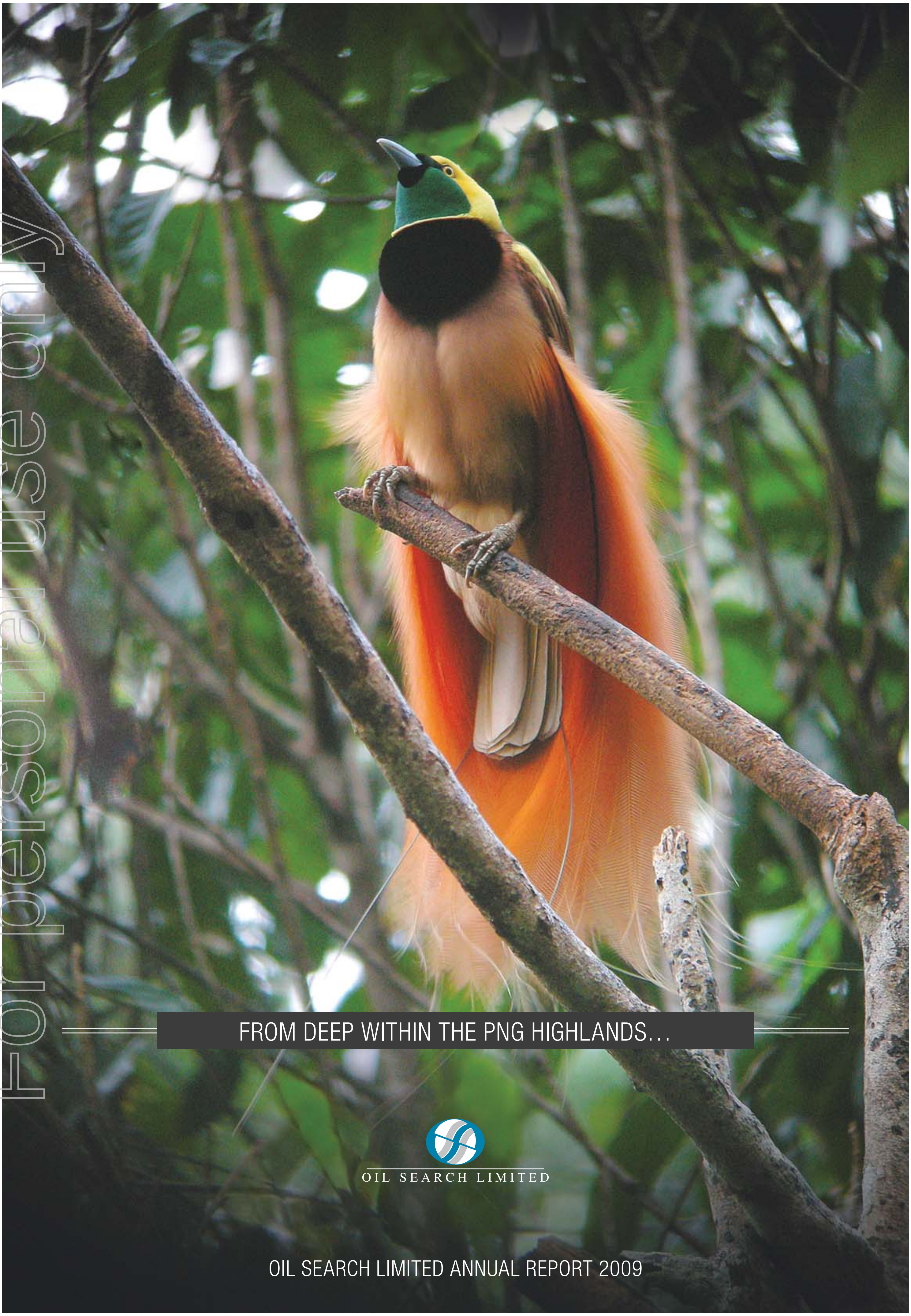

FROM DEEP WITHIN THE PNG HIGHLANDS…

OIL SEARCH LIMITED

OIL SEARCH LIMITED ANNUAL REPORT 2009

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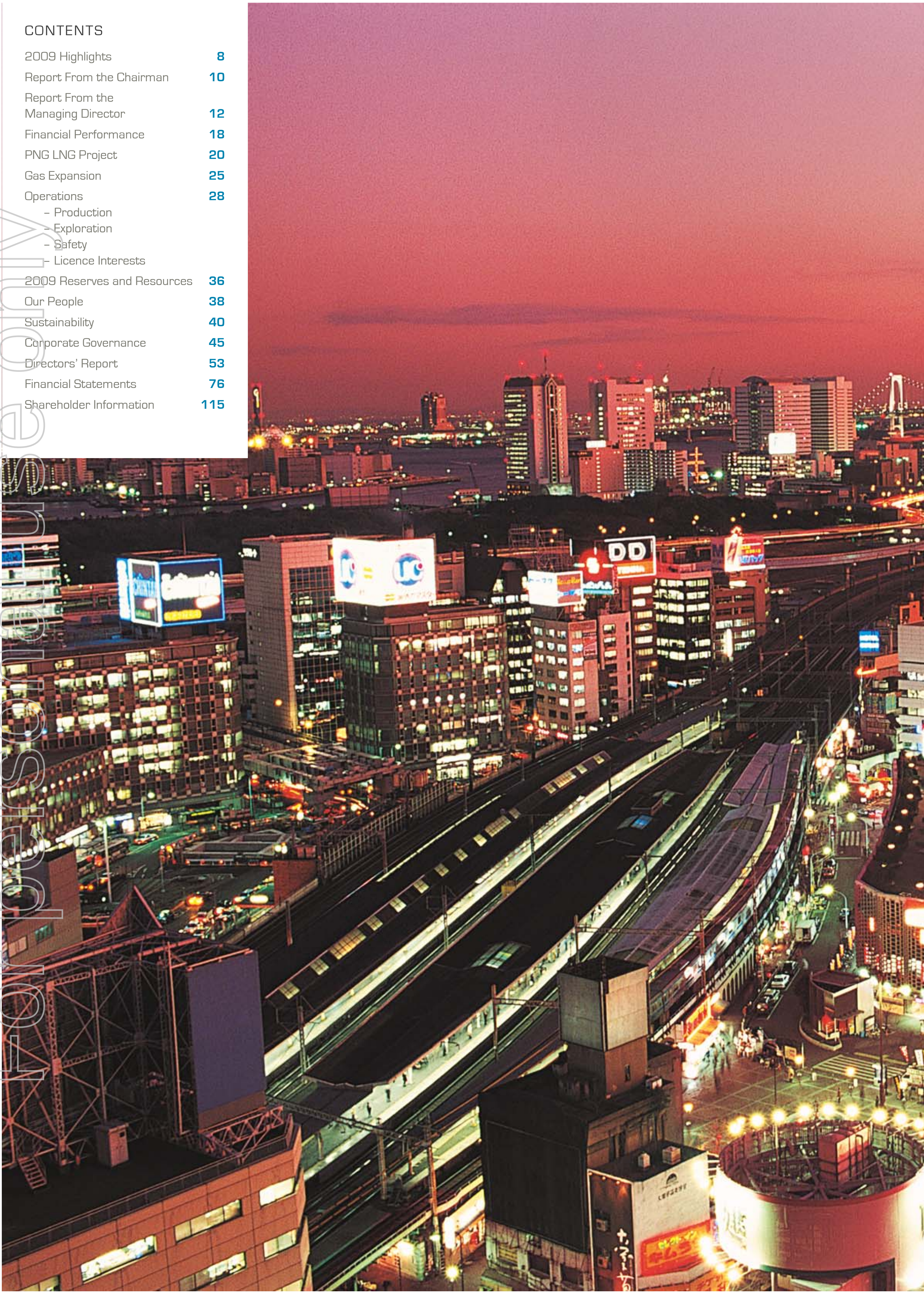
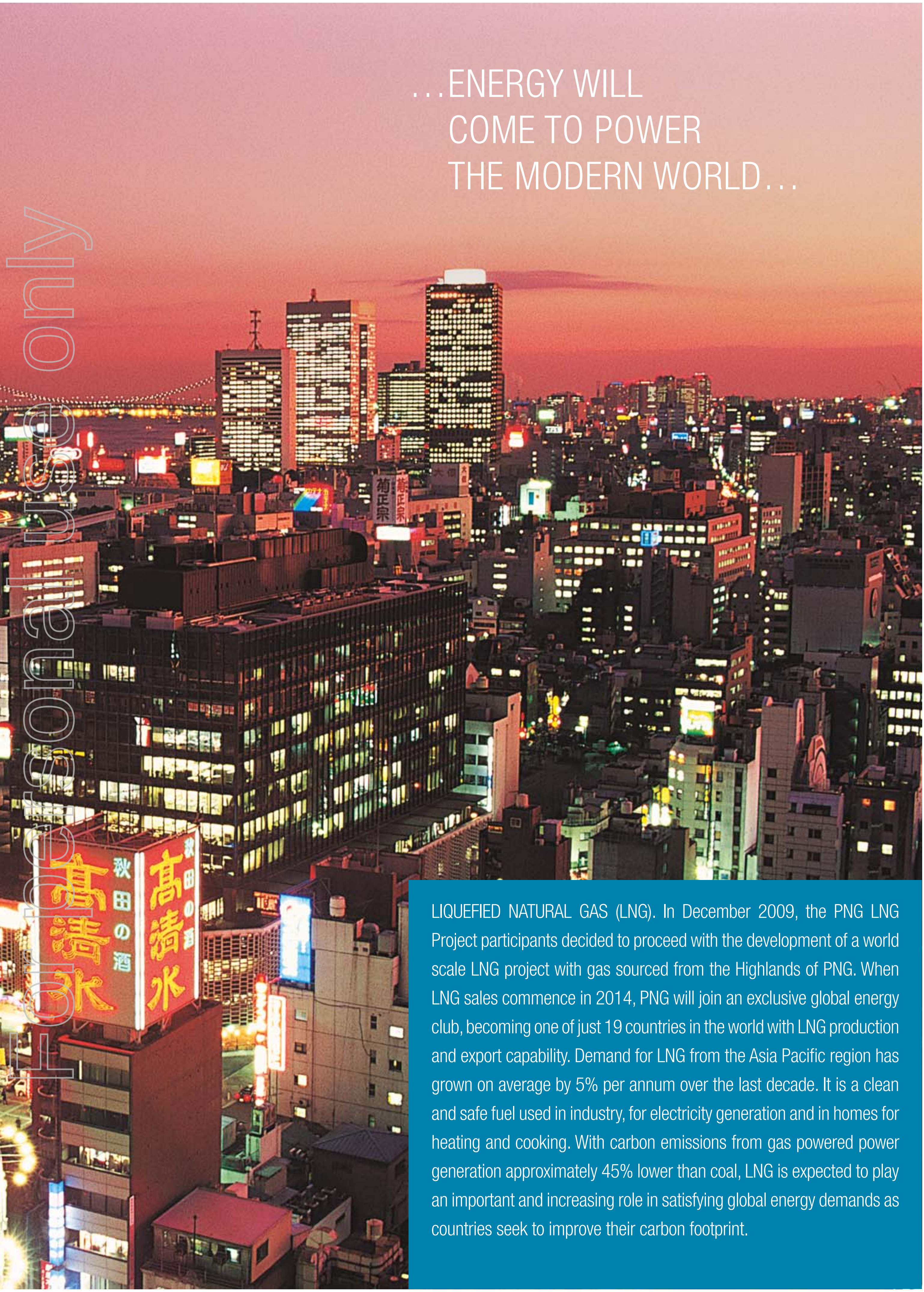
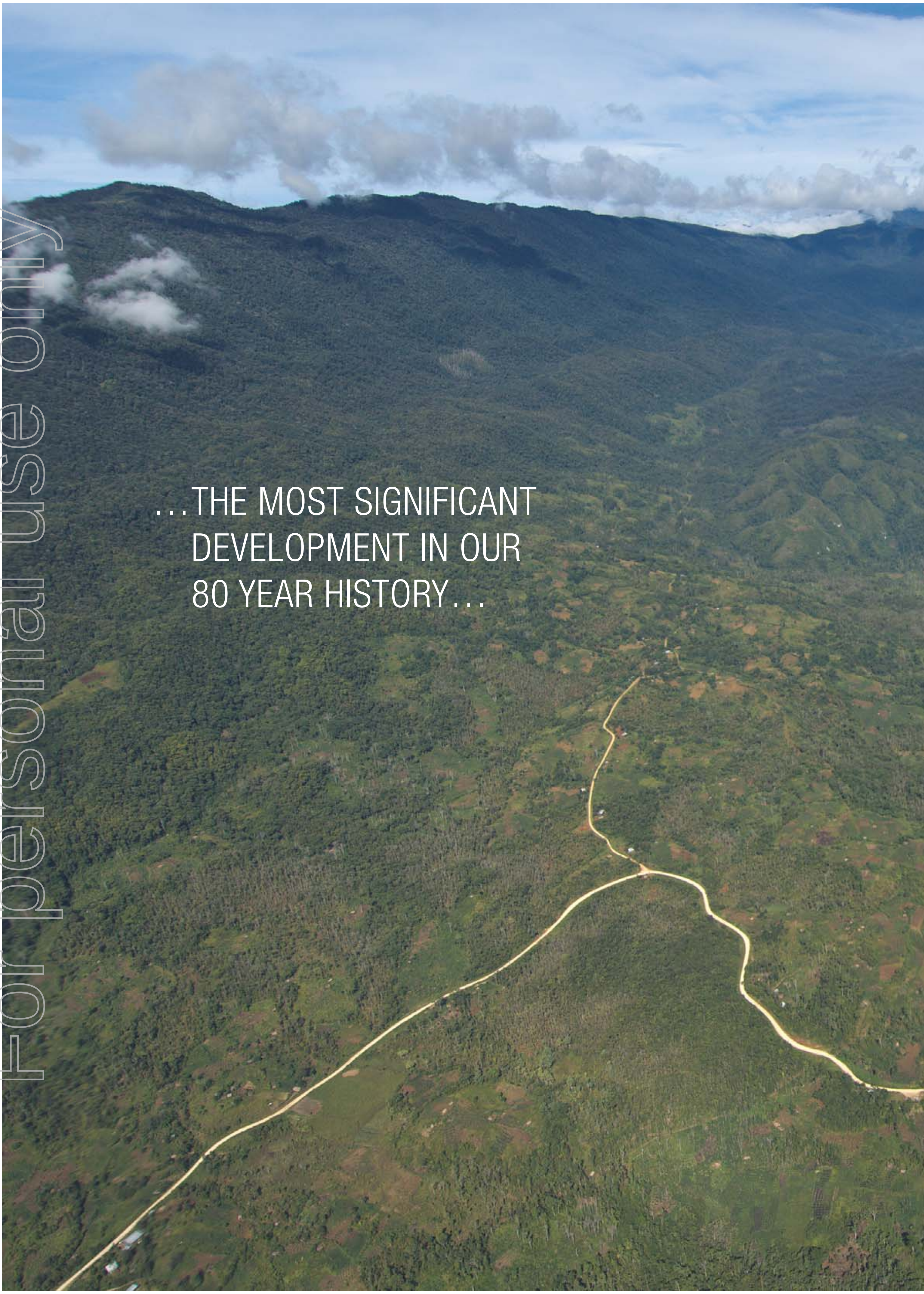
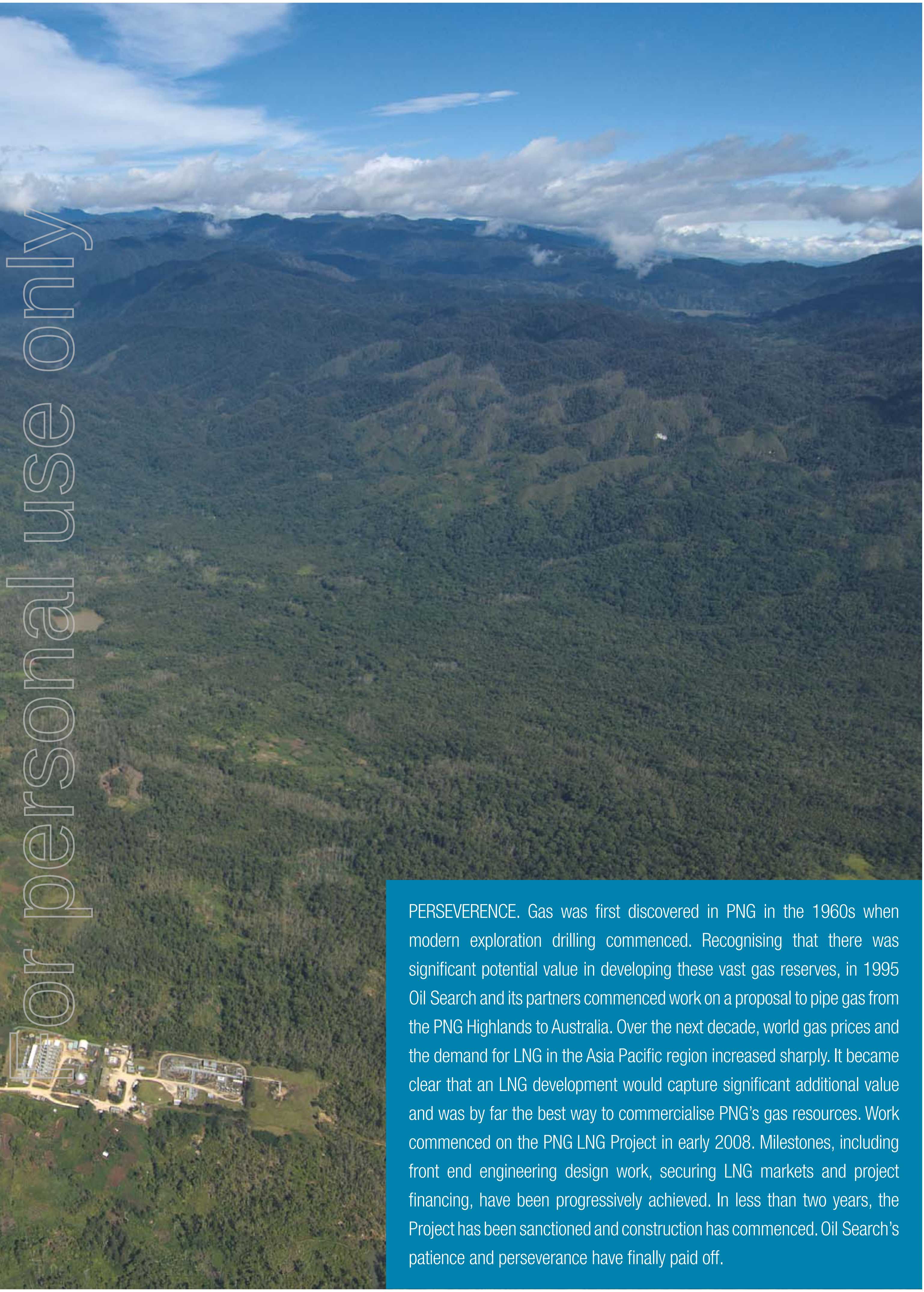


…ENERGY WILL
COME TO POWER
THE MODERN WORLD…

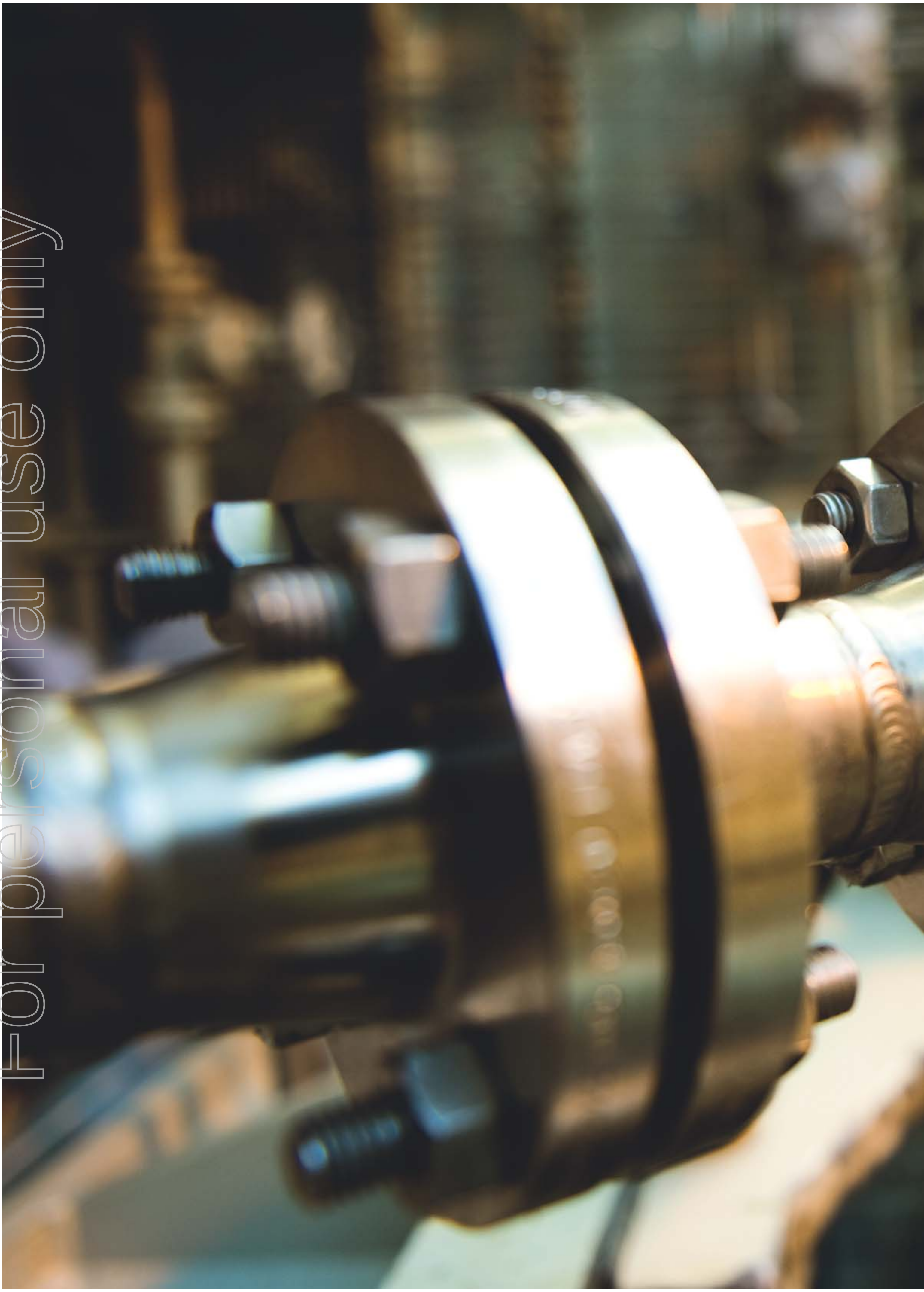


LIQUEFIED NATURAL GAS (LNG). In December 2009, the PNG LNG Project participants decided to proceed with the development of a world scale LNG project with gas sourced from the Highlands of PNG. When LNG sales commence in 2014, PNG will join an exclusive global energy club, becoming one of just 19 countries in the world with LNG production and export capability. Demand for LNG from the Asia Pacific region has grown on average by 5% per annum over the last decade. It is a clean and safe fuel used in industry, for electricity generation and in homes for heating and cooking. With carbon emissions from gas powered power generation approximately 45% lower than coal, LNG is expected to play an important and increasing role in satisfying global energy demands as countries seek to improve their carbon footprint.


