINESS	% INTEREST	
		2016	2015
PNG LNG Project ⁽⁴⁾	PNG	29.00	29.00
Papua New Guinea Liquefied Natural Gas Global Company LDC	Bahamas	29.00	29.00

(c) Interests in other arrangements

The Group participates in arrangements with other parties that have the same legal form as a joint operation but are not subject to joint control (as described in note 1(q)). The Group's interests in these arrangements are as follows:

(i) Production assets and other arrangements

	PRINCIPAL PLACE OF BUSINESS	% INTEREST	
		2016	2015
Hides gas-to-electricity project ⁽¹⁾	PNG	100.00	100.00
PDL 2 Kutubu ⁽¹⁾	PNG	60.05	60.05
South East Mananda ⁽¹⁾	PNG	72.27	72.27
Moran Unit ⁽¹⁾	PNG	49.51	49.51
South East Gobe Unit ⁽¹⁾	PNG	22.34	25.55
Gobe Main ⁽¹⁾	PNG	10.00	10.00
Kutubu pipeline system ⁽¹⁾	PNG	60.05	60.05

(ii) Exploration licences

	PRINCIPAL PLACE OF BUSINESS	% INTEREST	
		2016	2015
PPL 219 ⁽¹⁾	PNG	71.25	71.25
PPL 244 ⁽¹⁾	PNG	100.00	40.00
PPL 260 ⁽¹⁾	PNG	40.00	40.00
PPL 269	PNG	10.00	10.00
PPL 385	PNG	100.00	100.00
PPL 402 ⁽¹⁾	PNG	37.50 ⁽⁵⁾	50.00
PPL 464	PNG	50.00	50.00
PRL 8 ⁽¹⁾	PNG	60.71	60.71
PRL 10 ⁽¹⁾	PNG	100.00	100.00
PRL 14 ⁽¹⁾	PNG	62.56	62.56
PRL 15	PNG	22.84	22.84
Taza (K42) ^{(1),(6)}	Iraq	—	60.00

(1) Operated by an Oil Search Group entity.

(2) Subject to government approval.

(3) Participating interest is 34%. Paying interest is 40%.

(4) Includes the PDL 1 Hides, PDL 7 South Hides, PDL 8 Angore and PDL 9 Juha gas fields, Associated Gas fields and pipeline licences.

(5) 12.5% interest farmed out to Santos Limited in 2016.

(6) The Group relinquished its interest in the Taza PSC during 2016.

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk exposures arise in the course of the day-to-day operating activities of the Group, primarily due to the impact of oil price movements on revenue items and exchange rate and interest rate impacts on expenditure and statement of financial position items. The management of borrowings, cash and counter-parties for liquefied natural gas, oil, condensate and gas sales also create liquidity and credit risk exposures. Monetary assets and liabilities denominated in currencies that are different to the Group's functional currency may also give rise to translation exposures.

The Group's overall approach to financial risk management is to enter into hedges using derivative financial instruments only in circumstances where it is necessary to ensure adequate cash flow to meet future financial commitments. Financial risk management is undertaken by Group Treasury and risks are managed within the parameters of the Board approved Financial Risk Management Procedure.

(a) Foreign exchange risk

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

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

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

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

Foreign exchange risk management

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

Cash flows related to joint ventures where Oil Search is the operator are managed independently to the Group's corporate exposures, reflecting the interests of joint arrangement partners in the operator cash flows. The operator's A\$ and PGK requirements are bought on the spot market. Where these currencies are purchased in advance of requirements, A\$ and PGK cash balances do not exceed three months' requirements.

As at 31 December 2016, there were no foreign exchange hedge contracts outstanding (2015: nil).

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

(b) Interest rate risk

The Group is exposed to interest rate movements directly through borrowings and investments in each of the currencies of its operations. Surplus cash is invested in accordance with Board approved credit counterparty limits, based on minimum credit ratings, and managed to ensure adequate liquidity is maintained. Whilst some cash is held in PGK and A\$, the Group's primary exposure is to US interest rates.

Interest rate risk management

Interest rate risk is managed on a Group basis at the corporate level. Limits on the proportion of fixed interest rate exposure are applied and interest rates may be fixed for a maximum term of four years or the remaining life of term debt facilities, whichever is the longer.