…THE MOST SIGNIFICANT
DEVELOPMENT IN OUR
80 YEAR HISTORY…



PERSEVERENCE. Gas was first discovered in PNG in the 1960s when modern exploration drilling commenced. Recognising that there was significant potential value in developing these vast gas reserves, in 1995 Oil Search and its partners commenced work on a proposal to pipe gas from the PNG Highlands to Australia. Over the next decade, world gas prices and the demand for LNG in the Asia Pacific region increased sharply. It became clear that an LNG development would capture significant additional value and was by far the best way to commercialise PNG's gas resources. Work commenced on the PNG LNG Project in early 2008. Milestones, including front end engineering design work, securing LNG markets and project financing, have been progressively achieved. In less than two years, the Project has been sanctioned and construction has commenced. Oil Search's patience and perseverance have finally paid off.



...PNG LNG WILL BRING SUSTAINABLE BENEFITS...

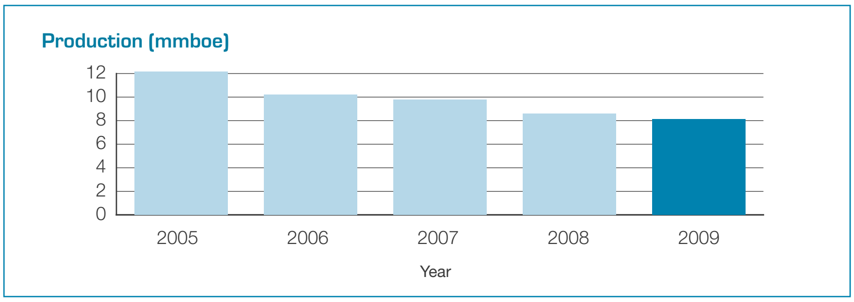
TRANSFORMATION. The PNG LNG Project will transform both Oil Search and PNG. Following the sanction decision, Oil Search has booked proven and probable reserves of 505 million barrels of oil equivalent (mmboe), increasing its reserves position seven-fold. When LNG sales reach plateau, approximately 18 mmboe will be added annually to the Company's production, providing a large, steady cash flow stream for the next 30 years. The economic impact of the PNG LNG Project in PNG will be substantial, with the country's Gross Domestic Product forecast to double and tax revenue expected to total over US$25 billion. The benefits will reach well beyond the direct investment in the country and the tax and equity returns to the PNG Government, as PNG will also gain from new labour and business development opportunities. With the impacts already starting to be felt, the PNG LNG Project will be a major contributor to the PNG economy for many years to come.


…LNG IS THE FUTURE
FOR OIL SEARCH AND
THE PEOPLE OF PNG…

LOOKING FORWARD. The construction of the PNG LNG Project infrastructure will establish an excellent platform for further LNG growth. Existing discovered gas resources in PNG, excluding those dedicated to PNG LNG, are estimated at 9.5 trillion cubic feet (tcf). Oil Search has interests in 4.6 tcf of these resources, 1.6 tcf on a net basis. Given the existing resources and PNG's prospectivity for further gas discoveries, Oil Search believes it is highly likely that sufficient gas will be available to support additional LNG trains in the coming years and that the Company is well positioned to participate in this expansion. The economic advantages of brownfield LNG extensions over new LNG projects are significant and the robust returns available make more LNG trains in PNG compelling. Oil Search plans to undertake an extensive programme of gas exploration and appraisal activities over the next few years, aimed at establishing sufficient certified gas reserves to underwrite at least one more LNG train.

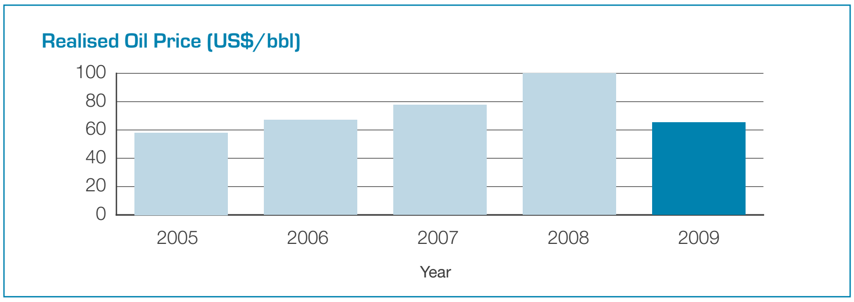
SUCCESS IN SLOWING PRODUCTION DECLINE RATES

Production in 2009 was 8.1 million barrels of oil equivalent (mmboe), 5% lower than in 2008. Oil Search was successful in mitigating the natural decline from the PNG oil fields through focused well management and drilling new development wells.



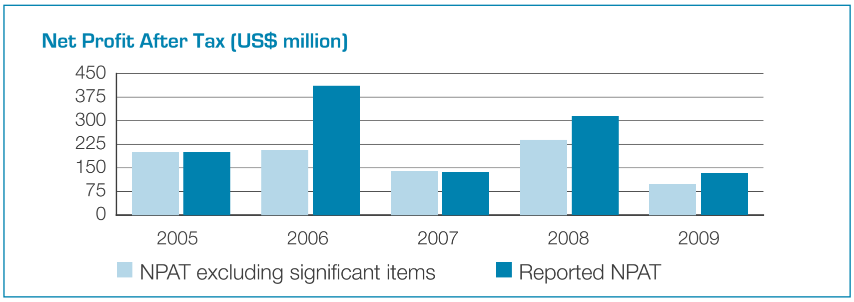
REALISED OIL PRICES SHARPLY WEAKER

The average oil price realised in 2009 was US$65.40 per barrel, 35% lower than in 2008. This reflected weaker global demand for oil as a result of the global financial crisis.



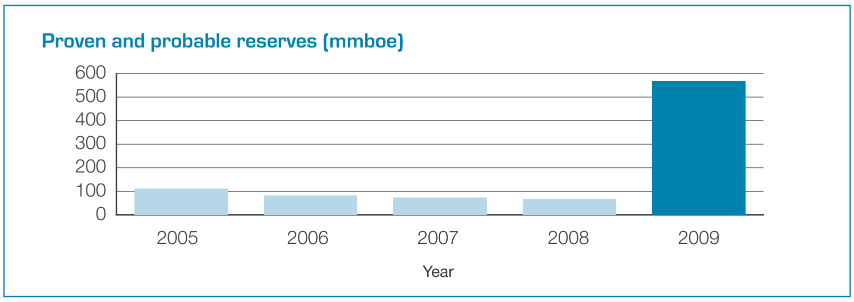
PROFIT IMPACTED BY OIL PRICES, PRODUCTION

2009 reported net profit after tax was US$133.7 million while net profit excluding significant items was US$99.6 million. This was below 2008's record levels, primarily due to lower realised oil prices and lower production.



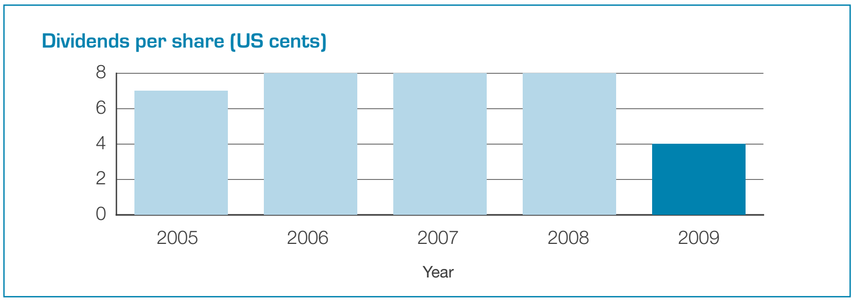
SEVEN FOLD INCREASE IN RESERVES

Following the sanction of the PNG LNG Project, Oil Search booked 505 mmboe of proven and probable reserves. This increased total reserves from 67 mmboe at the end of 2008 to 567 mmboe at the end of 2009.



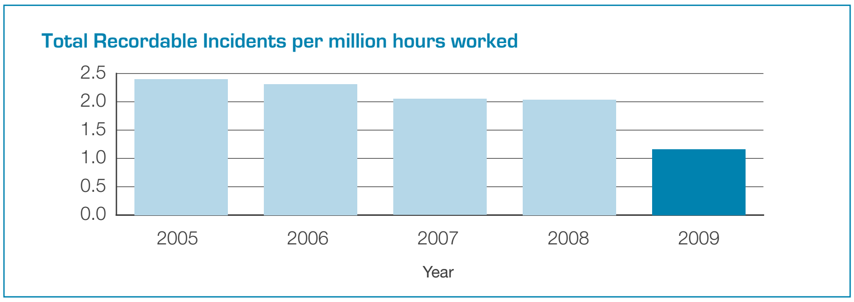
DIVIDEND DECLARED ALIGNED WITH PROFITS

In light of the reduced profits and higher capital requirements of the PNG LNG Project, Oil Search declared dividends totalling four US cents per share in respect of the 2009 financial year. Dividend payments during the period were funded by a fully underwritten Dividend Reinvestment Plan.



WORLD CLASS SAFETY PERFORMANCE

Oil Search's safety performance improved for the fifth consecutive year to an all time low of 1.16 total recordable incidents per million hours worked during 2009. This compares very favourably to the Company's peers, both in Australia and globally.



BRIAN HORWOOD

Brian was appointed Chairman of Oil Search in 2004. Prior to joining Oil Search, Brian worked for 35 years with the Rio Tinto Group, holding executive positions in Australia, the UK and PNG.

2009 was one of the most important years in Oil Search's 80 year corporate life. The decision to develop the PNG LNG Project sets the Company on a new course, with the PNG LNG Project representing by far the largest investment Oil Search has ever made. Despite the challenges of 2009, the Company has emerged from the global financial crisis in a strong position and is very well placed for the major expansion to come.

RESULTS FOR 2009

Net profit after tax in 2009 was US$133.7 million, 57% lower than the 2008 record profit due to lower oil prices and reduced oil sales. Net profit after tax before significant items, which primarily comprised adjustments relating to the PNG Government's back-in to the PNG LNG Project, was US$99.6 million. This was a satisfactory result given the global financial crisis, which continued to affect commodity prices throughout 2009. Although 5% lower than in 2008, the production performance from the mature oil fields was solid and within the Company's guidance range. Actions taken early in the year, including some staff rationalisation, helped reduce the impact of 2009's challenging operating conditions.

BALANCE SHEET STRENGTH

At the end of 2009, Oil Search had a cash balance of US$1.29 billion and no debt. Including the undrawn corporate credit facility, the Company had liquidity of over US$1.6 billion. This strong financial position reflected the receipt of US$900 million from a very successful equity capital raising, a share purchase plan and an underwritten Dividend Reinvestment Plan, together with an internal focus on cash conservation.
Oil Search is now well placed to meet all its equity obligations to the PNG LNG Project and pursue additional LNG growth opportunities concurrently.

DIVIDEND PAYMENTS

In response to the lower level of profitability and in light of the large capital requirements of the PNG LNG Project, the Board approved the payment of a 2009 final dividend of two US cents per share, taking total dividends for the year to four US cents per share, funded by a fully underwritten Dividend Reinvestment Plan. The Board intends to continue to align future dividend levels with half and full year earnings.

PNG LNG PROJECT

The decision to proceed with the PNG LNG Project in December 2009 was an historic occasion for Oil Search. Completing all key milestones on schedule was a major achievement, while securing US$14 billion of debt funding, the world's largest ever project financing, in today's financial markets was particularly pleasing and a testament to the strength of the Project. Project sanction was a result of much hard work from the Operator, ExxonMobil, and the Project participants as well as a range of other stakeholders. The PNG Government made a major contribution to the Project's progress during 2009 and we would like to acknowledge its efforts. Oil Search looks forward to supporting ExxonMobil in delivering this transformational Project, with first LNG sales targeted for 2014.

SAFETY PERFORMANCE

Oil Search's safety performance improved again in 2009, for the fifth consecutive year. The Company now ranks among the world's leading energy companies in providing a safe working environment for its employees and contractors. During 2010, there will be a significant increase in activity levels associated with the PNG LNG Project development, which will present its own challenges. Nonetheless, Oil Search intends to continue to strive for further improvements in the health and safety of its employees.

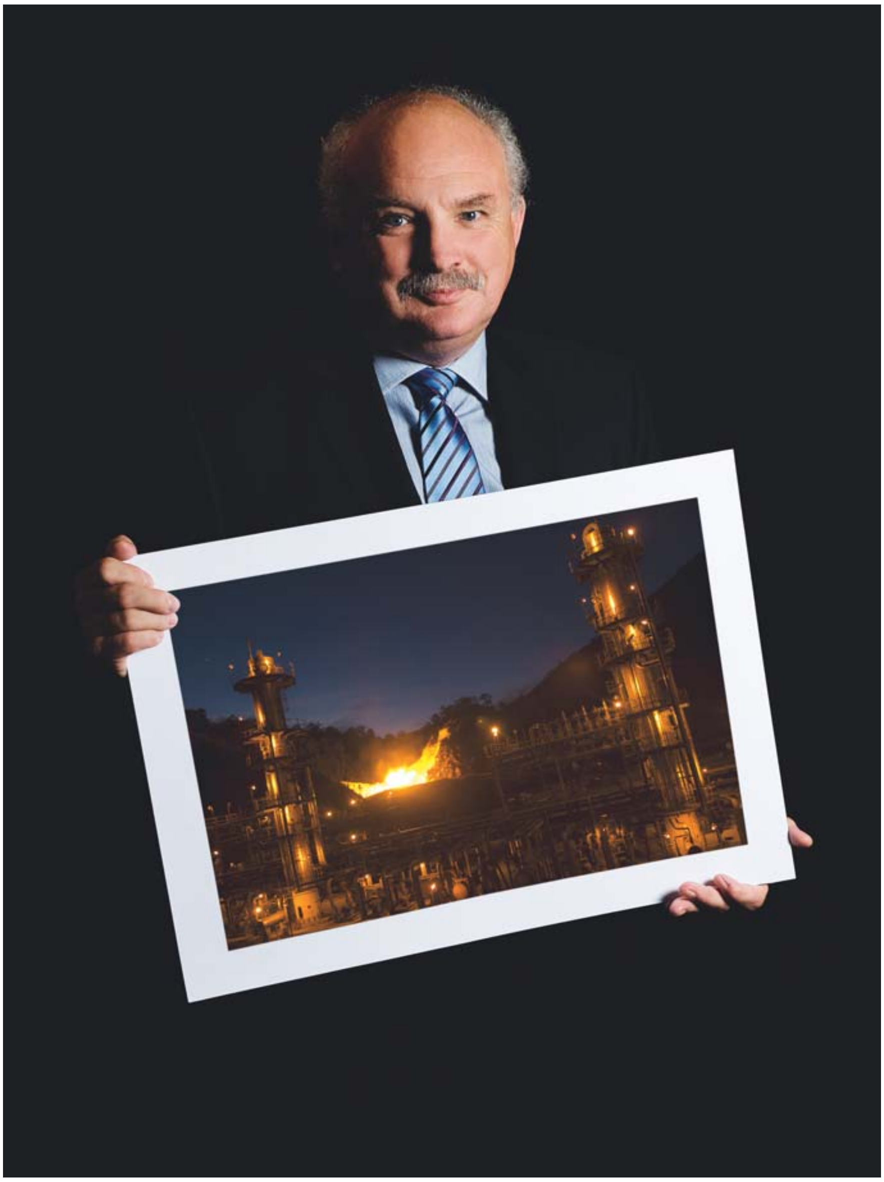
STRATEGIC OUTLOOK

While global economies have started to recover from the recession, the economic outlook in developed nations is still uncertain. Slow economic growth is likely to limit upward movements in the oil price. This, together with the natural decline in production from our existing mature oil fields, will have a direct impact on Oil Search's future earnings. With this backdrop, the Oil Search Board and management undertook a major strategic review in 2009. The key focus of this review was to determine the best means of further growing the Company, both before earnings start to flow from LNG and after. A number of growth options have been identified and plans are now being developed to pursue these opportunities.

STAFF, MANAGEMENT AND BOARD

I would like to acknowledge the enormous effort put in by staff, management and my fellow Board members during 2009.
To reach a sanction decision on the world scale PNG LNG Project in less than two years, and during the global financial crisis, was an outstanding outcome. On behalf of the directors, I would like to thank everyone for their efforts.

> “Insait long 80 pela Krismas bilong Oil Search olsem Kampani, Yia 2009 ikamap wanpela bikpela yia.
>
> 2009 was one of the most important years in Oil Search's 80 year corporate life.”



PETER BOTTEN

Peter joined Oil Search in 1992 and was appointed Managing Director in October 1994. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in listed and government owned organisations.

The highlight of 2009, and possibly the single largest event in the Company's history, was the sanction of the PNG LNG Project on 8 December 2009. Not only will the PNG LNG Project change the fortunes of both Oil Search and the country, it will also provide a sound foundation for a new gas industry, with legacy revenues for all stakeholders for many years to come. With a solid oil business, strong balance sheet and its in-country expertise, Oil Search is well prepared to play its part in assisting the Operator, ExxonMobil, deliver the PNG LNG Project.

Oil Search's key strategic priorities are to ensure delivery of PNG LNG Trains 1 and 2 on time and on budget and to further grow its gas business in PNG, primarily through LNG expansion.

PNG LNG PROJECT SANCTION

The PNG LNG Project was one of only two LNG projects to be sanctioned globally during 2009. Bringing the PNG LNG Project to where it is today has been a massive undertaking. The Project Operator, ExxonMobil, and the other Project participants have worked closely over the past two years with the PNG Government, landowners, and a range of other stakeholders to meet the ambitious Project schedule set in early 2008. The Project has steadily achieved all its major milestones, despite the global financial crisis and a large number of LNG projects competing for markets, resources and finance during this period.

The Project's success in reaching sanction reflects a number of factors:

- **Project Quality.** PNG LNG is a conventional LNG project with an existing liquids rich gas reserves base. Together with attractive fiscal terms, the Project economics are robust.
- **Aligned Joint Venture.** The Project participants have been unanimous in their support of the Project. The Operator, ExxonMobil, has one of the world's best track records for major project delivery, while Oil Search has provided local knowledge and experience in PNG.
- **Supportive Government.** Recognising the profound impact that PNG LNG will have on PNG and its people, the PNG Government has been very proactive in moving the Project forward and supporting all aspects of Project delivery.
- **Market timing.** PNG LNG has the ability to deliver LNG in 2014, when a number of existing LNG projects in the region wind down, a timeframe that few other proposed LNG projects in the region can match.

During 2009, the Project team secured gas customers, completed major engineering and design activities and finalised a range of complex commercial and regulatory agreements to underwrite the commitment to Project construction. The Project also negotiated the world's largest project financing facility, achieved in one of the most difficult financial markets seen in modern history. Within PNG, probably the largest exercise in resource development democracy anywhere in the world was seen when landowners and government representatives met to discuss and agree how the benefits from this Project will be distributed. All the pieces of the PNG LNG Project puzzle came together in the second half of 2009, culminating in the Project sanction decision in December 2009.

PNG LNG PROJECT DELIVERY

With the sanction decision now made, the focus has moved to the next phase of the Project, the construction and delivery of the first LNG cargos. This represents a new set of challenges for the developers, contractors, the PNG Government and landowners. Delivery of gas, on schedule and on budget, is the new target for all stakeholders. Oil Search is confident that ExxonMobil will execute the construction process effectively and efficiently. Managing the inevitable strain on logistics, employment and the economy in PNG is also a major priority and will require careful attention from the PNG Government, the PNG LNG Project participants and landowners. Oil Search has an important role to play in successful Project delivery. The Company's focus is on developing facilities in the oil fields to contribute gas to the Project and handle liquids exports, as well as influencing landowner relationships and benefits distribution in its operating areas.

> “Oil Search istap rere long mekim ol wok kamap long bringim PNG LNG Ges Prosek ikarim kaikai, na tu surukim moa wok bilong ges insait long PNG.
>
> Oil Search is well prepared to play its part in delivering the PNG LNG Project and future gas expansion in PNG.”

2009 CAPITAL RAISING STRENGTHENS BALANCE SHEET

Oil Search continued to strengthen its balance sheet over 2009, with the introduction of an underwritten Dividend Reinvestment Plan and a strong focus on prudent cash management. In mid 2009, in order to further bolster its cash balances in preparation for the PNG LNG Project sanction, the Company agreed in principle to sell an effective interest in PDL 2, including approximately 3.5% in the PNG LNG Project, to International Petroleum Investment Company (IPIC) of Abu Dhabi. Closure of this transaction, however, was delayed and in light of the need to conclude Project debt financing arrangements, the parties agreed to terminate discussions.

Oil Search subsequently completed a successful capital raising, by way of an institutional share placement and a share purchase plan, to ensure it could meet its equity funding requirements for the PNG LNG Project and, at the same time, continue an active programme to further define and develop its gas resources to underwrite further growth in the Company's LNG and gas commercialisation business. The placement was materially oversubscribed and it was pleasing to see such strong support from the existing institutional shareholder base and the entry of a number of new shareholders. IPIC remains strongly supportive of Oil Search and discussions remain ongoing on working together cooperatively in areas of mutual interest.

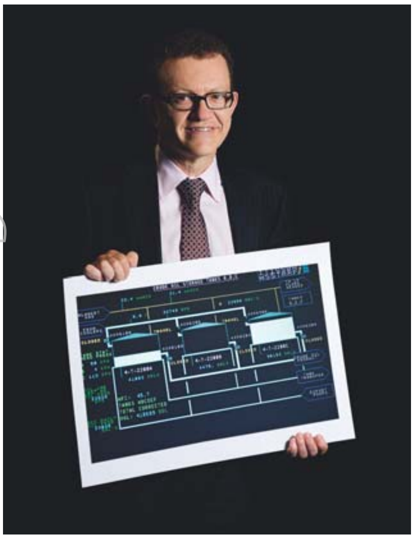
While not the expected outcome, by undertaking the capital raising Oil Search has retained its full interest in the PNG LNG Project, a world class long-term legacy asset, and has sufficient firepower to pursue an active gas exploration and appraisal programme, designed to prove up sufficient contractible gas resources for a third, and possibly fourth, LNG train.

FINANCING OF PNG LNG AND LNG EXPANSION

One of the main achievements of 2009 was the securing by the PNG LNG Project participants of a US$14 billion project finance facility (Oil Search's share US$4.1 billion), negotiated during the global financial crisis. This will comfortably cover the estimated US$13 billion of debt required to fund the Project on a 70% debt, 30% equity gearing basis.

Oil Search's share of the equity commitments to the Project are approximately US$1.4 billion, to be spent over the four year PNG LNG Project construction period. At the end of 2009, the Company had liquidity of over US$1.6 billion, comprising US$1.29 billion in cash and a US$362 million undrawn corporate credit facility. In March 2010, Oil Search received approximately US$300 million from the PNG LNG Project lenders, representing a refund of eligible Project costs already incurred on Front End Engineering and Design (FEED) activities and early works, taking the Company's liquidity to close to US$2 billion.

Together with cash flows from oil operations, this represents more than enough funds to cover all PNG LNG obligations as well as an aggressive two to three year gas exploration and appraisal programme in PNG.



AUSTIN MILLER

Austin joined Oil Search in May 2003, after an 11 year career in investment banking, specialising in the energy sector. Austin's role is to lead all commercial aspects of Oil Search's business, including strategic planning and mergers and acquisitions functions.

CONSISTENT HIGH RETURNS TO SHAREHOLDERS

Oil Search delivered an annualised Total Shareholder Return (TSR), comprising share price appreciation and dividends, of 29.5% for the five years to end December 2009. This makes Oil Search the top-ranking TSR performer out of the ASX 100 over this period (based on the ASX 100 composition at the beginning of 2004). Over a three year period, the Company generated an annualised return of 24.1%, while the TSR over 2009 was 33.5%. Much of this performance reflected the achievement of progressive milestones on the PNG LNG Project, on schedule.

The Company's challenge is to continue to generate top quartile returns for its shareholders, now that PNG LNG Project sanction has been achieved whilst first profit contributions from this Project are still four years away. Oil Search believes there is a high probability that over the next few years, sufficient reserves for an additional LNG train, or trains, will be proven up in PNG. This would add significant incremental value for shareholders and together with the increasing value of the PNG LNG Project as the Company gets closer to first cash flows, is expected to underpin continued material value growth.

VALUE CREATION THROUGH FURTHER GAS GROWTH

As already highlighted, the optic is now firmly on looking for further growth in Oil Search's PNG gas business. The PNG LNG Project is an excellent base from which a world class LNG business can be built in PNG. Based on recent studies, LNG remains the optimal commercialisation route for additional gas and an LNG expansion would be highly value accretive for all stakeholders. A key strategic priority for Oil Search is to now develop additional LNG trains in PNG.

The PNG LNG Project will provide the base infrastructure and capacity to facilitate an LNG expansion. There is expected to be sufficient capacity within the pipeline, jetty, tanks and services to accommodate a third train development. In addition, over the next few years, it is anticipated that several thousand PNG nationals will undertake technical training for the PNG LNG Project, resulting in a well trained local work force.

The PNG Government is highly supportive of future gas growth, particularly as it will be one of the major beneficiaries of an expanded LNG industry in the country, through both tax revenues and its direct equity position in new projects.

The pace of gas growth will be determined by:

- Resource aggregation/exploration
- Joint Venture alignment
- Market access.

With respect to resource aggregation, Oil Search is undertaking two, largely independent, resource development activity streams. The first is focused on increasing proven gas reserves within the development licences in the PNG Highlands that are already committed to the PNG LNG Project. At present, only the existing proven reserves have been contracted to customers and with further proven reserves, there are opportunities to optimise the Project. Work programmes planned and under review over the next three years include appraisal activities to move existing proven and probable gas into the proven contractible category, field development optimisation, 2D seismic acquisition and the drilling of both appraisal and exploration wells on fields and prospects in the Highlands, building to a possible decision on further LNG development in this timeframe.

The second development stream is focused on the appraisal of discovered gas fields and exploration activities in licences largely outside the PNG LNG Project and Highlands area, where there are already material gas resources, in both the proven and proven and probable categories, available to be commercialised. Of particular interest for the Company are the licences adjacent to the PNG LNG Project development, such as PPL 260 which contains the Korka gas prospect, and offshore in the Gulf of Papua. The Gulf of Papua represents a very sparsely explored region, with proven gas prospectivity and with a range of different play types. Importantly, unlike the Highlands of PNG, good quality 3D seismic can be acquired, which will enable potential prospects to be swiftly evaluated. Oil Search is also positioning itself for gas growth through portfolio management, with a number of farm-ins/outs and permit acquisitions taking place in 2009 and with further activity anticipated in 2010.

> "Oil Search kampani i sanap long gutpela hap long mekim wok bilong LNG igo bikpela na tu long kirapim ol narapela wok bilong insait long kantri PNG.
>
> Oil Search is well placed to drive LNG expansion and other gas commercialisation in PNG."

Having an aligned joint venture with the required skills and relationships is critical to driving timely LNG expansion. Oil Search had a range of discussions with other PNG gas stakeholders during 2009 aimed at fostering alignment on the way forward and continues to evaluate optimum partnering strategies.

Despite concerns about the potential for an oversupply of LNG in the Asia Pacific region, due to the plethora of proposed LNG projects on both the east and west coast of Australia, Oil Search believes that LNG train expansion in PNG will have a number of advantages in securing markets and will be highly competitive with other potential developments. These advantages include the ability to leverage off the strong relationships already developed with the PNG LNG Project offtakers, the robust economics offered by a PNG LNG expansion and the attraction to customers of supply diversification.

OIL EXPLORATION ACTIVITY

While the Company's main focus is on exploring for gas, oil exploration activities are also ongoing, both in PNG and in the Company's remaining Middle East/North African (MENA) licences. Of particular interest is the ADT 2 well, which was recently drilled in PNG, aimed at exploration targets located under the existing producing reservoirs of the Agogo oil field. The ADT 2 well discovered oil in these previously untested deeper intervals. While further testing and studies are required to fully assess this discovery, it has opened up a potentially significant new play, which may exist below the other producing oil fields in PNG. Further work on ADT 2 and potential follow-up activity is expected to be fast tracked in 2010.

Two discoveries in MENA, in Iraq and in Yemen, justified the decision in 2008, when Oil Search sold the bulk of its MENA interests, to retain certain of the Company's less mature acreage. Further measured exploration activity in MENA is planned, to evaluate the recent discoveries and other prospective MENA acreage and to maximise asset values. Ongoing programmes in MENA will be reviewed at the end of the present drilling programme in Yemen and seismic activity in Kurdistan, to assess whether MENA still has the potential for material value creation against the growing asset value in PNG.

PROVIDING A SAFE WORK PLACE FOR OUR EMPLOYEES

During 2009, Oil Search's Total Recordable Incident Frequency Rate (TRIFR) improved for the fifth consecutive year, from 2.04 per million hours worked in 2008 to 1.16 per million hours worked. This represents a world class safety performance that the Company is rightly proud of and is a result of a total commitment from all our staff to keep our people safe across all operations and offices. However, safety is not an area for complacency and Oil Search is committed to continually improving its safety procedures and practices and our environmental and sustainability performance.

There will be many new challenges in 2010, with the number of staff and contractors operating in PNG expected to increase sharply, as activities on the PNG LNG Project ramp-up. Oil Search has commenced a range of training and communication programmes to ensure new employees and contractors are aware of Oil Search's safety and environmental policies and expected behaviours.

PROMOTING SUSTAINABILITY

As an operator in a developing country, Oil Search has responsibilities above those applying to companies operating in developed nations. The Company's long established social and environmental activities are closely aligned with the UN's Millennium Development Goals. The Company is an active member of Business For Millennium Development and strongly promotes the Millennium Development Goals within all operating areas. Oil Search's malaria and HIV/AIDS management programmes have been praised by external bodies and are being used as service delivery models for the PNG Government, companies, aid agencies and NGOs in communities across PNG.

Oil Search received ISO14001 accreditation for its environmental management systems in PNG in January 2009. We recognise that we work in areas containing pristine environments and are totally committed to continuous improvement in performance across all our operating areas.

EMPLOYEE COMMITMENT

I would like to join the Chairman in thanking all Oil Search people, who worked tirelessly in 2009, often under less than ideal conditions, on PNG LNG Project activities. It is truly unusual and a real privilege to work as part of a united team, from operations, logistics support, security, community affairs, technical, commercial and finance areas across the Company to help deliver sanction for PNG LNG. It was a personal career highlight to see and be involved in finalising the landowner licence based forum negotiations and see the outstanding contributions made by Oil Search staff in bringing these to a successful conclusion. Make no mistake, these important forums would not have been successfully concluded without a united and concerted effort from our staff, from many areas of the Company. A contribution, especially from our PNG based people that has contributed to their country's history. I sincerely thank all people involved.

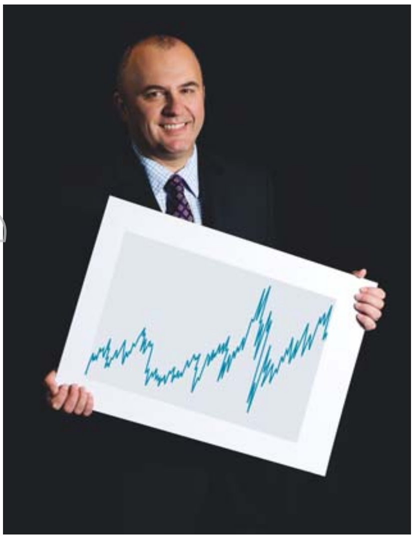
As we move forward to meet the challenges of the future, our people are of vital importance. Given the considerable strain that the PNG LNG Project will put on PNG's human resources, Oil Search has put in place a retention programme for our key national staff, to help ensure the delivery of PNG LNG and growth beyond this Project.

OUTLOOK

2009 was a momentous year. The next few years will be of equal importance, with a range of new targets, objectives and challenges. Oil Search's future value growth is expected to be driven by:

- The delivery of PNG LNG, on schedule and on budget.
- PNG LNG Project optimisation.
- Further LNG train development.
- Continued reserve growth and exploration success.
- Safe and sustainable oil operations.

Oil Search has never been in better shape. It has a major stake in a world class LNG project that will provide revenues for many years to come. It has delivered this without dilution of its equity holding. Oil Search will play a major part in the successful delivery of PNG LNG, with an important role in supporting the operator, ExxonMobil, in managing crucial relationships with landowners, Government and other stakeholders in PNG. The Company has a number of very active programmes to build on the foundations of PNG LNG and will undertake a large programme of appraisal and exploration over the next two to three years which we are confident will deliver a resource base to underwrite further LNG expansion in a timely way. The Company has unprecedented Balance Sheet strength, not just to underscore the PNG LNG development but to also carry out its ambitious growth programmes. We also have the people to continue to deliver value for our shareholders in a responsible and sustainable way. We have passed some important landmarks and we now look forward to the challenges of seeing PNG LNG through to production and delivering substantial further growth.



ZLATKO TODORCEVSKI

Zlatko became Chief Financial Officer of Oil Search in June 2009 after a 23 year career with BHP Billiton where he held executive finance and planning roles in Australia, the UK and the US.

Oil Search delivered a solid operating and financial performance in 2009 despite difficult market and economic conditions. The Company's strong balance sheet provided good support for securing funding for the PNG LNG Project, with the Project Finance Agreements signed in December 2009, and Financial Close occurring in March 2010. At the end of 2009, Oil Search was in an excellent financial position, with liquidity of over US$1.6 billion.

HIGHLIGHTS

Oil Search reported a net profit after tax (NPAT) for 2009 of US$133.7 million. NPAT excluding significant items, which comprised adjustments relating to the PNG Government's back-in to the PNG LNG Project licences and tax benefits triggered by the PNG LNG Project sanction, was US$99.6 million. Profits were lower than the record 2008 result, primarily due to a 35% fall in the realised oil price and 7% lower oil sales. In addition, the Company was impacted by localised cost pressures in PNG.

Despite challenging external factors, those pressures were mitigated by active cost management, which resulted in a strong operating margin (earnings before interest, tax, depreciation and amortisation and exploration expense over revenue) of 80%.

During the year, Oil Search successfully completed an institutional placement, which was materially oversubscribed, and a Share Purchase Plan. Together with the underwritten Dividend Reinvestment Plan, a total of US$900 million was raised, adding to the Company's existing net cash position. Including its undrawn corporate borrowing facility, Oil Search had total liquidity of over US$1.6 billion at the end of 2009. The strength of the Company's balance sheet places Oil Search in an excellent position to fund its PNG LNG Project equity commitments as well as aggressively pursue additional LNG growth options in PNG.

Total dividends declared in 2009 were four US cents per share. Payments were supported by a fully underwritten Dividend Reinvestment Plan. The Board has indicated that future dividend payments will remain aligned with earnings.

FINANCIAL PERFORMANCE

YEAR TO 31 DECEMBER		2005	2006	2007	2008	2009	% CHANGE 08/09
Oil and gas production	(mmboe)	12.18	10.20	9.78	8.60	**8.12**	-5
Net oil sales	(mmbbl)	10.84	9.18	8.71	7.46	**6.95**	-7
Realised oil price	(US$/barrel)	58.06	67.22	77.78	100.10	**65.40**	-35
Revenue from operations	(US$ million)	664.0	644.5	718.8	814.3	**512.2**	-37
Operating costs, other income/expense		(110.2)	(99.8)	(120.5)	(116.3)	**(102.8)**	-12
EBITDAX		553.8	544.7	598.2	698.1	**409.4**	-41
EBIT		421.7	395.0	299.0	479.6	**228.2**	-52
Profit after tax including significant items		200.2	412.0	137.9	313.4	**133.7**	-57
Profit after tax excluding significant items		200.2	207.5	141.4	240.0	**99.6**	-59
Diluted earnings per share including significant items	(US cents)	17.8	36.6	12.2	27.8	**11.5**	-59
Basic earnings per share excluding significant items		17.9	18.5	12.6	21.4	**8.6**	-60
Dividends per share		7.0	8.0	8.0	8.0	**4.0**	-50
Operating cash flow	(US$ million)	357.7	399.0	326.8	507.4	**284.1**	-44
Net cash/(debt)		86.2	477.9	343.6	534.9	**1288.1**	+141

Notes:

(1) In accordance with IFRS 8 "Accounting Policies Changes in Accounting Estimates and Errors", prior year comparatives have been restated where applicable.

(2) Totals may not add due to rounding.

At the end of 2009, proven (1P) and proven and probable (2P) reserves of 300.6 and 505.4 mmboe respectively were booked in recognition of the sanction decision on the PNG LNG Project in December 2009. This will result in a significant reduction in amortisation rates in 2010.

2009 PERFORMANCE

Revenues

Revenue from operations decreased 37% to US$512.2 million in 2009. Revenue from product sales was 39% lower than in 2008, driven by lower oil prices and a decrease in oil sales, while other revenue fell 15%, primarily due to a decline in third party drilling rig income.

Total oil and gas production in 2009, net to Oil Search, was 8.12 mmboe, 5% below 2008 levels but in line with expectations. The drop reflected natural decline in the PNG oil fields, facilities downtime and the sale of the Company's MENA assets in mid 2008, partly mitigated by continuing development drilling and well workover activity.

Oil sales were 6.95 million barrels, 7% lower than in 2008, reflecting reduced production levels. At 31 December 2009, Oil Search's crude inventory closing position was 0.22 million barrels. Gas sales from the Hides field for electricity generation were 5.65 billion cubic feet, an increase of 4% on 2008, reflecting increased demand from the Porgera gold mine.

The average realised oil price for the year was US$65.40 per barrel, 35% lower than the average price realised in 2008 of US$100.10 per barrel. Oil Search did not undertake any hedging activities during 2009.

Costs

Operating costs totalled US$102.8 million in 2009, 12% lower than 2008. This decrease was in part due to the 5% reduction in production. However, costs also benefited from a range of field and corporate cost management initiatives and fell despite localised inflationary pressures in PNG.

Non-cash costs

Non-cash charges, including depreciation, amortisation and site restoration, fell from US$127.2 million in 2008 to US$105.4 million. This reduction reflected lower sales volumes combined with a more favourable mix of production towards fields with lower amortisation rates.

Exploration and Evaluation expense

During 2009, Oil Search spent US$438.9 million on exploration, evaluation and new venture activities. This included US$314.9 million on gas commercialisation activities, comprising primarily PNG LNG Project expenditure.

In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work, new venture activities and other support costs related to exploration activity were expensed, resulting in a pre-tax charge of US$75.7 million, compared with US$91.2 million in 2008. The write-off included US$47.7 million relating to expenditure on the Caliph well in Libya.

Taxation expense

Tax expense of US$106.2 million was 49% lower than in 2008 reflecting lower operating earnings. The effective tax rate was 44%, or 56% on profit before significant items, higher than the 2008 rates of 40% and 50% respectively, as a large proportion of exploration expensed for 2009 was related to activities in the Middle East, the costs of which are non-deductible for tax purposes. These non-deductible costs were partially offset by PNG tax credits relating to prior periods.

Cash flows

The decrease in net operating cash flow from US$507.4 million in 2008 to US$284.1 million in 2009 was primarily due to the impact of lower realised oil prices and lower sales volumes.

In 2009, Oil Search's net investing cashflow included:

- Expenditure of US$324.2 million on exploration and evaluation, including gas commercialisation (US$250.9 million in 2008).
- US$138.8 million on producing and development activities (US$168.0 million in 2008).
- US$6.7 million on property, plant and equipment (US$25.8 million in 2008).

During 2009, the Company introduced a Dividend Reinvestment Plan.

Liquidity

At the end of 2009, Oil Search had no debt and US$1.288 billion in cash, including joint venture balances.

During the year, the Company undertook an equity placement which raised A$895 million. A Share Purchase Plan (SPP) raised an additional A$40 million. Proceeds from the placement and SPP after fees and other charges were converted into a total of US$847 million. The cash raised will assist Oil Search in funding growth opportunities as well as meeting its equity obligations for the PNG LNG Project.

In October 2008, Oil Search finalised a US$435 million five year revolving credit facility. The facility remains in place and was undrawn with an available balance at 31 December 2009 of US$362.5 million.

On 15 December 2009, Oil Search, along with its co-venturers, signed the PNG LNG Project Financing terms. US$14 billion of commitments from lenders were secured, more than sufficient to meet the estimated US$13 billion of debt required for the Project, on an agreed 70%:30% gearing basis. Financial Close on the PNG LNG Project Financing took place in March 2010.

FINANCIAL OUTLOOK

Oil Search is continuing to focus on maximising returns from its oil assets while recognising the need to ensure the longevity and reliability of these assets, as their remaining useful lives are extended to support the PNG LNG Project. Additional expenditure to extend the operating life of the oil assets is expected and exploration and appraised activities accelerated in order to deliver additional LNG growth in an optimised timeframe.