As at 31 December 2016, there was no interest rate hedging in place (2015: nil). Cash was invested in short-term instruments with an average maturity of 1 to 3 months.

Interest rate sensitivity

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

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

At the reporting date, if interest rates had been 25 basis points (2015: 25 basis points) higher or lower and all other variables were held constant, the Parent entity's net profit after tax would increase/decrease by nil (2015: \$0.3 million).

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

CONSOLIDATED FINANCIAL INSTRUMENTS	FIXED INTEREST RATE MATURING IN:				NON- INTEREST BEARING \$'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION \$'000
	FLOATING INTEREST RATE \$'000	1 YEAR OR LESS \$'000	1-5 YEARS \$'000	MORE THAN 5 YEARS \$'000		
2016						
Financial assets						
Cash and cash equivalents	127,027	733,721	-	-	-	862,748
Trade debtors	-	-	-	-	117,312	117,312
Other debtors	-	-	-	-	35,400	35,400
Loan receivable	35,862	-	-	-	78,625	114,487
Non-current receivables	-	-	-	-	2,025	2,025
Total financial assets	164,889	733,721	-	-	233,362	1,131,972
Financial liabilities						
Payables and accruals	-	-	-	-	156,921	156,921
Other payables	-	-	-	-	7,643	7,643
Finance leases	-	1,957	10,956	122,492	-	135,405
Secured loan from Joint operations	3,202,319	-	-	737,057	-	3,939,376
Total financial liabilities	3,202,319	1,957	10,956	859,549	164,564	4,239,376
2015						
Financial assets						
Cash and cash equivalents	183,480	695,778	-	-	-	910,479
Trade debtors	-	-	-	-	54,887	54,887
Other debtors	-	-	-	-	26,187	26,187
Loan receivable	32,397	-	-	-	71,728	104,125
Non-current receivables	-	-	-	-	2,084	2,084
Total financial assets	215,877	695,778	-	-	148,327	1,097,762
Financial liabilities						
Payables and accruals	-	-	-	-	209,755	209,755
Other payables	-	-	-	-	8,055	8,055
Finance leases	-	1,117	6,302	66,600	-	74,019
Secured loan from Joint operations	3,437,031	-	-	791,600	-	4,228,631
Total financial liabilities	3,437,031	1,117	6,302	858,200	217,810	4,520,460

NOTES TO THE FINANCIAL STATEMENTS

PARENT FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE MATURING IN:			NON- INTEREST BEARING \$'000	TOTAL CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION \$'000
		1 YEAR OR LESS \$'000	1-5 YEARS \$'000	MORE THAN 5 YEARS \$'000		
2016						
Financial assets						
Cash and cash equivalents	-	-	-	-	-	-
Amounts due from subsidiary entities	-	-	-	-	697,389	697,389
Total financial assets	-	-	-	-	697,389	697,389
Financial liabilities						
Payables and accruals	22,418	-	-	-	2,052	24,470
Total financial liabilities	22,418	-	-	-	2,052	24,470
2015						
Financial assets						
Cash and cash equivalents	103,460	-	-	-	-	103,460
Other debtors	-	-	-	-	199	199
Amounts due from subsidiary entities	-	-	-	-	1,280,165	1,280,165
Total financial assets	103,460	-	-	-	1,280,364	1,383,824
Financial liabilities						
Payables and accruals	-	-	-	-	1,832	1,832
Total financial liabilities	-	-	-	-	1,832	1,832

(c) Commodity price risk

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

Commodity risk management

The Group does not seek to limit its exposure to fluctuations in oil prices; rather the central aim of oil price risk management is to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. Hedge cover targets are determined through detailed modelling of the Group's position under various oil price scenarios. Any hedging programmes entered into will ensure that maturities are spread over time and there are maximum hedge cover levels that apply to future years. This avoids the Group being forced to price a significant proportion of its exposure in an unfavourable oil price environment.

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

As at 31 December 2016, there was no oil price hedging in place (2015: nil). No commodity price sensitivity analysis is required as there was no hedging in place.

(d) Credit risk

The Group has exposure to credit risk if counterparties are not able to meet their financial obligations to the Group. The exposure arises as a result of the following activities:

- ❖ Financial transactions involving money market, surplus cash investments and derivative instruments;
- ❖ Direct sales of liquefied natural gas, oil, condensate and gas;
- ❖ Other receivables; and
- ❖ Loan receivable.