A significant reduction in oil field amortisation rates is anticipated in 2010 due to the recognition of reserves associated with the PNG LNG Project and the consequent spreading of oil field capital costs over a much larger reserves base. This will be partly offset by increased operating costs, reflecting higher well workover activity increased in-country cost pressures as PNG LNG activity ramps up, lower production and sustained higher Australian dollar and Kina exchange rates.

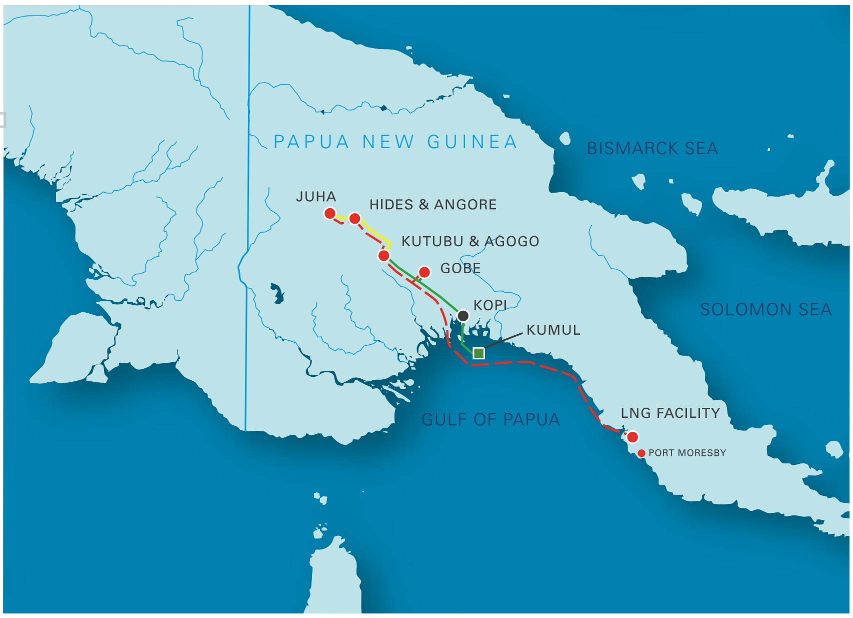
PHILIP BAINBRIDGE

Philip joined Oil Search in early 2006 after a 22 year career with BP. He is responsible for managing Oil Search's participation in the PNG LNG Project, working closely with the other partners in the Project.

On 8 December 2009, the PNG LNG Project participants, led by operator Exxon Mobil, decided to proceed with the development of the PNG LNG Project. Debt financing for the Project was secured in March 2010 and construction has now commenced. Reaching sanction on this world scale LNG project in less than two years in a very challenging financial environment is a major achievement. The Project will transform Oil Search into a significant LNG exporting company, with first LNG deliveries targeted for 2014.

The PNG LNG Project has a material impact on Oil Search:

- Following the decision to proceed with the development, Oil Search has booked 505 million barrels of oil equivalent (mmboe) of proven and probable (2P) reserves, resulting in a seven-fold increase in its 2P reserves position.
- When the Project reaches plateau production in 2015, it will add approximately 18 mmboe per annum to the Company's total production.
- The Project provides robust financial returns and will deliver a strong and stable long-term cashflow for the Company from 2014 onwards.
- The Project development will provide significant infrastructure and the LNG plant site can accommodate future trains.
- Oil Search will maintain its role as the Operator of the oil fields producing associated gas and the liquids export system.



PNG LNG PROJECT OVERVIEW

The PNG LNG Project is a 6.6 million tonne per annum (MTPA) integrated LNG project operated by Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation. The gas will be sourced from the Hides, Angore and Juha gas fields and from the Kutubu, Agogo, Moran and Gobe Main oil fields (the associated gas fields), located in the Southern Highlands and Western provinces of PNG. Over 9 tcf of gas and 200 million barrels of associated liquids are expected to be produced over the Project life.

The gas will be conditioned in the PNG Highlands and then transported by pipeline to an LNG plant located approximately 20 kilometres northwest of Port Moresby. The gas will be liquefied at the plant and then loaded onto ocean going tankers to be shipped to international gas markets.

The development will be undertaken in a number of phases. The initial phase will comprise the following:

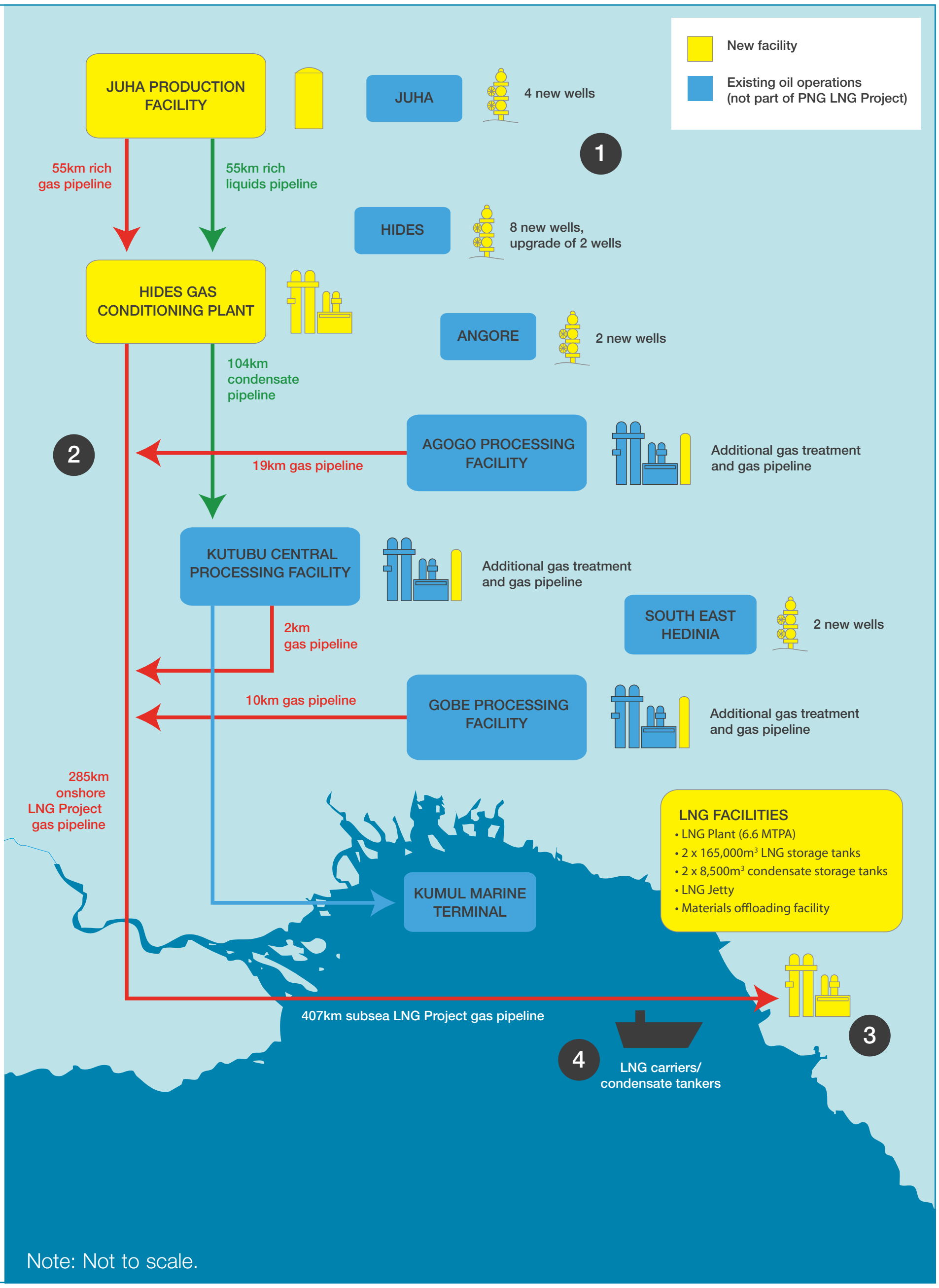
- The construction of the Hides Gas Conditioning Plant (HGCP), which will collect and separate gas and associated liquids from the Hides, Angore and Juha fields. The HGCP will have a capacity of 960 million cubic feet per day (mmcf/d), capable of producing up to 100% of the LNG plant feed gas requirement.
- The drilling of eight new and two re-completed wells at Hides and two new wells at Angore.
- The construction of a new airstrip at Komo near Hides.

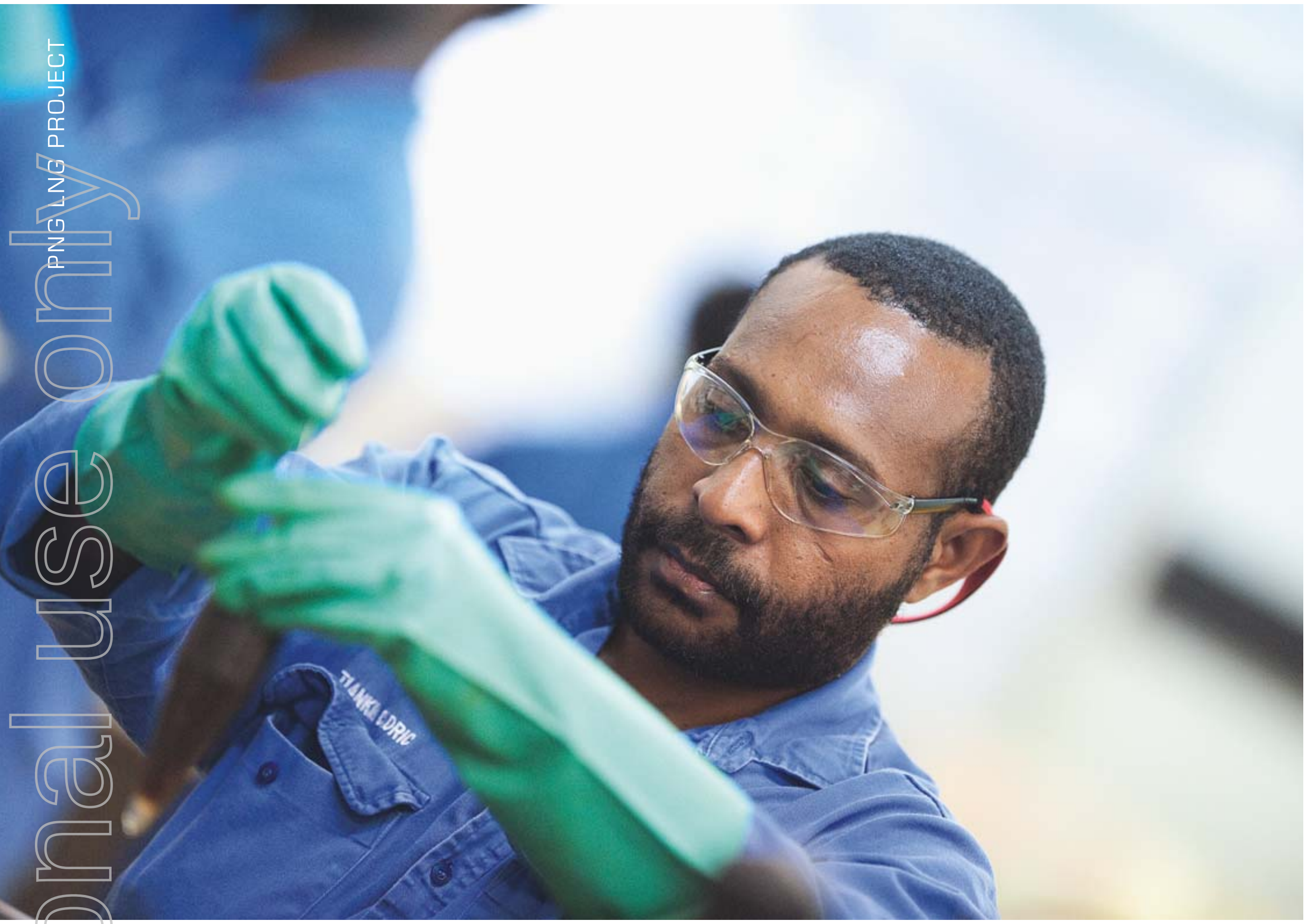
- The construction of the following pipelines:
  - A 19 kilometre onshore pipeline from Angore to the HGCP.
  - A 285 kilometre onshore gas pipeline from the HGCP to Omati on the coast of the Gulf of Papua.
  - A 104 kilometre onshore condensate pipeline from the HGCP to Kutubu, to link in with the existing oil export pipeline.
  - A 407 kilometre subsea pipeline from the landfall at Omati to the LNG Plant in Port Moresby.

  All pipeline routes have been selected to avoid inhabited areas, sacred or archaeological areas and critical wildlife habitat.
- Modifications to the associated gas fields to provide pipeline specification gas, metering and tie-ins to the onshore gas pipeline.
- The installation of a new commissioning gas skid at Kutubu for the initial filling of the LNG gas pipeline and commissioning of the LNG plant.
- Upgrades to the current oil storage at Kutubu and Gobe and to the existing liquids export system to extend life and increase reliability.
- The construction of a two train LNG plant near Port Moresby and associated facilities. The 700 hectare LNG plant site is relatively flat, has a protected harbour and close proximity to the deep water required for LNG tankers. The LNG plant will utilise APCI technology. Two 160,000 m³ LNG storage tanks will be constructed and the marine facilities will allow access for LNG tankers with capacities ranging from 125,000 m³ to 220,000 m³.
- The Project will lease four LNG ships from Mitsui O.S.K. Lines, Ltd. for the portion of LNG sales which are being sold on a delivered basis.

The main parts of the Project are:

1. **Producing and preparing the gas**. Facilities at Hides and Juha will process raw gas from several production wells in the Southern Highlands and Western Provinces.
2. **Transporting the gas**. Via a buried pipeline overland from Hides to the Omati River landfall and then subsea to the LNG plant north-west of Port Moresby.
3. **Liquefying the gas**. A 6.6 MTPA capacity LNG plant near Port Moresby.
4. **Shipping the gas**. Specially built LNG tankers transport the liquefied gas to international customers.





The total cost for this initial phase is estimated at US$15.0 billion excluding shipping but including pre-start up operating costs and past Front End Engineering and Design and early works costs. With a four year construction period, LNG deliveries are expected to commence in 2014. The Project will have an expected operational life of 30 years.

Following back-in by the PNG Government to the Project, participating equity interests are as follows:

COMPANY	PNG LNG PROJECT INTEREST
ExxonMobil	33.201%
Oil Search	29.003%
Santos	13.532%
Nippon Oil Exploration	4.680%
PNG Government	16.575%
Mineral Resources Development Company (PNG landowners)	2.805%
Petromin PNG Holdings Limited (wholly owned by the PNG Government)	0.204%
Total	100.00%

These equities will be reviewed after production commences.

MILESTONES ACHIEVED IN 2009

LNG Sales Contracts Secured

Full scale marketing activities for the PNG LNG Project, which commenced in 2008, continued during 2009. In December 2009, binding Sale and Purchase Agreements (SPAs) were concluded for the supply of LNG to three major LNG customers, Sinopec from China and Tokyo Electric and Osaka Gas from Japan. Subsequently one further SPA was finalised, with CPC of Taiwan. SPAs now cover the full initial output of the LNG plant.

All the PNG LNG Project customers are high quality, major industry players. Tokyo Electric, Osaka Gas and CPC are well regarded, long standing buyers of LNG in the region. The contract with Sinopec represents an opportunity to supply to China, one of the highest growth markets in the world. PNG LNG is pleased to be Sinopec's foundation LNG supplier.

CUSTOMER	COUNTRY	VOLUME (MTPA)
Sinopec (China Petroleum and Chemical Company)	China	2.0
Tokyo Electric Power Company (TEPCO)	Japan	1.8
Osaka Gas	Japan	1.5
CPC	Taiwan	1.2
Total		**6.5**[(1)]

(1) The aggregate SPA quantity of 6.5 MTPA represents the full 6.6 MTPA base load production of the Project after adjusting for transportation boil off.

Benefits Sharing Agreements Concluded

Due to the complexity of the Project, the agreements covering how a number of the PNG Government's and landowners' Project revenue streams will be shared were completed in two separate tranches. The revenue streams include royalties, development levies and direct Project equity with a value estimated at 15-20 billion Kina (US$5.8 – 7.8 billion) over the 30 year Project life.

In May 2009, the PNG LNG Umbrella Benefits Sharing Agreement (UBSA) was executed. The negotiation of the UBSA was a major undertaking involving some 2,000 people over five weeks. The UBSA is an overarching agreement that sets out how benefits, including Government funded infrastructure, will be split between the development licences, pipeline licences and the LNG plant site and provincial and local level governments. Two areas of particular focus in the negotiations were how the PNG Government will share its Project equity interest with landowners and infrastructure grants. The outcome of the negotiations was that a 7% Project equity interest was granted to landowners and provincial governments, comprising 2% free equity in new licences, existing licence equity and 4.22% provided via an option exercisable in 2016. The infrastructure grants include a commitment by the Government to spend 1.2 billion kina (US$0.5 billion) on designated roads, bridges, airports, a port and townships over the next 10 years.

In December 2009, the individual Licence Based Benefits Sharing Agreements (LBSAs) were finalised. These multiple agreements set out how landowners along the pipeline route and at the LNG plant site will share the Project's future revenue streams within each licence area.

Award Of Construction Contracts

In June 2009, the PNG LNG Project participants decided to commence early works activities on the Project. The operator, ExxonMobil, awarded the early works contract, comprising the construction of key roads, bridges, ports and camps, to a Clough/Curtain joint venture. These construction activities commenced in the second half of 2009.

Following the sanction of the Project in December, the following major Engineering, Procurement and Construction contracts were awarded:

- The offshore pipeline contract to Saipem.
- The LNG Plant contract to Chiyoda and JGC Corporation.
- The Hides Gas Conditioning Plant contract to CBI Clough JV, an incorporated joint venture between CBI, Oil & Gas Europe BV (65%) and Clough Projects International Pty Ltd (35%).
- The onshore pipeline to SPIECAPAG.
- The support infrastructure to MCJV, a joint venture comprising McConnell Dowell and Consolidated Contractors Group Offshore.

In addition, Oil Search awarded an engineering, procurement, construction and management contract to Aker Solutions for the construction of the facilities to deliver gas from the existing oil fields to the PNG LNG Project.

NIGEL HARTLEY

Nigel joined Oil Search in 1991 following extensive involvement with the Company as an accountant in PNG. Formerly Oil Search's Chief Financial Officer, Nigel is responsible for arranging the very considerable financing required for the PNG LNG Project

Project Financing Secured

The PNG LNG Project financing agreements were signed by the Project participants and lenders in December 2009. A total of US$14 billion of commitments from lenders were secured, which is more than sufficient to meet the US$13 billion of debt estimated to be required for the Project on the agreed 70%:30% debt:equity basis.

The financing comprises US$8.3 billion of commitments from key export credit agencies, including US Exim, JBIC and NEXI from Japan, China Exim, SACE from Italy and EFIC from Australia, US$1.95 billion of uncovered commitments from a syndicate of 17 commercial banks and the balance, US$3.75 billion, from ExxonMobil.

Financial Close was achieved in March 2010 and first draw down of debt followed shortly after. This was accompanied by the refund from the lenders of approximately US$300 million of eligible Project costs already incurred by Oil Search. The success of the financing demonstrated very strong support for the PNG LNG Project, the country and Oil Search from a broad range of government and commercial lenders.

Equity contributions will be made by each of the participants individually. Oil Search's remaining equity contribution after FEED and early works is expected to be approximately US$1.4 billion, which will be funded from existing cash, oil cash flows between 2010 and 2014 and corporate borrowing if required.

Environmental Management Plan Approved

In October 2009, the PNG Government Department of Environment and Conservation approved the Project's Environment Impact Statement (EIS). The EIS identifies the potential impacts on the environment and the people of the Project area and defines how the Project will manage and mitigate these impacts.

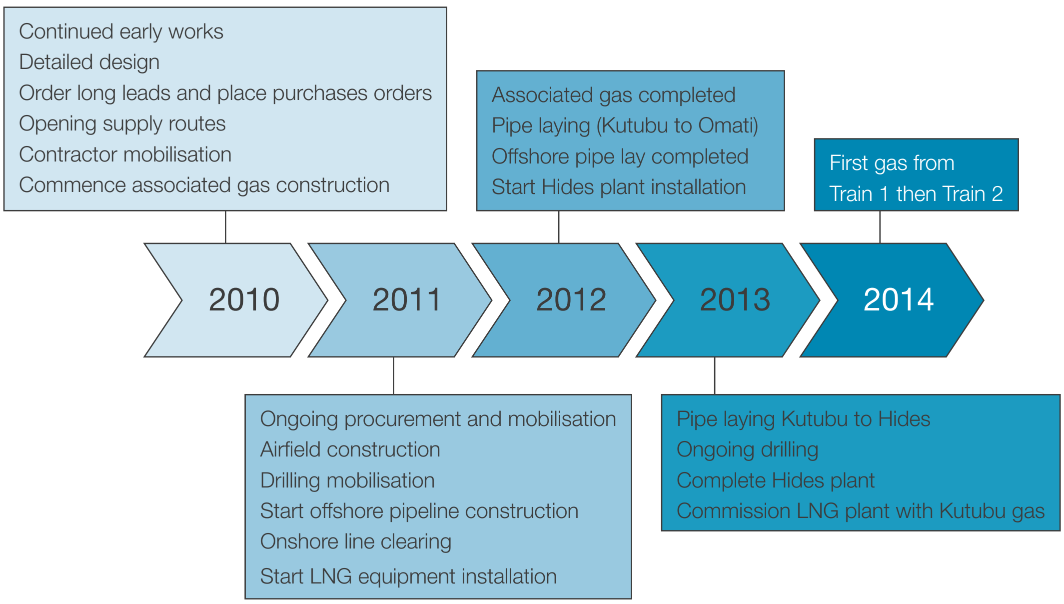
The EIS, which comprises more than six thousand pages and drew upon 26 supporting studies, took nearly two years to complete. It is the most detailed and definitive environmental assessment ever completed in PNG.

The social, cultural and economic objectives of the PNG LNG Project, which are incorporated in the EIS, are to deliver a Project that will benefit local and wider communities with minimal impact on the environment.

OIL SEARCH'S FUTURE ROLE IN PNG LNG

During 2009, Oil Search played an important role in supporting the Project Operator, ExxonMobil, in a number of areas, particularly with Government and community relations during the negotiation of the UBSA and LBSAs. In 2010 onwards, Oil Search will continue to assist ExxonMobil on in-country community and Government issues. In addition, as operator of the associated gas fields and liquids export system, Oil Search is responsible for the delivery of this component of the development.

PROPOSED PNG LNG PROJECT FUTURE ACTIVITIES



BOB MARCELLUS

Bob has 36 years experience in the energy business in Australia and Canada and has worked with Oil Search since 1993. Bob is focussed on commercialising the balance of the Company's gas resources in PNG that are not dedicated to the PNG LNG Project.

Following the sanction of the PNG LNG Project, Oil Search's focus has moved to growing value through additional LNG trains while supporting the successful delivery of the PNG LNG Project. With substantial gas resources and an extensive exploration portfolio, the Company is well placed to drive LNG expansion in PNG.

During 2009, Oil Search continued its review of LNG expansion opportunities, which the Company believes offers the best returns for its gas. The PNG LNG Project pipeline network and LNG plant marine facilities have the capacity to accommodate at least one further LNG train with minor expenditures and there is significant capacity for more LNG trains at the LNG site. In addition, the PNG LNG Project development will ensure the availability of a well trained local work force. The PNG Government is very supportive of LNG expansion, given the potential for substantial additional tax revenues as well as the income from the Government's direct equity holding in the PNG development licences.

Oil Search is aiming to maximise the use of PNG LNG infrastructure and take advantage of the substantial cost synergies available, by the construction of additional LNG trains in the earliest practical timeframe.

REQUIREMENTS FOR LNG EXPANSION

The pace of the construction of additional LNG trains in PNG is dependent on several factors including:

- Having sufficient certified proven (1P) gas reserves in place.
- Achieving key stakeholder alignment.
- Securing buyer support and markets.

PNG Gas Resources

Oil Search is involved in two, largely independent, gas development activity streams. The first is focused on increasing proven reserves within the PNG LNG Project licences, where there is significant upside. This work includes appraisal activity to move existing probable and possible reserves into the proven category and exploring for new gas within the licences. The second activity stream is based on building up contractible reserves outside the PNG LNG licences, where material proven and probable gas resources have already been discovered.

PNG's existing discovered 2C gas resources, excluding the reserves dedicated to the PNG LNG Project, are estimated at approximately 9.5 tcf. Of these resources, Oil Search has interests in 4.6 tcf of 2C gross gas, 1.6 tcf on a net basis.

Over 2010 to 2013, Oil Search plans to undertake an extensive programme of gas exploration and appraisal activities aimed at establishing sufficient certified gas for at least one additional LNG train. These activities include the appraisal of existing discovered gas resources, de-risking of both appraisal and exploration prospects through seismic and other activities, as well as drilling gas exploration wells.

During 2009, a full regional exploration review was conducted. Oil Search identified three key geographical areas as potential future sources of gas for LNG expansion:

- PNG Highlands. A range of large potential structures exist and Oil Search generally holds high equity interests in the Highlands licences.
- Offshore, Gulf of Papua. This area is under-explored and unlike the PNG Highlands, where seismic imaging is poor, 3D seismic can be acquired to help high-grade exploration prospects.
- Forelands region. Conventional gas prospect sizes are generally small, but the region is prospective.

Specific activities in these areas in the next few years will include the following:

PNG Highlands:

- Appraisal of the PNG LNG Project fields.
- Appraisal of existing gas discoveries close to the PNG LNG Project fields, such as the P'nyang gas field in PRL 3.
- Exploration in the licences surrounding the PNG LNG Project, testing thrust belt and deeper sub-thrust plays. An extensive seismic programme over existing gas discoveries and identified prospects is planned for 2010 as well as the drilling of a number of exploration wells, including the Korka well in PPL 260 in 2010 and Huria in PDL 8 in 2011.

Offshore, Gulf of Papua:

- A 3D seismic programme is planned for the Gulf of Papua in 2010 and a drilling programme will follow, including the Flinders well in PPL 244, testing a range of new play types.

Forelands region:

- Seismic processing and other activities are planned for 2010/11 with a drilling campaign to take place following confirmation of prospects, including the Barikewa well in PRL 9, which has established gas and deeper prospects.

Stakeholder Alignment

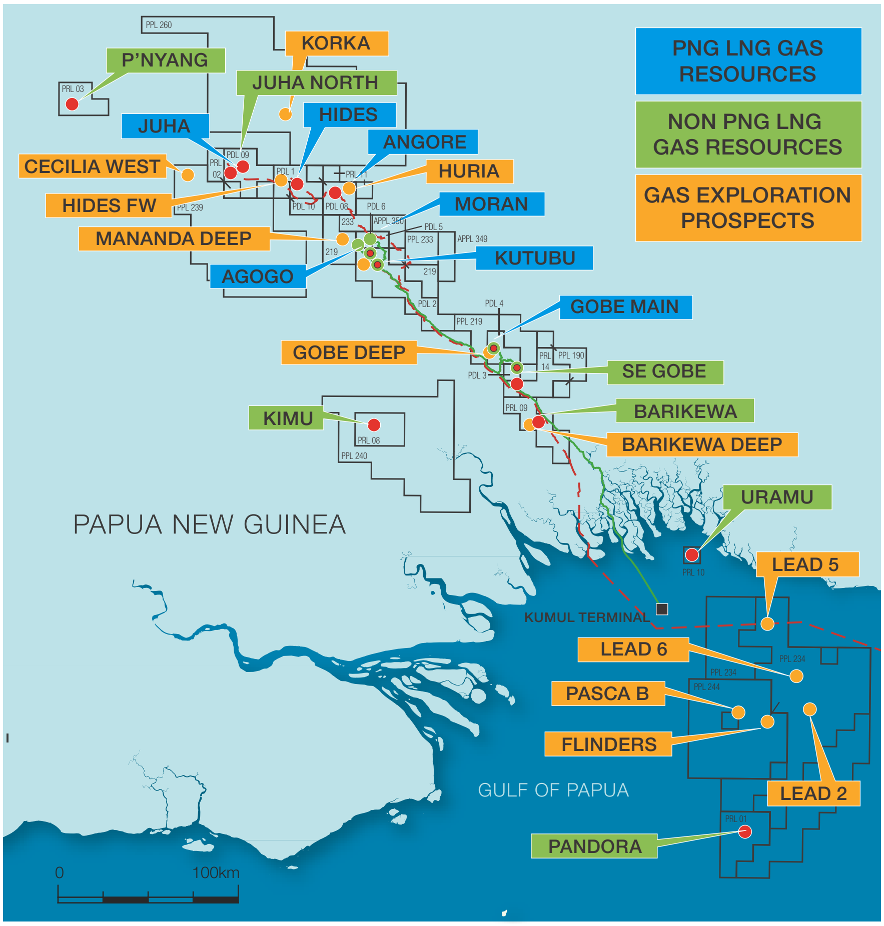
Oil Search held discussions with a number of PNG gas stakeholders during 2009 including its joint venture partners and the PNG Government, aimed at fostering alignment on the way forward for LNG expansion. There is a strong recognition by all stakeholders that significant economic gain can be made from additional LNG trains in PNG.

As part of these discussions, the partners in PRL 3, which include Oil Search, ExxonMobil and Nippon Oil, have applied for an extension of this licence, which contains the P'nyang gas field, based on a planned seismic and appraisal drilling programme.

To increase its gas portfolio value and its influence over key gas resources for LNG growth, the Company embarked on a series of acquisitions, including the following:

- Farm-in to PPL 260, located north of the Hides and Juha fields. PPL 260 contains a number of gas targets, including the Korka prospect which will be drilled in 2010. Oil Search acquired a 70% interest and took over the operatorship. This interest has subsequently been reduced to 50% following a farm-down to Nippon Oil.
- Acquisition of a 12.7% interest in PRL 1, located offshore in the Gulf of Papua. Combined with its existing 5% interest, Oil Search is the second largest interest holder with 17.7%. PRL 1 contains the Pandora gas field.
- Acquisition of a 15% interest in PPL 244, also in the Gulf of Papua. This licence contains the Flinders and other potential gas prospects. Oil Search's interest in PPL 244 is now 45%.

PNG GAS RESOURCES



Asian LNG Market Outlook

The global gas market has grown strongly over the last decade, driven by increasing demand for gas for power generation. Much of this growth has come from the Asia Pacific region, which is the primary market for LNG from PNG, fuelled by significant population and economic growth in India and China.

Between 2000 and 2009, Asian LNG demand increased by an average of 5% per annum, reaching 114 million tonnes in 2009. Market experts predict Asian demand for LNG to continue to increase at similar rates, as gas is not only an efficient fuel source, but also produces fewer emissions than coal. Asian LNG demand is expected to be 180-200 million tonnes per annum by 2020.

The strong outlook for Asian LNG demand in recent years has resulted in a large number of proposed new LNG developments, particularly in Australia. Many of these proposed LNG projects will be required to satisfy demand, but with a choice of LNG suppliers, only the quality LNG projects are likely to have success in securing markets.

As a brownfield development, Oil Search believes an LNG expansion in PNG will have a number of advantages over other LNG projects in the region in attracting market support and securing customers:

- Oil Search will be seeking to build on the strong track record that the PNG LNG Project has with customers to place additional volumes.
- PNG LNG expansions will have robust economics, making any development highly competitive.
- PNG is close to all the key Asian markets and has a shipping advantage when compared to other potential suppliers.
- LNG from PNG provides customers with supply diversification.

OTHER GAS INITIATIVES

Based on its studies, Oil Search believes that alternative gas developments may offer profitable niche supply opportunities. Consequently, during 2009 Oil Search continued to work with the PNG Government and other partners on domestic gas development options.

Activities included:

- Updating feasibility work on a potential petrochemical development near Port Moresby.
- Assessing gas commercialisation options for Western Province gas.
- Investigations into power alternatives for the Southern Highlands and Port Moresby.

COAL SEAM GAS POTENTIAL IN PNG

During the year, Oil Search was awarded seven Mineral Licences in the Strickland Basin, PNG Forelands, where it intends to explore for coal seam gas (CSG). At least three wells will be drilled in 2010, which will enable the Company to make a preliminary assessment of potential CSG resources.

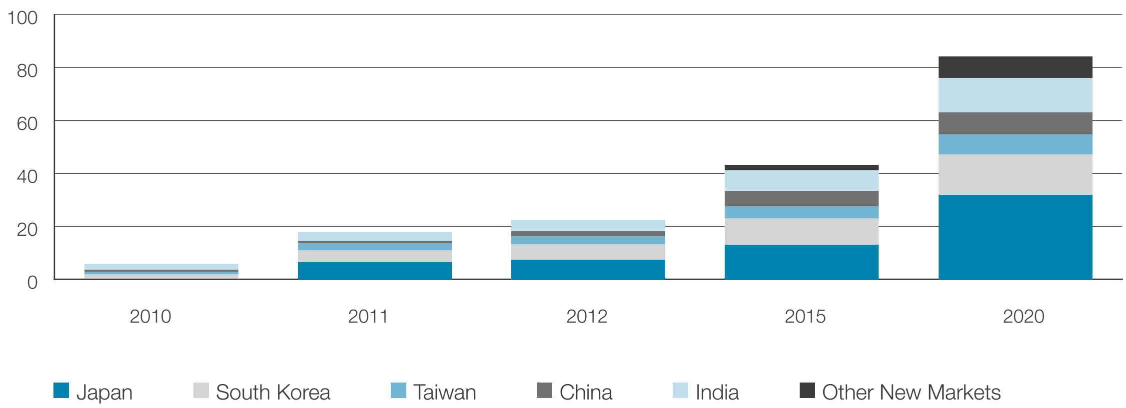
While existing data is sparse, coal and gas shows have been encountered in previous petroleum wells drilled in the Forelands region. Oil Search believes there is good potential for the presence of CSG which, over time, could represent another significant source of gas. Any successful discovery of CSG resources in PNG could be integrated with supply from nearby conventional gas fields. Oil Search holds 100% in each of these licences, covering some 17,500 square kilometres, and is the operator.

2010 MILESTONES FOR PNG GAS EXPANSION

The key gas expansion objectives for Oil Search during 2010 and beyond are as follows:

- Work with the PNG Government and other key stakeholders to deliver a strategy for aggregating gas from existing and potential PNG gas fields, to enable LNG expansion which can leverage off the new PNG LNG Project infrastructure.
- Certify threshold proven gas quantities for LNG expansion, through an active appraisal and exploration programme including seismic and drilling.
- Continue to review and assess acquisition opportunities to position Oil Search with multiple options to grow its LNG business.

Asian LNG Uncontracted Demand (MTPA)



Source: FACTS Global Energy, January 2010.

PHILIP CALDWELL

Philip joined Oil Search in 1998 after a 15 year career with BP which included drilling, engineering and production operations management. Philip is responsible for Oil Search's operating business including HSES and procurement, projects subsurface and exploration functions.

The PNG oil fields continued to generate steady cash flows for Oil Search during 2009. The Company was successful in mitigating natural decline, with full year production in line with expectations. The main focus of exploration activities during the year was on maturing a range of PNG gas and oil prospects for drilling in 2010 – 2012 and on testing the prospectivity of the retained licences in the Middle East. Oil Search had an outstanding safety performance in 2009, with safety incidents at record low levels.

PRODUCTION PERFORMANCE

Total Oil Search production in 2009 was 8.12 million barrels of oil equivalent (mmboe). This was 5% below 2008 production and down 3% when production from the Middle East fields, sold in 2008, is excluded. 2009 net production from the PNG oil fields was 4% lower than in 2008 at 7.07 million barrels (mmbbl). During the year, the Company continued to focus on slowing the natural decline of the fields, by optimising the performance of existing producing wells, flowlines and production facilities. In parallel, the Company undertook a highly successful development drilling campaign at Usano, Kutubu, Agogo and Moran.

Kutubu

Production from the Kutubu fields was 19% higher than in 2008. This was achieved despite a shutdown of the Central Processing Facilities (CPF) and the Agogo Processing Facilities (APF) in February, for emergency repairs to the Single Point Mooring (SPM) located at the Kumul Marine Terminal. The repairs were successfully completed and during the shutdown, the opportunity was taken to undertake other repairs, maintenance and optimisation of the production facilities.

The development drilling programme at Usano, which commenced in 2008, continued into 2009. Two new wells, UDT 11 and UDT 12, were brought on stream and are producing at or above expected rates. Five new development wells were successfully completed at Usano and production rates from the field have increased from under 2,000 barrels of oil per day (bopd) to over 9,000 bopd. In addition, during the year gas injection was initiated in UDT 3A ST1, which is providing pressure support to the new production wells in the Usano Main Block.

Two additional development wells were successfully drilled and completed in the Kutubu field; IDD 5 and IDT 24 ST1. IDT 24 ST1, drilled in the saddle area of the Main Block of the Kutubu field, is the longest horizontal well ever drilled in PNG, with a horizontal section of over 800 metres.

In the Agogo field, a new development well, ADD 5, was successfully drilled, completed and brought on line at rates of over 1,500 bopd from the Digimu reservoir. This well was also deepened to the Iagifu reservoir, which flow tested at rates of up to 300 bopd, the first time that hydrocarbons have been produced from this interval at Agogo. A workover in the ADD 4 well was also deepened to the Hedinia and Iagifu reservoirs. The Hedinia A reservoir was successfully flow tested and ADD 4 is currently producing at rates up to 1,000 bopd from this interval.

Towards the end of the year, the Agogo ADT 2 well was re-entered to sidetrack to a deeper exploration objective. The well penetrated a structurally complex forelimb which includes a number of prospective intervals, including one proven oil-bearing interval in the Digimu reservoir. These intervals are currently being progressively flow tested to determine hydrocarbon content, reservoir productivity and the potential for further development opportunities.

During 2010, Oil Search aims to continue to optimise production from existing wells and two workovers are planned in the second half of the year.

Moran

Production from the Moran field was 20% lower than in 2008. This was primarily due to a number of unplanned shutdowns. As well as the shutdown of the APF and CPF during the SPM repairs, a number of wells were choked back while repairs to the APF export pumps and their control system took place. The export pump problems were fully rectified and preventative measures undertaken to avoid repetition of the incident. In addition, production was impacted by a prolonged shut-in of the Moran 6 ST2 well during workover and sidetrack operations, as well as natural field decline.

During the year, Rig 103 was mobilised to the Moran 14A ST1 well to complete the drilling operations which commenced in 2008. The well was drilled in the north west part of the field and was brought into production from the Digimu reservoir. Gas lift facilities are being installed at the site and once complete, the Toro reservoir will be brought on line.

Two workovers were undertaken on Moran wells during the year. The first, Moran 9 ST4, was successfully completed with production restored. The workover of the Moran 6 ST2 well was abandoned due to operational difficulties, however, the well was subsequently sidetracked as Moran 6 ST3 and successfully completed. The Toro reservoir, a zone which has not been accessible in the Moran 6 ST2 well since 2003, was flow tested at 1,800 bopd. The well is currently producing from the Digimu reservoir at 3,000 bopd.

In 2010, further production optimisation activities are planned including the stimulation of the Moran 5 ST1 gas injector to allow increased injection rates. In addition a workover well and additional development drilling, including the appraisal of the Moran C Block, is planned.

SE Mananda

In 2009, production from the SE Mananda field was 47% lower than 2008 levels. Production in the first half of the year was significantly impacted by the emergency repairs at the SPM and repairs of the APF export pumps, as described above.

The SEM 5 well was taken offline due to high sand production. Additional downtime due to hydrate formation in SEM 3 and SEM 4 wells also reduced overall field production.

During 2010, activities will focus on well management and improving facility uptime.

> “Oil Prosek binis i wok long brigim moni yet ikam long binis.
>
> The PNG oil fields continue to generate steady cash flows.”

Gobe

Production from the Gobe fields, SE Gobe and Gobe Main, was 18% lower in 2009 than in 2008. During the year, there was a continued emphasis on minimising natural decline from these mature fields through the optimisation of existing well and surface facility performance. However, no new development wells or workovers took place on the fields.

In the SE Gobe field, the SEG 5 ST1 well was offline for a number of weeks due to repairs to the sub-surface safety valve, while production was also impacted by the Gobe Processing Facility low-pressure turbine operating at slightly reduced capacity. Water injection at SEG 13 ST1 continued to be very effective in supporting production in the SEG Wedge area wells.

In Gobe Main, production rates exceeded expectation primarily due to sustained production from Lower Iagifu production wells GM 1 ST2 and GM 5 ST3 and the Upper Iagifu production well GM 2 ST1.

For 2010, a number of potential well intervention projects are being considered to mitigate the fields' natural declines, including workovers in SE Gobe wells.

Hides

At Hides, gas production was 3% higher than 2008 levels due to higher offtake from the Porgera gold mine.

2009 OIL SEARCH PRODUCTION SUMMARY [1]

YEAR TO 31 DECEMBER:	2008		2009		% CHANGE	
OIL PRODUCTION	GROSS DAILY PRODUCTION (BOEPD)	NET TO OIL SEARCH (MMBOE)	GROSS DAILY PRODUCTION (BOEPD)	NET TO OIL SEARCH (MMBOE)	GROSS DAILY PRODUCTION	NET TO OIL SEARCH
Kutubu	14,825	3.258	**17,691**	**3.877**	19%	19%
Moran – PDL 2	7,348	1.698	**6,174**	**1.353**	-16%	-20%
Moran – PDL 5	9,120	1.439	**7,718**	**1.146**	-15%	-20%
Moran – PDL 6	1,095	0.047	**140**	**0.037**	-87%	-20%
Total Moran	17,564	3.184	**14,032**	**2.536**	-20%	-20%
SE Mananda	1,431	0.378	**753**	**0.199**	-47%	-47%
Gobe Main	1,969	0.072	**1,665**	**0.061**	-15%	-15%
SE Gobe	5,233	0.489	**4,229**	**0.394**	-19%	-19%
Total Gobe	7,202	0.561	**5,895**	**0.455**	-18%	-18%
Total PNG Oil	41,022	7.382	**38,371**	**7.068**	-6%	-4%
Nabrajah[2]	1,990	0.148	-	-	N/A	N/A
Area A	915	0.015	-	-	N/A	N/A
East Ras Qattara	305	0.032	-	-	N/A	N/A
Total MENA Oil[3]	3,209	0.195	-	-	N/A	N/A
Total Oil	44,231	7.576	**38,371**	**7.068**	-13%	-7%
Hides Condensate	356	0.130	**370**	**0.135**	4%	4%
Total Oil & Condensate	44,588	7.707	**38,740**	**7.203**	-13%	-7%
GAS PRODUCTION						
Hides Gas (mmscf)[4]	14.61	5,349	**15.11**	**5,515**	3%	3%
Hides Gas (boe)	2,436	0.891	**2,518**	**0.919**	3%	3%
TOTAL OIL AND GAS PRODUCTION						
Total	47,023	8.596	**41,258**	**8.122**	-12%	-5%
PNG Only	43,814	8.403	**41,258**	**8.122**	-6%	-3%

(1) Numbers may not add due to rounding.
(2) Nabrajah oil is on an entitlement basis.
(3) MENA licences sold effective 1 May 2008.
(4) Hides gas production restated in prior year to include sales gas and vent gas. Vent gas was not previously reported in 2008.