NOTES TO THE FINANCIAL STATEMENTS

26 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 12).

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

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

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

(e) Liquidity risk

The Group has exposure to liquidity risk if it is unable to settle financial transactions in the normal course of business and if new funding and refinancing cannot be obtained as required and on reasonable terms.

Liquidity risk management

The Group manages liquidity risk by ensuring it has sufficient funds available to meet its financial obligations on a day-to-day basis and to meet any unexpected liquidity needs in the normal course of business. The Group's policy is to maintain surplus immediate cash liquidity together with committed undrawn lines of credit for business opportunities and unanticipated cash outflows.

The Group also seeks to ensure maturities of committed debt facilities are reasonably well spread over time to minimise the Group's exposure to risk on the cost or availability of funds should the refinancing requirement coincide with unexpected short-term disruption or adverse fund-raising conditions in the capital markets. In order to avoid an exposure to any particular source of external funding the Group acknowledges the benefits of diversification of funding sources and where possible, aims to source its funds from a range of lenders, markets and funding instruments.

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

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

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

Non-derivative financial liabilities

	CARRYING AMOUNT \$'000	CONTRACTUAL CASH FLOWS			
		TOTAL \$'000	LESS THAN 1 YEAR \$'000	1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000
2016					
Payables and accruals	156,921	156,921	156,921	-	-
Other payables	7,643	7,643	7,643	-	-
Secured loan from joint operation	3,939,376	4,934,941	481,377	1,952,964	2,500,600
Finance leases	135,405	365,014	19,931	79,724	265,358
Total	4,239,345	5,464,519	665,872	2,032,688	2,765,958
2015					
Payables and accruals	209,755	209,755	209,755	-	-
Other payables	8,055	8,055	8,055	-	-
Secured loan from joint operation	4,228,631	5,479,128	449,662	1,962,007	3,067,459
Finance leases	74,019	191,877	10,436	41,744	139,697
Total	4,520,460	5,888,815	677,908	2,003,751	3,207,156

(f) Financing facilities

Syndicated revolving credit facility

Oil Search (Finance) Limited ("OSFL") signed a five year non-amortising syndicated financing facility effective 29 October 2012 for \$500 million. As part of the terms and conditions of this facility, OSFL has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited and Oil Search (PNG) Limited as guarantor, provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Bilateral facilities

Oil Search (PNG) Limited ("OSP") entered into two separate three year bilateral revolving facilities effective 18 December 2015, with facility limits of \$125 million each. As part of the terms and conditions of these facilities, OSP provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited and the lenders have the benefit of security over OSFL's credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Secured loan from joint operation

Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") was organised to conduct certain activities of the PNG LNG Project outside of PNG, including the borrowing and on-lending to the Project participants of the Project Finance Debt Facility, and the purchase and re-sale of PNG LNG Project liquids and LNG. The Borrower is owned by each Project participant in a percentage equal to its interest in the PNG LNG Project (the Oil Search Limited Group interest at 31 December 2016 is 29.0% (December 2015: 29.0%)). Oil Search (LNG) Limited and Oil Search (Tumbudu) Limited are the Group's participants in the PNG LNG Project (the "OSL Participants").

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

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.

NOTES TO THE FINANCIAL STATEMENTS

26 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.

27 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

There were no other significant events after balance date.

DIRECTORS' DECLARATION

for the year ended 31 December 2016

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

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

- (i) give a true and fair view of the consolidated entity's financial position as at 31 December 2016, and its performance for the year ended on that date; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing Rules; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due or payable.

This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian *Corporations Act 2001*, for the year ended 31 December 2016.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



RJ LEE
CHAIRMAN



PR Botten
MANAGING DIRECTOR

Sydney, 20 February 2016

INDEPENDENT AUDITOR'S REPORT

to the members of Oil Search Limited



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oil Search Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration as set out on pages 102 to 137.

In our opinion:

- (i) the accompanying financial statements of Oil Search Limited give a true and fair view of the Company's and the Group's financial position as at 31 December 2016 and of their performance for the year ended on that date in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *Papua New Guinea Companies Act 1997*; and
- (ii) proper accounting records have been kept by the Company.