During 2009, PNG exploration activity focused on acquiring seismic, preparing for the 2010 drilling campaign and optimising the Company's portfolio, with a number of acquisitions and divestments taking place. Towards the end of the year, an Agogo development well was deepened to test an exploration target and discovered oil in a new play fairway. Oil Search also conducted a successful exploration drilling campaign in the Middle East. Oil was discovered in the Shakal PSC in Kurdistan, Iraq, while the Tubb'a well in Block 3 in Yemen made a gas/condensate discovery.

PNG EXPLORATION ACTIVITIES

During 2009, a number of seismic programmes were undertaken to mature a range of oil and gas prospects in PNG. Following a farm-in to PPL 260 in early 2009, 2D seismic was acquired over the Korka prospect. Seismic interpretation confirmed Korka as a simple hanging wall anticline, with potential mean recoverable reserves of 1.3 tcf of gas. Well site construction commenced in the second half of the year and Korka 1 is scheduled to be drilled in 2010.

Seismic was also acquired in PRL 9 over the Barikewa gas field. Barikewa was discovered in 1958 and the seismic is aimed at maturing a deeper play. The PRL 9 data will be processed and interpreted during the first half of 2010, to enable well site construction to commence during the fourth quarter of 2010 and drilling in 2011.

In the offshore licence PPL 234, 780 kilometres of 2D seismic data was acquired to mature two leads. Following processing and interpretation of this data, a decision was made to extend licence tenure for a further five year term and, subject to Government approval, acquire 3D seismic during 2010.

Site construction took place at Wasuma, an oil prospect in PPL 219, during the year and drilling commenced in January 2010. Early well site preparations also commenced for the drilling of Mananda Attic in PPL 219, which is scheduled for late 2010.

In late 2009, the ADT 2 well, located in the north western portion of the Agogo Field in PDL 2, was re-entered and sidetracked to a deeper exploration objective. ADT 2 ST1 discovered oil in the Digimu reservoir in a previously untested footwall forelimb compartment while ADT 2 ST3 intersected a number of deeper prospective intervals. Flow testing of these intervals commenced in early 2010, to determine hydrocarbon content, reservoir productivity and the potential for further development opportunities. Importantly, the discovery of oil in the Agogo footwall forelimb has opened up a new play fairway in the Fold Belt and has significant implications for the development of analogous structures below existing fields and the prospectivity on trend in adjacent licences.

A number of transactions were conducted during 2009 to re-align and optimise Oil Search's PNG exploration portfolio:

- Oil Search farmed-down interests of between 10% and 20% in five exploration licences (PPLs 219, 234, 239, 244 and 260) to NOEX, a subsidiary of the Nippon Oil Corporation of Japan. In addition, an agreement was signed under which Oil Search and NOEX will co-operate on a non-exclusive basis on progressing gas commercialisation opportunities in PNG.
- Oil Search acquired Gedd's 10% interests in PPL 240, the licence that surrounds the Kimu gas field, and PRL 10, which contains the Uramu offshore gas.
- A 70% interest was acquired in PPL 260 from Eaglewood Energy. As noted above, 20% was subsequently farmed down to NOEX, leaving Oil Search with 50% and operatorship.
- Oil Search acquired a further 15% interest in PPL 244, which contains the Flinders and other potential gas prospects, from InterOil, taking its equity to 45%.

During 2010, there will be an active exploration drilling programme in PNG, with the Wasuma well currently drilling, followed by the Korka and Mananda Attic wells. Seismic activities will also continue with an onshore seismic acquisition programme targeting prospects and leads adjacent to, and on trend with, the Hides and Angore gas fields. Offshore, planning continues for the Flinders well and, subject to Government approval, a 4,700 square kilometre 3D seismic survey over PPL 234 and PPL 244. This will be the largest 3D survey ever undertaken in PNG and will de-risk and mature a number of leads with significant upside potential.

MIDDLE EAST/NORTH AFRICA (MENA) EXPLORATION

Three exploration wells were drilled in the MENA region in 2009, two of which, Tubb'a-1 well in Yemen and Shakal-1 in Kurdistan, were discoveries. The Caliph-1 well in Area 18 in Libya was unsuccessful and Oil Search has commenced its withdrawal from the permit.

The Tubb'a-1 well in Block 3 in Yemen, operated by Oil Search, discovered gas and condensate in the primary target, the basement, and has been suspended pending evaluation of the well results and a possible re-entry. The Al Meashar-1 well, located north east of Tubb'a-1 in Block 7, targeting a similar play, commenced drilling towards the end of the year.

In Kurdistan, Iraq, the Shakal-1 well flowed oil on test and has been suspended as an oil discovery. Subject to permit extension approval, the joint venture will acquire additional seismic in 2010 to refine the structural model and reserve estimates for the discovery. During the year, Oil Search signed a seismic option as Operator on Block K42, located adjacent to the Shakal block in Kurdistan, with an option to transfer to a full PSC after 18 months. Seismic acquisition will commence in early 2010. Following the completion of technical studies, Oil Search withdrew from the Bina Bawi permit in Kurdistan.

Technical studies took place on the Tajerouine and Le Kef permits in Tunisia. Several leads have been identified in the regionally proven Cretaceous reservoirs and 2D seismic data will be acquired during 2010 with one well scheduled to be drilled in each of the permits in 2011.

Oil Search and its contractors achieved an outstanding safety performance during 2009. The Total Recordable Injury Frequency Rate (TRIFR) was 1.16, which places Oil Search in the top quartile for safety performance amongst global energy companies. Improvements were delivered across most areas of the business, with PNG drilling operations in particular showing significant progress.

The TRIFR achieved for 2009 of 1.16 compares very favourably to Oil Search's Australian peer group 2008 TRIFR, as measured by APPEA, of 6.78 and places Oil Search in the top quartile for TRIFR of the international oil companies that contributed data to OGP statistics for 2008. The TRIFR data encompasses all Oil Search operations in all locations, including production and exploration in PNG and the Middle East and North Africa.

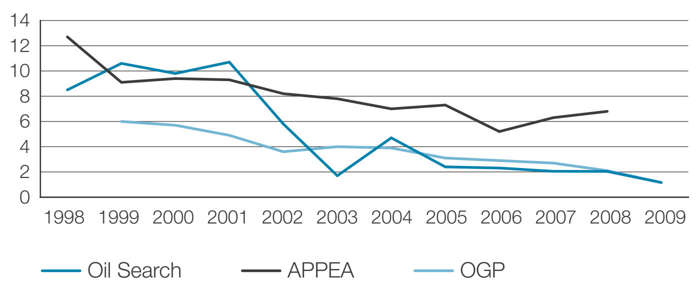
This represents the fifth consecutive year of improvement in safety performance and demonstrates a very strong commitment by staff and contractors to Incident Free Operations (IFO), particularly given the challenging operating environments in which Oil Search works.

During 2009, Oil Search continued to introduce a range of new initiatives to achieve IFO, so that its employees and contractors can all return home safely every day.

One of these initiatives was the development of a systematic process for review of "near miss" events, particularly those with the potential to have serious consequences. This process will be implemented during 2010, to ensure learnings from "near miss" events are identified, captured and acted upon.

A "Best Last Quarter Ever" initiative was introduced in October 2008 to ensure that, during the run up to Christmas, safety remained in the forefront of the minds of all employees and contractors. The campaign took place again in 2009. Two Recordable Injuries occurred during the fourth quarter of 2009, compared with five during the same period of 2008 and an average of nine during the last three months of each of the years between 2004 and 2007, demonstrating the effectiveness of the programme.

Safety Benchmarking – Total Recordable Incidents (per million hours worked)



Key focus areas for safety performance improvement during 2009 included motor vehicle incidents and hand and finger injuries. A sustained effort during the year, backed up by a number of specifically targeted campaigns, resulted in improvements in both these areas. Motor vehicle incidents were reduced from twelve during 2008 to four during 2009 and hand and finger injuries fell from 48% of all injuries during 2008 to 35% of all injuries during 2009, coupled with a reduction in the total number of injuries incurred during the year.

During 2009, the Board again sponsored the Chairman's Award for IFO 2009. As in past years, the standard of submissions presented by the workforce, working either as individuals or in teams, was very high and demonstrates a significant commitment to this programme by staff and contractors. The awards were presented by the Chairman at the annual Contractors' Safety Forum.

Process Safety management relates to reducing the risk associated with the very rare, high consequence events that can occur within process plants. Such events can have devastating consequences, the most recent being the Texas City refinery incident that resulted in 15 deaths and 170 injured people. Oil Search has identified this area of safety management as a key focus area and considerable progress has been made with the introduction of a range of performance measures designed to identify opportunities for improvement in the management of process safety. Formal reporting of process safety management to the Board has been established to ensure this key risk area has visibility at the highest levels in the Company.

During 2010, Oil Search faces the challenge of improving an already world class safety performance against a backdrop of a significant increase in activity associated with development of the PNG LNG Project. New contractor organisations and large numbers of new people working within the project areas in PNG will present new challenges. The Oil Search project teams have commenced working with contractors to communicate expectations and embed required behaviours. In addition, an increased focus on training and induction processes is planned.

LICENCE INTERESTS

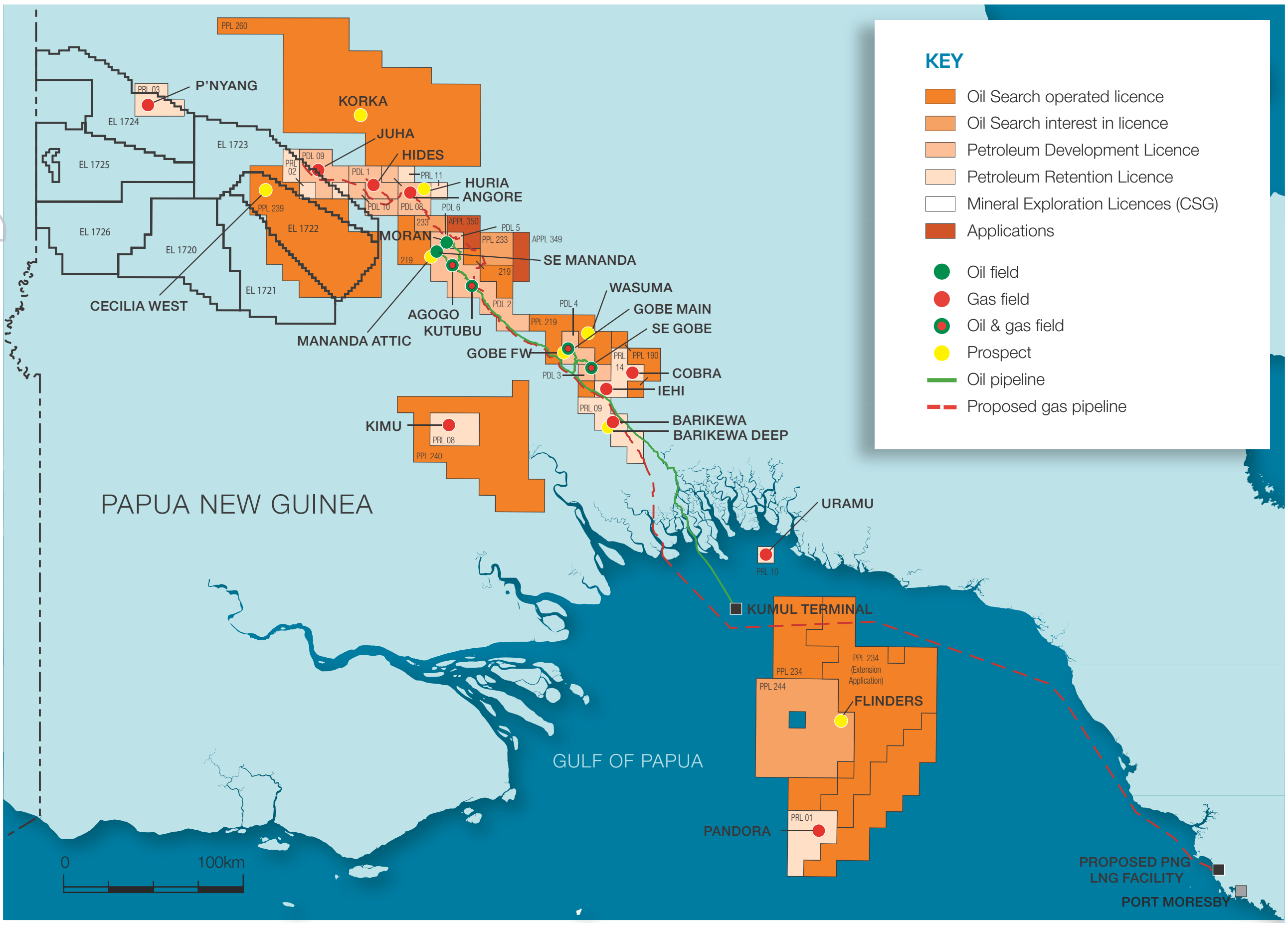
As at 28 February 2010

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)		25.55	Oil Search
Moran Unit (PDL 2/PDL 5/PDL 6)		49.51	Oil Search
Hides Gas to Electricity Project (PDL 1)		100.00	Oil Search
PDL 7	South Hides	40.69	ExxonMobil
PDL 8	Angore	40.69	ExxonMobil
PDL 9	Juha	24.42	ExxonMobil
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	LNG Project	29.00	ExxonMobil
PL 5	LNG Project	29.00	ExxonMobil
PL 6	LNG Project	29.00	ExxonMobil
PL 7	LNG Project	29.00	ExxonMobil
PL 8	LNG Project	29.00	ExxonMobil
PNG Petroleum Processing Facility Licence	LNG Project	29.00	ExxonMobil
PNG Petroleum Retention Licences (PRL)			
PRL 1	Pandora	17.73	Talisman
PRL 2	Juha	31.51	ExxonMobil
PRL 3	P'nyang	38.51	ExxonMobil
PRL 8	Kimu	60.71	Oil Search
PRL 9	Barikewa	42.55	Santos
PRL 10	Uramu	59.55	Oil Search
PRL 11	Angore	52.50	Exxon Mobil
Application for PNG Petroleum Retention Licence			
APRL 14	Cobra	62.56	Oil Search
PNG Petroleum Prospecting Licences (PPL)			
PPL 190		62.56	Oil Search
PPL 219		71.25	Oil Search
PPL 233		52.50	ExxonMobil
PPL 234		80.00	Oil Search
PPL 239		80.00	Oil Search
PPL 240		100.00	Oil Search
PPL 244		45.00[(1)]	Talisman
PPL 260		50.00	Oil Search
PNG Mining Exploration Licences			
EL 1720, 1721, 1722, 1723, 1724, 1725, 1726		100.00	Oil Search
Yemen			
Block 3		60.00[(2)]	Oil Search
Block 7		34.00	Oil Search
Iraq			
Shakal		15.00	Shakal Production Ltd
Tunisia			
Le Kef		50.00	Primoil
Tajerouine		100.00	Oil Search
Libya			
Area 18		30.00[(3)]	Petrobras

(1) Includes 15% being acquired from Interoil.

(2) Includes 20% being held for MND under a sub-participation agreement.

(3) Notice of withdrawal submitted.


KEY
Oil Search operated licence
Oil Search interest in licence
Petroleum Development Licence
Petroleum Retention Licence
Mineral Exploration Licences (CSG)
Applications
Oil field
Gas field
Oil & gas field
Prospect
Oil pipeline
Proposed gas pipeline
P'NYANG
KORKA
JUHA
HIDES
HURIA
ANGORE
MORAN
SE MANANDA
WASUMA
GOBE MAIN
SE GOBE
COBRA
IEHI
BARIKEWA
BARIKEWA DEEP
AGOGO
KUTUBU
GOBE FW
MANANDA ATTIC
CECILIA WEST
KIMU
PAPUA NEW GUINEA
URAMU
KUMUL TERMINAL
FLINDERS
GULF OF PAPUA
PANDORA
PROPOSED PNG LNG FACILITY
PORT MORESBY
EL 1724
EL 1723
EL 1725
EL 1726
EL 1720
EL 1721
EL 1722
PPL 260
PPL 239
PPL 233
PPL 219
PPL 190
PPL 240
PPL 234
PPL 244
APPL 349
PRL 08
PRL 01
PDL 2
PDL 3
PDL 4
PDL 5
0
100km


LE KEF
TAJEROUINE
TUNISIA
AREA 18
MEDITERRANEAN SEA
LIBYA
CASPIAN SEA
K42
SHAKAL
IRAQ
PERSIAN GULF
RED SEA
SANA'A OFFICE
BLOCK 7
BLOCK 3
YEMEN
GULF OF ADEN
0
1000km

Following the PNG LNG Project development decision at the end of 2009, Oil Search booked 301 million barrels of oil equivalent (mmboe) relating to the Project into its proven (1P) reserves and 505 mmboe into its proven and probable (2P) reserves. This lifted 1P and 2P reserves to 345 mmboe and 567 mmboe respectively. The Company also had 281 mmboe of contingent resources, taking the Company's total 2P reserves plus 2C resources to 848 mmboe.

RESERVES AUDIT PROCESS

Estimates of reserves and contingent resources are conducted to Society of Petroleum Engineers (SPE) standards on a Proven (1P and 1C) and Proven and Probable (2P and 2C) basis. Proven Reserves (1P) are as certified by independent auditors, Netherland Sewell and Associates in Dallas (NSA). Proven and Probable reserves (2P) and Contingent Resources (2C) have been estimated by a combination of independent audit and internal assessments.

In 2008, the Company implemented an audit rotation schedule, where each field is now required to be audited at least once every three years. For the 2009 review, NSA undertook a reserves audit of the Kutubu, Moran, Gobe Main and SE Gobe oil fields.

The SE Mananda oil field and Hides GTE Project were not audited as there was no drilling or significant workover activity in these fields during 2009. The reserves reported for SE Mananda and the Hides GTE Project are based on NSA's end 2007 audit, adjusted for 2008 and 2009 production. NSA audited the contingent resources in each of the PNG LNG Project fields – Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha – during 2008.

RESERVES – KEY CHANGES

The Company's proven (1P) and proven and probable (2P) reserves at the end of 2009 reserves were 595% and 747% higher respectively than at the end of 2008. This reflected the following:

- 2009 production of 8.12 mmboe.
- The booking of 301 mmboe of 1P reserves and 505 mmboe of 2P reserves relating to the PNG LNG Project. The reserves booked reflect Oil Search's current interest in the Project of 29.0%, resulting from the initial equity determination. Both 1P and 2P reserves are after the PNG Government back-in to the new PNG LNG Project licences.
- An upward revision of 2.3 mmbbl and 2.7 mmbbl respectively to the oil fields' 1P and 2P ultimate recoveries. This is largely due to the successful drilling campaign in the Kutubu fields and stronger than expected reservoir performance in the Gobe fields.

2009 ANNUAL RESERVES STATEMENT

Proven Reserves

LICENCE/FIELD	END 2008 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2009 RESERVES
PDL 2 – Kutubu	18.5	3.9	1.7	0.0	**16.3**
PDL 2 – SE Mananda	0.5	0.2	0.0	0.0	**0.3**
PDL 2/5/6 – Moran Unit	16.5	2.5	0.0	0.0	**14.0**
PDL 4 – Gobe Main	0.1	0.1	0.2	0.0	**0.2**
PDL 3/4 – SE Gobe	0.7	0.4	0.4	0.0	**0.7**
PDL 1 – Hides	13.4	1.1	0.0	0.0	**12.4**
PNG LNG Project	0.0	0.0	300.6	0.0	**300.6**
Total	49.6	8.1	302.9	0.0	**344.5**

Proven and Probable Reserves

LICENCE/FIELD	END 2008 RESERVES	PRODUCTION	DISCOVERIES/ EXTENSIONS/ REVISIONS	ACQUISITIONS/ DIVESTMENTS	END 2009 RESERVES
PDL 2 – Kutubu	24.7	3.9	2.2	0.0	**23.0**
PDL 2 – SE Mananda	0.9	0.2	0.0	0.0	**0.7**
PDL 2/5/6 – Moran Unit	26.7	2.5	0.0	0.0	**24.1**
PDL 4 – Gobe Main	0.1	0.1	0.2	0.0	**0.3**
PDL 3/4 – SE Gobe	1.2	0.4	0.3	0.0	**1.1**
PDL 1 – Hides	13.4	1.1	0.0	0.0	**12.4**
PNG LNG Project	0.0	0.0	505.4	0.0	**505.4**
Total	66.9	8.1	508.1	0.0	**566.9**

RESOURCES – KEY CHANGES

At the end of 2009, Oil Search had 2C resources, comprising gas and associated liquids, of 281 mmboe, which was 605 mmboe lower than at the end of 2008, with the major changes as follows:

- The transfer of 584 mmboe from 2C contingent resources to 2P reserves relating to the PNG LNG Project. This includes a net reduction in PNG LNG Project 2C resources of 79 mmboe due to the PNG Government back-in and field reserve changes.
- A reduction of 21 mmboe relating to revisions to a number of non-Project fields' gas and liquids estimates and the PNG Government back-in to the Juha North field.