Basis for Opinion

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

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

INDEPENDENT AUDITOR'S REPORT

to the members of Oil Search Limited



Key Audit Matters

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Oil Search Limited



- comparing actual operating costs for Producing assets during the year to budget, to determine whether they indicate that there has been a significant change with an adverse effect on the Group.
- comparing field and plant production performance during the year against budget, to determine whether they indicate that there has been a significant change with an adverse effect on the Group.
- reading new reserve reports obtained by the Group during the year in conjunction with our internal reservoir engineer, to determine whether they indicate there has been a significant change with an adverse effect on the Group. This included holding discussions with management's internal experts to assess their competency and objectivity and the significant assumptions, methods and source data used in estimating reserves.

Accounting for Income Tax

The income tax expense for the year ended 31 December 2016 is \$95.2 million and the balances of deferred tax assets and deferred tax liabilities at 31 December 2016 are \$520.8 million and \$686.1 million respectively. See note 7 for further details.

Tax applicable to hydrocarbon exploration and production activities in Papua New Guinea is based on tax ring-fencing, on a licence-by-licence basis.

Judgement is required to determine the application of tax legislation, as well as to assess the recoverability of deferred tax assets.

We evaluated the tax calculations together with our internal tax specialist based in Papua New Guinea, to challenge the Group's assumptions and judgements. Specifically our work included, but was not limited to, the following procedures:

- evaluating and testing the key controls over the allocation of costs to ring-fences and preparation of tax calculations.
- evaluating the utilisation of tax carrying values and related deferred tax assets, by reference to forecasts of future taxable income at a ring-fence level. This included evaluating whether the assumptions included in management's forecasts were consistent with board approved assumptions and prevailing PNG tax legislation.
- assessing tax returns and tax reconciliations for compliance with local tax laws.
- reconciling opening tax carrying values against tax returns lodged with tax authorities.

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

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Oil Search Limited



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

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

Directors' Responsibilities for the Financial Statements

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *Papua New Guinea Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions

INDEPENDENT AUDITOR'S REPORT

to the members of Oil Search Limited



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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report of Oil Search Limited included in pages 81 to 100 of the directors' report for the year ended 31 December 2016.

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

Responsibilities

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

DELOITTE TOUCHE TOHMATSU

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

DELOITTE TOUCHE TOHMATSU

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

SHAREHOLDER INFORMATION

OIL SEARCH LIMITED

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 8 March 2017 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	20,720	9,968,687	0.65
1,001 – 5,000	21,866	54,361,168	3.57
5,001 – 10,000	5,211	37,346,187	2.45
10,001 – 100,000	3,153	65,962,697	4.33
100,001 and over	173	1,355,053,848	88.99
Total	51,123	1,522,692,587	100%

(b) The 20 largest ordinary shareholders representing 84.76% of the ordinary shares as at 8 March 2017 were as follows:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1. HSBC Custody Nominees (Australia) Limited	426,522,972	28.01
2. JP Morgan Nominees Australia Limited	363,312,992	23.86
3. Aust Executor Trustees Ltd (IPIC)	196,604,177	12.91
4. Citicorp Nominees Pty Limited	80,955,308	5.32
5. National Nominees Limited	57,257,549	3.76
6. BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	37,529,786	2.46
7. BNP Paribas Noms Pty Ltd (DRP)	32,780,594	2.15
8. J P Morgan Nominees Australia Limited	22,673,907	1.49
9. Australian Foundation Investment Company Limited	16,482,507	1.08
10. AMP Life Limited	13,915,922	0.91
11. Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	8,315,887	0.55
12. RBC Investor Services Australia Nominees Pty Limited (PI Pooled A/C)	7,325,265	0.48
13. National Superannuation Fund Limited	6,081,472	0.40
14. CS Fourth Nominees Pty Limited (HSBC Cust Nom Au Ltd 11 A/C)	4,580,425	0.30
15. HSBC Custody Nominees (Australia) Limited (NT-Comnwlth Super Corp A/C)	4,210,034	0.28
16. Mrs Frances Claire Fox (Thomas J Beresford Will A/C)	2,799,008	0.18
17. HSBC Custody Nominees (Australia) Limited	2,529,883	0.17
18. Mr Kwok Ching Chow + Ms Pik Yun Peggy Chan	2,475,916	0.16
19. Australian United Investment Company Limited	2,200,000	0.14
20. Djerriwarrh Investments Limited	2,150,000	0.14
Total	1,290,703,604	84.76

(c) Issued capital as at 8 March 2017 was:

- ◆ 1,522,692,587 ordinary fully paid shares
- ◆ 2,838,201 unlisted performance rights
- ◆ 649,025 restricted shares
- ◆ 1,448,945 share rights

The trustee for the employee share plan holds 696,094 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 8 March 2017:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
International Petroleum Investment Company	196,604,177	12.91
NPCP Investments	149,390,244	9.81
The Capital Group Companies	118,981,141	7.81

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

(f) At 8 March 2017, 1,908 holders held unmarketable parcels of ordinary shares in the Company.