> "Tok orait bilong PNG LNG Prosek igo het i lukim olsem oil istap insait long graun yet ikamap bikpela moa.
>
> The sanction of the PNG LNG Project has led to a seven-fold increase in Oil Search's reserves."

RESERVES AND RESOURCES SUMMARY[1,2]

		PROVEN (1P)			PROVEN & PROBABLE (2P)		
LICENCE/FIELD	OIL SEARCH INTEREST	LIQUIDS[3] MMBBL	GAS[4][5] BSCF	OIL EQUI-VALENT[6] MMBOE	LIQUIDS[3] MMBBL	GAS[4][5] BSCF	OIL EQUI-VALENT[6] MMBOE
Reserves							
PDL 2 – Kutubu	60.0%	16.3	–	16.3	23.0	–	23.0
PDL 2 – SE Mananda[7]	72.3%	0.3	–	0.3	0.7	–	0.7
PDL 2/5/6 – Moran Unit	49.5%	14.0	–	14.0	24.1	–	24.1
PDL 4 – Gobe	10.0%	0.2	–	0.2	0.3	–	0.3
PDL 3/4 – SE Gobe	25.6%	0.7	–	0.7	1.1	–	1.1
PDL 1 – Hides GTE[8]	100.0%	1.5	65.2	12.4	1.5	65.2	12.4
PNG LNG Project Reserves[9]	29.0%	38.4	1,572.8	300.6	65.5	2,639.3	505.4
Subtotal Reserves		**71.5**	**1,638.0**	**344.5**	**116.2**	**2,704.5**	**566.9**
		1C			2C		
LICENCE/FIELD		OIL[3] MMBBL	GAS[4][5] BSCF	BOE[6]	OIL[3] MMBBL	GAS[4][5] BSCF	BOE[6]
Contingent Resources							
Other Gas[10,11]		–	–	–	14.5	1,599.9	281.2
Subtotal Resources		–	–	–	14.5	1,599.9	281.2
Total Reserves and Resources		**71.5**	**1638.0**	**344.5**	**130.7**	**4,304.5**	**848.1**

NOTES:

(1) Numbers may not add due to rounding.

(2) Proven reserves (1P) are as certified by independent auditors Netherland, Sewell Associates, Inc. (NSA). Proven and probable reserves (2P) and contingent resources (2C) are based on independent audit and internal assessments.

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

(4) Full wellstream (raw) gas reduced for field separator condensates are quoted for Hides Gas to Electricity (GTE) and Other Gas resources.

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

(6) Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf/bbl).

(7) NSA did not audit SE Mananda in 2009. Estimate of reserves is based on NSA's end 2007 certification adjusted for 2008 and 2009 production.

(8) Hides reserves associated with the GTE Project only.

(9) PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. Field condensate from Kutubu, Moran and Gobe are based on licence interests.

(10) Other Gas Resources comprises the Company's other fields including SE Gobe, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields.

(11) The Company's share in PRL 1 (Pandora) includes a 12.7% interest purchased from Command Petroleum, subject to approvals and registration.

The information in this reserves statement has been compiled by Mark Wilson, Oil Search's General Manager - Production, who is a full-time employee of the Company. Mr. Wilson has over 25 years of relevant experience, is qualified in accordance with ASX Listing Rule 5.11, and has consented to publication of this report.

PAUL CRUTE

Paul joined Oil Search in May 2008 after a 19 year career with BHP Billiton. Paul is responsible for ensuring Oil Search's people management strategies, processes and systems are aligned with the strategic objectives of the Company.

As operator of oil and gas fields in PNG and exploration activities in PNG and the Middle East and North Africa, which are all challenging environments, Oil Search recognises that developing the skills and capabilities of our people is of vital importance. Oil Search offers an exciting and rewarding work environment where employees are ready to meet the challenges of the future.

DEVELOPING OUR PEOPLE

In 2009, Oil Search implemented significant changes to its learning and development approach, to better address development requirements within business functions. Previously a centralised Academy had provided a schedule of training programmes to all employees and contractors. A decision was taken in 2009 to locate technical trainers within business functions, to better address on the job competency development. The Learning and Development function now acts as an adviser to business functions, to identify and facilitate optimal development opportunities, which may be on the job, project based, e-learning or formal training.

Another focus in 2009 was on refining the Technical Competency framework and supporting development within the Supply Chain, Production and Maintenance functions. The emphasis is on defining specific competencies required within job roles which are aligned to the Australian Quality Training Framework (AQTF). During 2009, 14 staff achieved qualifications in Workplace Training and Assessment, which allows them to assess competency on the job.

To support the Company's strong emphasis on health and safety during 2009, 17 staff members successfully completed Certificate IV in Occupational Health and Safety.

The Oil Search Apprenticeship Programme develops school leavers for roles in the Company's production and maintenance functions. In 2009, nine process technician apprentices were inducted. The group completed both formal training and on the job development and was assessed against the PNG National Occupational Skills Standards.

IDENTIFYING FUTURE LEADERS

The development of effective leaders in all areas of the business is a major focus area for the Company. In 2009, Oil Search launched "Leading the OSL Way", which is a programme designed to establish a common approach to leadership across the organisation. During 2009, 180 leaders commenced the programme and during 2010 all supervisors and managers will complete the programme. Oil Search also continued to support the formal development of new supervisors and managers through Certificate and Diploma programmes, offered both in classroom and through distance learning.

As part of its localisation programme, which is aimed at developing PNG leaders for senior roles, Oil Search has identified a number of development roles that are well supported by experienced senior managers and mentors. This approach is designed to provide real opportunities and experience for PNG citizens, which will enable them to transition into senior roles within Oil Search in the future.

IMPROVING HEALTH AND WELLBEING

Oil Search is committed to optimising the health of its people and provides a holistic Health and Wellbeing programme to all staff, which includes regular health and fitness checks, nutritional and exercise advice, scheduled activities, psychological support, workplace ergonomics and ongoing health and wellbeing education. Following a review of priority issues, in 2009 a health programme was introduced focusing on reducing the health risks of people classified as high-risk, including those in the overweight and obese categories and those suffering from medical conditions such as cardiovascular disease, hypertension and diabetes. New monitoring processes have been developed and are being progressively implemented throughout the Company.

CHALLENGES AND AIMS IN 2010 ONWARDS

The PNG LNG Project will place further demands on the development and retention of our people. The retention of people in the PNG operations, with critical technical, operational and leadership skills, will be essential. Oil Search has already implemented a retention programme for PNG citizens who are critical to our operation. In 2010 there will be increased focus on other initiatives designed to build employee engagement and retain people. As Oil Search transitions from primarily an oil operator to an oil and gas operator, there will be requirements to further define and develop the competencies required within technical functions.

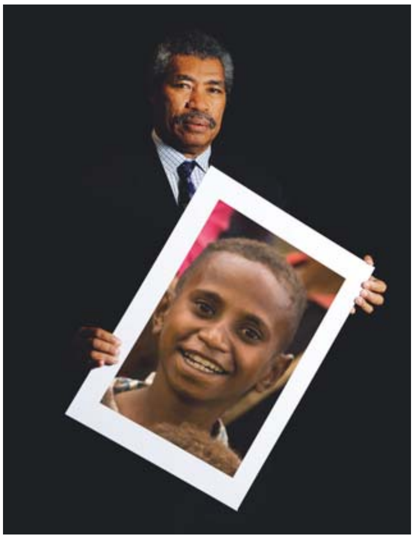
2010 OBJECTIVES

Oil Search's 2010 employee development objectives include:

- Development of a Competency Assurance Framework to ensure that all activities within operational facilities are completed safely and reliably.
- Definition of our four year workforce plan, to provide a basis to measure and track the capability development required to support the transition from oil to gas.
- Refinement of the Oil Search Employee Value Proposition plan and implementation of initiatives to optimise employee retention.
- Implementation of the Oil Search Career Development programme for all Oil Search people.

"Kampani igivim luksave olsem ol wokman na wokmeri blong kampani imas igat save na pepa blong wokim gut wok blong ol.

Developing the skills and capabilities of Oil Search's people is of vital importance."



GEREA AOPI

Gerea joined the Oil Search management team in 1998, after holding several very senior positions in the PNG public service. Gerea plays a key role in managing relationships with the PNG Government and other joint venture partners.

One of Oil Search's core objectives is to leave a positive long-term legacy in all areas where it operates. The Company's sustainability principles, which go far beyond what is required under legislation, are aligned with the UN Millennium Development Goals and are embedded into the Company's daily activities.

Oil Search believes that establishing and maintaining strong relationships with the people and governments impacted by its oil and gas developments is an essential part of its business, as these relationships determine the Company's ability to access land and resources. Oil Search recognises it will only be welcomed by its host communities if it operates in an environmentally and socially responsible manner and, as such, is committed to sustainable development.

The UN sponsored Bruntland Commission defines sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs". Oil Search embraces this philosophy of

sustainability and its sustainability principles are aligned with the eight UN Millennium Development Goals.

Oil Search's activities are designed to deliver economic and social benefits to local communities and governments now, whilst also developing long-term development activities which can sustain local communities when oil and gas reserves are exhausted.

The impacts of Oil Search's activities and of other entities operating in the petroleum project areas are monitored by comprehensive village and household surveys carried out every two years. In additon, a Social and Economic Impact Report is submitted annually to the PNG Department of Environment and Conservation.

ENSURING ENVIRONMENTAL SUSTAINABILITY

Environmental activities in 2009 were focused on the following main areas:

Carbon Emissions

Oil Search's greenhouse emissions benefited in 2009 from an emissions reduction and gas conservation programme. CO_2 emissions declined by 16% from 2008 levels, while CO_2 equivalents fell 15%. 2009 emissions were for the first time in recent years below the baseline set in 2004, the first full year of Oil Search control over the producing oil and gas fields in PNG.

ISO 14001 Environmental Management Certification

Oil Search received ISO 14001 accreditation for its PNG environmental management systems in December 2008. During 2009, a key focus was to maintain this certification. The first surveillance audit was conducted in September 2009. While a few minor operational non-conformances were noted, it was reported that significant improvements had been made.

A work programme is now underway, directed at closing out all of the minor non-conformances from the certification and first surveillance. The second surveillance audit will be conducted in April 2010.

Environmental Permit Compliance and Amendments

In addition to the ISO 14001 accreditation audits, Oil Search conducts regular internal environmental audits to ensure compliance with environmental permit requirements. While compliance was achieved for most areas monitored during 2009, intermittent non-compliances were observed for *faecal coliform* levels in the sewerage treatment plants, due to ageing facilities and an increase in loading as a result of a higher number of personnel. A plan for upgrading the sewerage treatment plants was developed, with facilities at Hides and the Iagifu Ridge camps improved towards the end of the year.

Amended environmental permit approvals were received from the PNG Department of Environment and Conservation to allow Oil Search to undertake construction of the associated gas facilities for the PNG LNG Project while maintaining oil production. The permit covers work to be undertaken at the Central and Gobe Processing Facilities, refurbishment of the Kumul Marine Terminal, relocation of the Single Point Mooring facility and work to be undertaken on the crude export pipeline.

Ecosystem Health of Lake Kutubu

Discussions took place during 2009 with stakeholders regarding the ecosystem health of Lake Kutubu following reported allegations of pollution. Historical monitoring data since 1988 demonstrate that there have been no changes in the chemistry of the water and the sediment and that while there have been incidences of fish kill and turbidity observed in the lake, they are unrelated to Oil Search operations. The Company has initiated a research programme to study the lake's ecosystem, including the indirect impacts of population growth and the consequent increase in use of the lake's resources.

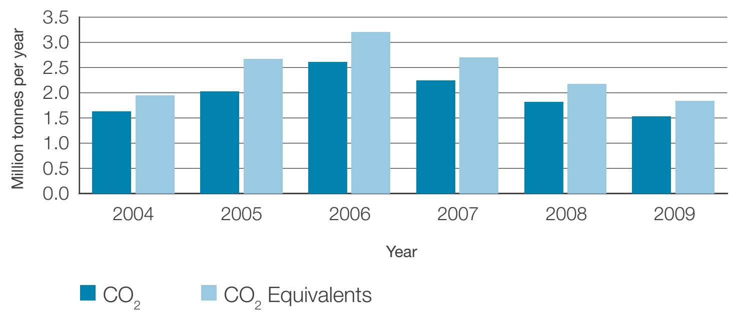
2010 Environmental Focus Areas

During 2010, focus areas will include;

- Ongoing maintenance of the ISO 14001 certified environmental management system.
- Further assessment of emissions reduction opportunities.
- Research activities studying the ecosystem health of Lake Kutubu.
- Continuing to raise the profile of environmental awareness within the Company.
- Delivery of the associated gas facilities project with minimum environmental incidents.

> "Lukluk na tingting bilong Kampani long strongim gutpela wokbung em i bihainim lo na toktok bilong United Nations.
>
> Oil Search's sustainability principles are aligned with the UN Millennium Development Goals."

CO_2 and CO_2 Equivalents Emissions



IMPROVING PUBLIC HEALTH

Oil Search operates a dedicated health service unit which provides healthcare to both employees and people in the local community. Within Oil Search operational areas, the Company also provides support to community health services as well as implementing public health strategies. Oil Search is active in key UN Millennium Development Goal areas, with specific programmes focused on "Universal access to treatment for HIV/AIDS for all those who need it" and "Halt and begin to reverse the incidence of malaria (and other diseases)".

During 2009, a review and upgrade of Oil Search's Health Management System took place. The Company operates six permanent clinics with 43 staff governed by contemporary procedures and medical protocols. Evaluation and redevelopment of the public health service and community health programmes is an ongoing process.

Malaria Control

Oil Search operates a malaria control programme covering three defined areas including Hides, Kutubu and Gobe. During 2009, Oil Search expanded these activities at Kutubu, improving community access to malaria treatment in that area. Malaria diagnosis, treatment and clinical care is now available at six Company clinics, seven community clinics, and nine community outreach locations.

The Kutubu area programme, which commenced in 2005, involves the training of selected local villagers to conduct basic malaria diagnosis and dispense appropriate weight-for-age, pre-packaged anti-malarial drugs in villages which do not have ready access to aid posts or health centres. The village malaria worker also provides malaria education to the community which helps reduce transmission of the disease.

The programme has been closely monitored through routine prevalence surveys of villages, with blood samples analysed in the Oil Search Public Health Laboratory at Moro. Since the programme commenced, the average annual prevalence of malaria has decreased from 17% in 2005 to 7% in 2009.

The Kutubu malaria programme has received recognition from the PNG office of the World Health Organisation and the National Department of Health, who are currently discussing using the model for isolated communities throughout PNG.

MEDICAL SERVICES PROVIDED DURING 2009	
Total Patients Treated	34,373
PNG	30,749
Sydney	309
MENA	3,315
Staff treatment %	17%
Contractor treatment %	54%
Community Treatment %	29%
Company HIV tests conducted	402
Company HIV tests positive	7
Company HIV patients on treatment	6
Community HIV tests conducted	3,116
Community HIV tests positive	54
Community HIV patients on treatment (cumulative from 2008)	38
Company malaria blood slides taken	288
Company malaria positive patients treated	90
Community malaria blood slides taken	11,297
Community malaria positive patients treated	3,248
No. of medical staff training sessions	2,858
No. of times non-medical groups of staff have received a health promotion education session	486

Malaria transmission in the Hides area has remained under control with a ongoing insecticide residual spray programme and the provision of diagnosis and treatment at the local health centre. Since its inception in 1996, this programme has seen malaria reduced from initial prevalence rates of 25% to close to zero.

HIV/AIDS

Oil Search's HIV/AIDS clinical services and prevention activities, which are conducted in partnership with local health service providers and the Department of Health, were further developed during 2009, with an agreement signed with the Gulf Provincial Government to expand the programme into the Kikori River area.

Oil Search is now active in 20 facilities, including six Oil Search and 14 community clinics, which have the ability to carry out HIV testing. 15 of these facilities have been accredited by the PNG National Department of Health. A total of 3,300 people from the local community have presented for testing in the two years since the programme commenced. Where necessary, those tested positive have commenced anti-retroviral treatment and are managed by the Oil Search HIV team.

Raising community HIV awareness and conducting behavioural change education was carried out in all operational area communities during the year. A small group workshop course targeting men's sexual health was delivered to approximately 600 men in the Kutubu, Hides and Kikori areas in 2009, while the "Introduction to HIV" course, targeting male and female community leaders, teachers and pastors, was attended by several hundred people across the area. Training and mentoring of local area health workers on the provision of counseling, testing and case management of HIV and STIs in their communities, was ongoing during the year.

Oil Search received recognition at the Australasian Society of HIV Medicine annual conference in Brisbane in 2009 for the way in which the Company delivers programmes within a Public-Private Partnership model, on behalf of the Department of Health, with assistance from the Asian Development Bank (ADB) and other international donor funding agencies.

The Company organised a range of activities for International World Aids Day in 2009, involving community members, Oil Search staff, local health workers and representatives of the National Aids Council.

Other Public Health activities

Oil Search continued to support CDI Foundation (an NGO established to support local communities) and local area health workers in conducting immunisation clinics. Focus areas during 2009 were ensuring the protection of vaccine distribution through refrigeration and assisting CDI immunisation patrols in remote communities.

In addition to helping local communities understand and manage their own health issues, Oil Search also strengthened ties with the Southern Highlands and Gulf Provincial Health administrators and provided other assistance to Government health services including:

- Undertaking audits of the maternal health capacity of community clinics in preparation for the implementation of an improved programme.
- Assisting with the short-term placement of four Slovenian doctors at Pimaga Hospital.
- Conducting screening of vision testing and eye glass provision in partnership with the International Centre for Eyecare Education (ICEE), resulting in 125 people in the local area receiving eye glasses.
- Identifying patients during the eye screening and referring them to a specialist ophthalmologist brought into the area by Oil Search, who performed 30 cataract operations.

COMMUNITY DEVELOPMENT SUPPORT

The main interface between Oil Search and communities in the Company's operational areas and their representative local, provincial and national governments is the Oil Search multi-disciplinary Community Affairs team. The UN Millennium Development Goals of eradicating poverty and hunger, achieving universal primary education and promoting gender equality and empowering women are embodied in the Company's community affairs activities.

Eradicating Poverty

An important achievement in 2009 was the formation of Trans Wonderland Limited (TWL), a consortium of representative landowner companies from Hides to Kutubu in the petroleum project area. TWL raised shareholder equity and obtained commercial finance to acquire the trucking and workshop assets of the partly foreign-owned Kutubu Transport Services for K24 million.

Oil Search has awarded TWL a three year, multi-million kina long-haul and in-field road transport contract. This is the highest value landowner company service contract ever awarded by Oil Search and one that is vital for effective daily operations.

In addition, the Company continued to use local landowner company contractors to provide a range of services including catering and camp management, road and building maintenance, security, road transport, civil construction and vegetable supply. The gross value of contracts awarded to local landowner companies in 2009 was K107 million.

Education Support

During 2009, Oil Search supported a range of Community Area Planning (CAP) funded infrastructure development projects aimed at improving local school resources. In addition, the Company continued to financially support and partner the CDI Foundation, which manages a comprehensive high school and tertiary distance education programme and agricultural extension activities.

STEPHEN GARDINER

Stephen joined Oil Search in 2004 and is responsible for corporate finance activities of the Group. As from May 2009, Stephen is also Group Secretary.

Oil Search maintains its commitment to strong corporate governance. Corporate governance requires ongoing focus to remain effective and meaningful.

COMMITMENT TO GOOD GOVERNANCE

Oil Search acknowledges that there is no typical organisation and no single, readily identifiable model for corporate governance. The corporate governance model of a company will need to evolve over time as the company itself evolves. Accordingly, Oil Search's current governance structures are designed to best suit its current business and the needs of its stakeholders.

Oil Search endeavours to observe the spirit of good corporate governance by those means which are most appropriate to its business during particular periods.

Oil Search firmly believes that the more transparent companies are about their governance practices, the better placed investors will be to make informed investment decisions.

Oil Search has reported each year against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations since first released in 2004.

Those practices and procedures continued to be refined during 2009.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Oil Search believes it followed all the ASX Corporate Governance Council's Corporate Governance Recommendations during the 12 months ended 31 December 2009.

In reporting against the Corporate Governance Recommendations for 2009, Oil Search:

- Addresses the Revised Corporate Governance Recommendations consecutively; and
- Includes cross references to information not included in the corporate governance statement, but located elsewhere in the 2009 annual report or on the Company's website.

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Oil Search's internal systems and procedures are designed to enable the Board to provide strategic guidance for the Company and effective management oversight.

Oil Search has formalised and defined the functions reserved for the Board and those delegated to management in a formal Board Charter. This charter defines Board duties to facilitate accountability to the Company and its shareholders. *(Recommendation 1.1)*

The Board and the Managing Director review the performance of senior executives on a regular basis.