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

SHAREHOLDER INFORMATION

ANNUAL MEETING

Oil Search's 2017 Annual Meeting will be held at the Crowne Plaza Hotel, Port Moresby, Papua New Guinea on Friday, 19 May 2017, commencing at 9:30am (Port Moresby time).

2016 FINAL DIVIDEND

The 2016 final dividend will be paid on 30 March 2017 to shareholders registered at the close of business on 8 March 2017.

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, 8 March 2017.

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

Website: www.computershare.com.au

AMERICAN DEPOSITARY RECEIPTS PROGRAMME

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

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

SHARE CODES

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

OIL SEARCH WEBSITE

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

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

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

SHAREHOLDER INFORMATION

KEY ANNOUNCEMENTS IN 2016

January	27	Release of 2015 4th quarter results
February	22	Release of 2015 full year results
March	8	Ex-dividend date for 2015 final dividend
	9	Record date for 2015 final dividend
	14	Commencement of PRL 15 Certification
	31	Payment of 2015 final dividend
April	8	Release of 2015 Annual Report
	18	Release of 2016 1st quarter results
May	13	2016 Annual Meeting
	20	Oil Search and InterOil Announcement on InterOil Acquisition
	20	Oil Search and Total Announcement on MoU
July	1	Notification from InterOil of unsolicited, conditional non-binding proposal
	14	Certification of PRL 15 Completed
	18	InterOil notification of Superior Proposal
	21	Release of 2016 2nd quarter results
	21	Oil Search not to submit revised offer for InterOil
August	23	Release of 2016 half year results
September	6	Ex-dividend date for 2016 interim dividend
	7	Record date for 2016 interim dividend
	12	Payment of 2016 interim dividend
	12	Acquisition of interests in offshore Papuan Gulf licences
	28	Oil Search enters FEED on Biomass Project in PNG
October	18	Release of 2016 3rd quarter results
November	17	Oil Search and ExxonMobil farm-down of interest in PPL 402 to Santos
December	28	Muruk gas discovery
	31	End of financial year

2017 FINANCIAL CALENDAR⁽¹⁾

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
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
December	31	End of financial year

(1) Dates are subject to change.

TEN-YEAR SUMMARY

	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000
INCOME STATEMENT ⁽¹⁾				
Revenue	1,235,908	1,585,728	1,610,370	766,265
Production costs	(257,104)	(294,818)	(235,380)	(126,442)
Other operating costs	(131,721)	(154,469)	(125,769)	(87,392)
Other income	5,120	14,841	7,762	216
EBITDAX ⁽²⁾	852,203	1,151,282	1,256,983	552,647
Depreciation and amortisation	(436,702)	(407,753)	(252,671)	(50,201)
Exploration costs expensed	(53,164)	(50,889)	(109,132)	(107,424)
InterOil break-fee (net)	18,694	–	–	–
EBIT	381,031	692,640	895,180	395,022
Net finance (costs)/income	(195,999)	(185,114)	(129,595)	(15,152)
Acquisition accounting adjustment	–	–	–	–
Net impairment (losses)/reversals	–	(399,271)	(180,593)	–
Profit before income tax	185,032	108,255	584,992	379,870
Income tax expense	(95,237)	(147,636)	(231,774)	(174,148)
Reported NPAT	89,795	(39,381)	353,218	205,722
Significant items (net)	16,906	399,271	180,593	–
Core Profit	106,701	359,890	533,811	205,722
Dividends paid – ordinary	(76,135)	(274,085)	(60,308)	(53,532)
BALANCE SHEET				
Total assets	10,126,129	10,342,834	10,762,094	8,421,537
Total cash	862,748	910,479	960,166	209,661
Total debt	4,074,781	4,302,650	4,421,065	4,024,421
Shareholders' equity	4,725,316	4,709,361	5,025,476	3,421,052
OTHER INFORMATION				
Average realised oil and condensate price (US\$/bbl)	45.04	51.36	97.79	110.73
Average realised LNG and gas price (US\$/mmBtu)	6.36	9.44	13.94	–
Net annual oil and condensate production (mmbbl)	8.58	8.89	7.93	5.82
Net annual gas production (bcf) ⁽³⁾	110.46	103.84	57.87	5.51
Total net annual production (mmbbl) ⁽⁴⁾	30.24	29.25	19.27	6.74
Exploration and evaluation expenditure incurred (US\$'000)	151,761	275,699	1,246,939	293,985
Assets in development expenditure incurred (US\$'000)	9,611	135,211	502,566	1,214,615
Producing assets expenditure incurred (US\$'000)	38,250	111,830	105,677	152,600
Operating cash flow (US\$'000)	555,116	952,739	992,304	366,804
Operating cash flow per ordinary share (US cents)	36.46	62.57	65.16	27.39
Diluted EPS (after significant items) (US cents)	5.9	(2.6)	23.8	15.3
Diluted EPS (before significant items) (US cents)	7.0	23.6	32.6	15.4
Ordinary dividend per share (US cents)	3.5	10.0	10.0	4.0
Special dividend per share (US cents)	–	–	4.0	–
Gearing ⁽⁵⁾	40.5%	41.9%	40.8%	52.7%
Return on average shareholders' funds	3.9%	2.2%	8.4%	6.2%
Number of issued shares – ordinary (000's)	1,522,693	1,522,693	1,522,693	1,343,361
SOCIAL RESPONSIBILITY				
Total paid to PNG Government (US\$'000)	68,279	97,843	239,606	234,371
Total invested in sustainable development (US\$'000)	13,934	9,591	7,807	8,170
Total Recordable Injury Rate (per million hours worked)	1.53	1.91	1.97	2.47
Number of significant spills	0	0	0	0
Total greenhouse gas emissions ((ktCO ₂ -e)	941	958	830	898
Greenhouse gas emissions intensity (ktCO ₂ -e /mmbbl)	46	48	55	73
Total number of employees	1,206	1,334	1,701	1,515
Females in senior management (%)	21	18	15	14
PNG nationals in senior management (%)	23	21	16	21

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

(2) Earnings before interest, tax, depreciation and amortisation, impairment and exploration.

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

TEN-YEAR SUMMARY

2012 US\$'000	2011 US\$'000	2010 US\$'000	2009 US\$'000	2008 US\$'000	2007 US\$'000
724,619	732,869	583,560	512,154	814,330	718,755
(112,042)	(93,919)	(87,770)	(84,104)	(92,870)	(93,650)
(88,244)	(53,362)	(24,078)	(18,663)	(23,399)	(26,209)
45,079	138	3,158	14,914	126,145	1,291
569,412	585,726	474,870	424,301	824,206	600,187
(49,457)	(51,307)	(49,874)	(105,416)	(127,230)	(135,939)
(143,970)	(60,633)	(131,188)	(75,729)	(91,234)	(163,324)
–	–	–	–	–	–
375,985	473,786	293,808	243,156	605,742	300,924
(4,557)	(658)	(826)	(3,326)	6,093	22,791
–	–	–	–	–	–
(23,793)	(33,227)	(15,808)	–	(91,530)	129
347,635	439,901	277,174	239,830	520,305	323,844
(171,801)	(237,418)	(91,572)	(106,150)	(206,943)	(185,972)
175,834	202,483	185,602	133,680	313,362	137,872
(22,796)	33,227	(41,488)	(34,058)	(73,396)	3,621
153,038	235,710	144,114	99,622	239,966	141,493
(53,143)	(52,663)	(52,087)	(67,359)	(89,415)	(89,587)
7,102,721	5,702,034	4,370,067	3,077,390	2,005,457	1,833,479
488,274	1,047,463	1,263,589	1,288,077	534,928	343,578
2,866,050	1,747,567	929,720	–	–	–
3,208,346	3,017,232	2,798,467	2,593,181	1,593,227	1,389,132
2012	2011	2010	2009	2008	2007
113.97	116.09	80.19	65.40	100.10	77.78
–	–	–	–	–	–
5.50	5.76	6.77	7.20	7.71	8.98
5.27	5.56	5.35	5.52	5.35	4.80
6.38	6.69	7.66	8.12	8.58	9.78
240,615	144,606	175,980	438,922	257,286	222,391
1,492,529	1,286,542	1,139,058	–	4,214	37,617
111,498	129,396	41,850	142,325	157,584	57,219
196,226	386,193	346,675	284,099	507,423	326,783
14.75	29.3	26.5	24.5	45.3	29.2
13.2	15.3	14.1	11.5	27.8	12.2
11.5	17.9	11.0	8.6	21.4	12.6
4.0	4.0	4.0	4.0	8.0	8.0
–	–	–	–	–	–
42.6%	18.8%	–	–	–	–
5.6%	7.0%	6.9%	6.4%	21.0%	10.1%
1,334,757	1,325,155	1,312,888	1,299,562	1,119,841	1,119,841
300,229	260,497	183,051	143,865	n/a	n/a
6,582	6,303	3,200	3,100	n/a	n/a
2.64	1.85	1.96	1.16	2.04	2.05
0	0	0	0	n/a	n/a
918	1,021	1,105	1,405	n/a	n/a
80	85	78	93	n/a	n/a
1,200	1,124	1,041	970	n/a	n/a
13	10	6	5	n/a	n/a
22	23	23	25	n/a	n/a

- (4) Gas and LNG volumes for 2014 onwards have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.

- (5) Net debt/(net debt and shareholders' funds).

GLOSSARY

\$, \$m, \$bn

Dollars stated in US dollar terms unless otherwise stated.

1C

Low estimate of contingent resources.

1H, 2H

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

1P

Proved reserves.

1Q, 2Q, 3Q, 4Q

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

2C

Best estimate of contingent resources.

2P

Proved and probable reserves.

Appraisal well

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

barrel/bbl

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

bcf/bscf

Billion standard cubic feet, a measure of gas volume.

boe

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

bopd

Barrels of oil per day.

Btu

British thermal units, a measure of thermal energy.

Condensate

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

Crude oil

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

Development well

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

Deviated well

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

EBITDAX

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

EITI

Extractive Industries Transparency Initiative.

FEED

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

FID

Final Investment Decision.

Gearing

Net debt/(net debt 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.

GLOSSARY

LTIR

Lost Time Injury Rate.

MENA

Middle East/North Africa.

mmbbl

Million barrels.

mmBtu

Million British thermal units.

mmscf/d

Million standard cubic feet per day.

MoU

Memorandum of Understanding.

MTPA

Million tonnes per annum (LNG).

Net debt

Total debt less cash and cash equivalents.

PDL

Petroleum Development Licence.

PJ

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

PL

Pipeline Licence.

PNG

Papua New Guinea.

PNG LNG Project operator

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

PPFL

Petroleum Processing Facilities Licence.

PPL

Petroleum Prospecting Licence.

PRL

Petroleum Retention Licence.

PSC

Production Sharing Contract.

Seismic survey

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

scf

Standard cubic feet, a measure of gas volume.

STI

Short-term incentive.

tcf

Trillion cubic feet, a measure of gas volume.

TRIR

Total Recordable Injury Rate.

Definition of reserves and contingent resources

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

Proved reserves

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

Probable reserves

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

Contingent resources

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

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ABOUT OIL SEARCH

Oil Search was established in Papua New Guinea (PNG) in 1929. More than 98% of its assets are in PNG, 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. This world-class liquefied natural gas (LNG) development, which came on-stream in 2014, has transformed Oil Search into a regionally significant oil and gas producer, with a long-term, low cost, high quality LNG revenue stream. The Company also holds a 23% interest in PRL 15, operated by Total SA, which contains the world-class Elk-Antelope gas fields.

Oil Search has a clear strategy to drive future growth. Oil Search is pursuing opportunities to develop additional LNG trains in PNG, underpinned by existing discovered gas resources in the NW Highlands, including the P'nyang gas field in PRL 3, and the Elk-Antelope fields in the onshore Gulf Province. Oil Search believes that there is presently sufficient gas to support at least two PNG LNG-sized expansion trains and possibly three trains, contingent on additional appraisal drilling. The Company is also undertaking a range of exploration and appraisal activities to support further LNG expansion in PNG.

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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