The Managing Director usually conducts an annual face to face performance review with senior executives. The senior executives' performance during the year is assessed, having regard to a variety of personal and corporate key performance indicators and stretch targets. The Board also assesses the performance of the Managing Director. The Chairman meets with the Managing Director and gives him feedback on that assessment. *(Recommendation 1.2)*

Performance evaluations for selected senior executives were carried out in the reporting period, in accordance with the process disclosed in the previous paragraph. The Company also expects that during 2010 performance evaluations for all senior executives will be carried out in accordance with that process. *(Recommendation 1.3)*

Copies of the Board Charter and the Charters for each of the three Board Committees are on Oil Search's website in the corporate governance section. *(Recommendation 1.3)*

STRUCTURING THE BOARD TO ADD VALUE

Oil Search recognises that an effective Board facilitates the efficient discharge of the duties imposed by law on directors and adds value in the context of Oil Search's evolving circumstances. Accordingly, Oil Search has structured its Board so that it:

- Has a proper understanding of, and competence to deal with, the current and emerging issues in Oil Search's business;
- Exercises independent judgement;
- Encourages enhanced performance of the Company; and
- Can effectively review and challenge management's performance and exercise independent judgement.

During 2009:

- A majority of Oil Search's directors were independent as assessed in accordance with the Board Charter and the Corporate Governance Recommendations and meet regularly without management present; *(Recommendation 2.1)*
- The Chairman, Brian Horwood, was an independent director; *(Recommendation 2.2)* and
- The roles of Chairman and Managing Director were performed by different people. *(Recommendation 2.3)*

The Board has a Remuneration and Nominations Committee comprising four independent directors. The members of the Remuneration and Nominations Committee and their attendance at meetings of the Committee during 2009 are detailed in the Directors' Report. The responsibilities of the Remuneration and Nominations Committee include responsibility for the identification of suitable candidates for appointment to the Board, in the event of a need to recruit a new director. *(Recommendations 2.4 and 2.6)*

The Oil Search Board has a formal annual review process for the Board and individual directors. This process was adhered to in 2009. In particular, during the year each director was asked to complete a detailed questionnaire covering the performance of the Board as a whole, the performance of the three Board Committees, the individual director's own performance and the performance of the Chairman. Each director was also asked to state whether he supported the re-election of those directors who are due to retire at the next annual meeting. During early 2009, the Chairman met with each director to review their responses to the questionnaire and to give the director the Chairman's own views on how the director had performed during 2009. A more detailed explanation of Oil Search's annual review process for the Board and individual directors is available on Oil Search's website in the corporate governance section. *(Recommendation 2.5)*

The skills, experience and relevant expertise of each director in office at the date of the annual report is detailed in the Directors' Report. Prior to their appointment to the Board, directors are required to provide the Chairman with details of their other commitments to make sure that, following their appointment, directors will have sufficient time to carry out their Oil Search duties. *(Recommendation 2.6)*

Each Oil Search director (other than the Managing Director, Peter Botten and Executive Director, Gerea Aopi) is considered by the Board to be an independent director. The independence of directors is assessed regularly. For the avoidance of doubt, only non-executive directors (that is, a director who is not a member of management) is considered independent. The Board takes account of all circumstances relevant to a director in determining whether the director is free from any external interest or any business or other relationship which could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company. In determining materiality the Board has regard, among other things, to the matters detailed in paragraph 3.3 of the Board Charter. *(Recommendations 2.1 and 2.6)*

There is a procedure in place for directors to take independent professional advice. In particular, a director may obtain independent professional advice if this is reasonably required to assist the director in the proper exercise of the powers and discharge of the duties of a director of the Company. The costs of such independent professional advice are borne by the Company provided that before engaging the independent professional adviser, the director obtains the approval of the Chairman, or, if the director is the Chairman, the approval of a majority of the non-executive directors of the Company. *(Recommendation 2.6)*

The period of office held by each director in office at the date of the 2009 Annual Report is specified in the Directors' Report. *(Recommendation 2.6)*

Oil Search's Constitution and the Charter of the Remuneration and Nominations Committee are available on Oil Search's website in the corporate governance section. *(Recommendation 2.6)*

PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Oil Search actively promotes ethical and responsible decision making.

Oil Search has a Code of Conduct which is supported by a training module and periodic monitoring of compliance. Amongst matters addressed, the Code of Conduct details the Company's requirements regarding monetary payments and gifts offered by third parties to Oil Search personnel.

The Company recognises that Oil Search personnel should not have an unfair advantage over other investors in trading in Oil Search securities. Under Oil Search's Securities Dealing Policy which was last updated in October 2008, no employee is permitted to deal in Oil Search securities, except during prescribed trading windows and senior executives are required to obtain approval prior to any proposed dealings. Subject to Board confirmation, those trading windows will generally be the period of four weeks following the release of the yearly and half yearly results and the period of four weeks following the annual meeting. *(Recommendation 3.2)*

The Code of Conduct and the Securities Dealing Policy are available on Oil Search's website in the corporate governance section. *(Recommendation 3.3)*

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Oil Search recognises the importance of being able to independently verify and safeguard the integrity of the Company's financial reporting and has a structure in place to achieve this. This structure includes:

- Review and consideration of the financial statements by the Audit Committee; and
- A process to ensure the independence and competence of the Company's external auditors.

The Board has an Audit Committee. *(Recommendation 4.1)*

At all times during 2009 the Audit Committee consisted of:

- Non-executive directors only;
- Independent directors only;
- An independent chairman who was not chairman of the Board; and
- Four members. *(Recommendation 4.2)*

The Audit Committee has a formal charter that details its role and responsibilities, composition, structure and membership requirements. *(Recommendation 4.3)*

The members of the Audit Committee, their qualifications and their attendance at meetings of the Committee during 2009, are detailed in the Directors' Report. *(Recommendation 4.4)*

The meetings of the Audit Committee held during 2009 are detailed in the Directors' Report. *(Recommendation 4.4)*

The external auditors attended all Audit Committee meetings in 2009. The external auditors held discussions at each meeting with the Committee members and without management present. Oil Search's policy is to appoint an internationally recognised external audit firm with expertise in the resources sector. Deloitte Touche Tohmatsu was initially appointed the Company's auditor in May 2002. The Audit Committee review the performance of the external auditor and the rotational plan for external audit partners. The Committee recommends the tendering and selection of the external auditor to the Board. The external audit was tendered in March 2009 to a range of qualified international audit firms, with Deloitte Touche Tohmatsu successful in resecuring the role. The reappointment of Deloitte Touche Tohmatsu was approved at the 2009 Annual Meeting.

Internal auditing processes are carried out by Oil Search's Assurance and Compliance Manager, with assistance from external consulting firms, including KPMG.

The Audit Committee Charter is available on Oil Search's website in the corporate governance section. *(Recommendation 4.4)*

MAKE TIMELY AND BALANCED DISCLOSURE

Oil Search promotes timely and balanced disclosure of all material matters concerning the Company. Oil Search has mechanisms designed to ensure compliance with the ASX Listing Rule requirements, such that:

- All investors have equal and timely access to material information concerning the Company – including its financial position, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way including disclosure of both positive and negative information.

Oil Search has written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior manager level for that compliance. *(Recommendation 5.1)*

Reflecting its commitment to maintaining good governance practice, Oil Search in 2009 has elected for the first time to include the Remuneration Report within the Directors' Report. The Remuneration Report also complies with section 300A of the Australian *Corporations Act 2001* and has been audited.

Oil Search's External Communication and Disclosure Standard is available on Oil Search's website in the corporate governance section. *(Recommendation 5.2)*

RESPECT THE RIGHTS OF SHAREHOLDERS

Oil Search aims to empower its shareholders by:

- Communicating effectively with them;
- Giving them ready access to balanced and understandable information about the Company and corporate proposals; and
- Making it easier for them to participate in annual meetings.

Oil Search has a Communication Standard designed to promote effective communication with shareholders and encourage their participation at general meetings. *(Recommendation 6.1)*

As a company incorporated in Papua New Guinea, Oil Search's Annual Meeting is held in Port Moresby. The meeting is web-cast to shareholders outside Papua New Guinea. Oil Search's Constitution requires the Chairman of the Annual Meeting to allow a reasonable time for shareholders at the meeting to question, discuss and comment on the management of the Company. A representative of the external auditor attends Oil Search's Annual Meeting. The representative is available at the meeting to answer shareholder questions about the audit and the Auditor's Report.

The Oil Search website is regularly updated so as to give all shareholders ready access to balanced and easy to understand information about the Company and its business.

Oil Search liaises closely with a range of relevant institutions, including the Australian Shareholders Association. Shareholder queries are answered promptly, comprehensively and courteously.

Oil Search's website details how investors may contact our investor relations team. In addition, the website contains contact details for our external share registry, including a general enquiry line, fax number and email details. *(Recommendation 6.2)*

RECOGNISE AND MANAGE RISK

Oil Search recognises that risk management is an integral part of the oil and gas business and has in place an extensive system of risk oversight, management and internal control.

Oil Search conducts an annual review of its risk management policies. These reviews cover the following:

- The process for reporting on the management of material business risks.
- Board review of management reporting on material business risks.
- Coverage of opportunities for exposure to risk in the risk management network.
- External reporting.

Oil Search has policies and standards in place covering the oversight and management of material business risks. These policies and standards are based upon management of the risks inherent in Oil Search's business activities. Oil Search's risk profile incorporates the following areas of exposure:

- Strategic and business
- Asset and operations management
- Governance
- Financial
- Information technology
- Community relations
- Health, safety and security
- Environmental
- Human resources.

The Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks. Management reports to the Board on those material business risks. *(Recommendations 7.2 and 7.4)*

Oil Search has developed standards and management processes in support of the policies covering each of these areas. Oil Search's website contains a summary of these policies, standards and processes. *(Recommendation 7.1)*

In developing its risk management systems, Oil Search has carefully considered its legal obligations and its responsibilities to various interest groups. Oil Search recognises that many groups, including shareholders, employees, customers, suppliers, creditors, consumers, landowners, government authorities and the broader community in which the Company operates, have a legitimate interest in the Company's risk management policies. Oil Search takes account of those separate interests as appropriate. Oil Search's principal concern, however, is its shareholders.

Oil Search's risk management framework is based on the internationally accepted "Enterprise Risk Management (ERM) Model" for assessing and managing risk, developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Oil Search also follows the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004).

Oil Search has identified its material business risks and is actively managing those risks. All material business risks that arise in the course of the Company's activities have clearly defined management ownership and accountability for reporting to the Board.

The Board is responsible for reviewing the Company's policies on risk oversight and management. In doing so, the Board satisfies itself that management has developed and implemented a sound system of risk management and internal control.

Oil Search has a Finance and Risk Management Committee responsible for monitoring the risk management system. While the Finance and Risk Management Committee assists the Board fulfil its risk oversight obligations, ultimate responsibility for risk oversight and risk management rests with the full Board.

Minutes of all Board committees are reviewed by the full Board. The Chairman of the Board attends committee meetings as an ex officio member. Board members are also invited to attend senior management meetings to observe the risk management process in action. The members of the Finance and Risk Committee, their qualifications and attendance at meetings of the Committee during 2009 are detailed in the Directors' Report.

Oil Search has a full time Assurance and Compliance Manager with responsibility for managing the internal audit function. As part of his/her duties, the Assurance and Compliance Manager provides independent assurance on the adequacy and effectiveness of the Company's risk management framework, and the completeness and accuracy of risk reporting by management. The Assurance and Compliance Manager conducts annual risk reviews based on a plan agreed with management and the Audit Committee and the Finance and Risk Committee. The Assurance and Compliance Manager has access to all members of the management team and the right to seek information and explanations from any staff member or contractor.

The Assurance and Compliance Manager is independent of the external auditor and meets privately with the Chairman of the Audit Committee. The Assurance and Compliance Manager is also invited to attend Audit Committee meetings. The Audit Committee reviews the performance of the Assurance and Compliance Manager and approves his/her appointment and termination.

The Managing Director and Chief Financial Officer are both required to state in writing to the Board that the integrity of the Company's financial statements is based on a sound system of risk management as well as internal compliance and control which implements the Board's policies.

In addition, senior managers are required to report to the Managing Director and to the Chief Financial Officer in writing concerning material business risks and liabilities that are within the particular senior manager's area of responsibility.

The Board requires the Managing Director and the Chief Financial Officer to provide a declaration in accordance with section 295A of the Australian *Corporations Act 2001*. The Board received this declaration from the Managing Director and the Chief Financial Officer in 2009. In addition, as noted above, the Board also received a report from management in 2009 regarding material business risks. *(Recommendations 7.3 and 7.4)*

A summary of the Company's policies on risk oversight and management is available on Oil Search's website in the corporate governance section. *(Recommendation 7.4)*

REMUNERATE FAIRLY AND RESPONSIBLY

Oil Search's policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable and that the relationship between remuneration and corporate and individual performance is clear.

Oil Search has established a Remuneration and Nominations Committee. *(Recommendation 8.1)*

Oil Search clearly distinguishes the structure of non-executive director remuneration from that of executive director and senior executive remuneration. Oil Search's policy in relation to remuneration is detailed in the Remuneration Report. *(Recommendation 8.2)*

The payment of any equity based remuneration is made in accordance with plans approved by shareholders. Oil Search has an Employee Share Option Plan, a Performance Rights Plan and a Restricted Share Plan. Non-executive directors do not participate in these plans.

Within the aggregate amount approved by shareholders, the fees of the Chairman and non-executive directors are set at levels in line with the responsibilities of those directors and the time spent by those directors in discharging their duties. In setting fees, regard is also given to the level of fees paid to directors of similar companies. Non executive directors are not currently entitled to retirement benefits, other than statutory superannuation. *(Recommendations 8.2 and 8.3)*

Remuneration packages of senior executives include both short-term and long-term performance based components. Rights granted under the Performance Rights Plan to senior executives are linked to the long-term return to shareholders from investing in Oil Search. Performance Rights only vest following satisfaction of performance hurdles that are designed to maximise shareholder wealth. Further details of the terms and conditions of short-term and long-term incentive plans are set out in the Remuneration Report.

The members of the Remuneration and Nominations Committee, their qualifications and attendance at meetings of the Committee during 2009 are detailed in the Directors' Report. *(Recommendation 8.3)*

The Remuneration and Nominations Committee's charter is available on Oil Search's website in the corporate governance section. *(Recommendation 8.3)*

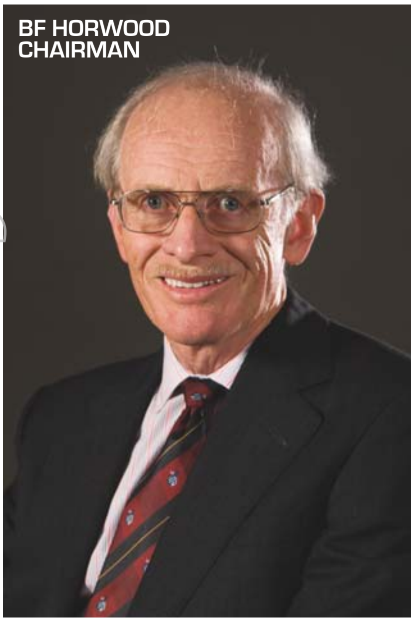
Oil Search's Securities Dealing Policy expressly prohibits employees entering into transactions in financial products ("Transactions in Associated Products") which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. *(Recommendation 8.3)*

TRANSPARENCY

Oil Search wants all its shareholders and other stakeholders to have confidence in its corporate governance practices.

With this in mind Oil Search continued to focus on high quality disclosure during 2009 so that investors were able to invest in the most transparent environment possible.

Oil Search will continue to adjust its practices and procedures where experience shows this is necessary to deliver against the stated objective of transparency.


BF HORWOOD
CHAIRMAN


PR BOTTEN


G AOPI


JL STITT


R IGARA


KG CONSTANTINOU


TN WARREN


EF AINSWORTH


MDE KRIEWALDT

FINANCIAL STATEMENTS CONTENTS

The directors submit their report for the financial year ended 31 December 2009.

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 BF Horwood, B.Comm., F.A.I.C.D., F.C.P.A. (Chairman), Non-Executive, 68 years

Mr Horwood was appointed a director on 28 May 2004 and Chairman of Oil Search on 1 June 2004. Prior to joining Oil Search, Mr Horwood had 35 years experience with the Rio Tinto Group, having held executive positions in Australia, the United Kingdom and Papua New Guinea. Most recently, Mr Horwood was Managing Director, Rio Tinto-Australia. Mr Horwood was previously the Chairman of Energy Resources of Australia Limited and Coal and Allied Industries Limited. He has been a member of the Business Council of Australia and a director of the Minerals Council of Australia.

Ordinary shares, fully paid: 12,500; Options: nil

Mr PR Botten, CBE, B.Sc. ARSM, (Managing Director), Executive, 55 years

Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is immediate past President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is also a Director of Business for Millennium Development. He was awarded Commander of the Order of the British Empire (CBE) in the 2008 Queen's Birthday Honours List for services to commerce and the mining and petroleum industry in Papua New Guinea.

Ordinary shares, fully paid:1,403,590; Options: nil; Performance Rights: 995,591; Restricted shares: 453,918

Mr EF Ainsworth, AM, B.Comm., F.A.I.C.D., F.C.P.A., Non-Executive, 64 years

Mr Ainsworth joined the Board in October 2002. Mr Ainsworth has extensive energy and resources industry experience. He spent 26 years with CSR Limited ("CSR"), mainly in CSR's resources businesses, including seven years in CSR's Oil and Gas Division, and five years as Managing Director of Delhi Petroleum Pty Ltd ("Delhi"). When CSR sold Delhi he became Managing Director and CEO of Sagasco Holdings Limited, then the fourth largest oil and gas company listed on the ASX. Mr Ainsworth is Chairman of Horizon Oil Ltd and a non-executive Director of Envestra Ltd (both ASX listed companies) and, from 1 January 2006, Chairman of the unlisted Tarac Australia Ltd. He was formerly Chairman of SA Generation Corporation (the South Australian Government owned coal mining and electricity generating Corporation).

Ordinary shares, fully paid: nil; Options: nil

Mr G Aopi, CBE, Executive, 55 years

Mr Aopi was appointed an Executive Director in May 2006 and presently fills the position of General Manager PNG (Papua New Guinea), a post he took up in August 1998. 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. He is presently Chairman of Independent Public Business Corporation (IPBC) and Telikom PNG Ltd. Mr Aopi is a Director of Steamships Trading, Bank of South Pacific and a number of other private sector and charitable organisations in Papua New Guinea.

Ordinary shares, fully paid: 124,066; Options: nil; Performance Rights: 164,972; Restricted shares: 102,920

Mr KG Constantinou, OBE, Non-Executive, 52 years

Mr Constantinou joined the Board in April 2002. Mr Constantinou is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. He is a director of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Heritage Park Hotel and Gazelle International Hotel. Mr Constantinou joined the board of Bank of South Pacific in April 2009. He is also Deputy President of the Employers Federation of Papua New Guinea, a director of Airlines of PNG, Chairman of the National Physical Planning Board, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.

Ordinary shares, fully paid: nil; Options: nil

Mr R Igara, CMG, M.B.A, B.E., Grad.Dip.(International Law), Non-Executive, 57 years

Mr Igara joined the Board in April 2002. At that time he was one of Papua New Guinea's most highly placed civil servants and he has extensive experience in the public sector, in international relations and multilateral development and financial matters. He served as a diplomat in Suva and Canberra and as the Secretary to the Department of Trade & Industry. He was formerly Chief Secretary to Government in PNG, Acting Secretary for Treasury and Chairman of Mineral Resources Development Company Limited. Mr Igara was an independent director of Orogen Minerals. He has also held Chairmanships of other Boards of statutory bodies, including the PNG Investment Promotion Authority. He was a member of the Board of the Bank of Papua New Guinea from 2001 to 2005. He was the founding Chief Executive Officer of PNG Sustainable Development Program Ltd from 2002 to 2008, a company which has a 52% interest in Ok Tedi Mining Ltd, and since March 2008 to June 2009 the Executive Director (Strategic Investments Group) within PNGSDP Ltd. He currently manages their family business. He was appointed a director of a new corporate advisory and investment services firm National Capital Ltd (NCL) of Papua New Guinea in August 2009. He also serves on the boards of several community and not-for-profit organisations in PNG and the Pacific.

Ordinary shares, fully paid: 10,000; Options: nil

Mr MDE Kriewaldt, B.A., LLB. (Hons), F.A.I.C.D., Non-Executive, 60 years

Mr Kriewaldt joined the Board in April 2002. Mr Kriewaldt is a director of Suncorp Metway Limited, Campbell Brothers Limited, Macarthur Coal Limited, BrisConnections and ImpediMed Limited. He is Chairman of Opera Queensland. He has previously served as a director of GWA International Limited, Peptech Limited and Orogen Minerals Limited and as Chairman of Suncorp Insurance and Finance, Infratil Australia Limited, Hooker Corporation Limited and Airtrain Citylink Ltd.

Ordinary shares, fully paid: 14,590; Options: nil

Mr JL Stitt, M.A. (Hons), F.A.I.C.D., Non-Executive, 66 years

Mr Stitt joined the Board in April 1998. He has extensive experience in the international oil and gas business, having worked for 33 years with the Royal Dutch/Shell Group of companies including inter alia being responsible for Shell's world wide procurement, Director of Finance for Shell Australia, and President and CEO of Shell Japan. Mr Stitt is a former director of Woodside Petroleum Limited, Mitsubishi Chemicals K.K. and Showa Shell Sekiyu K.K.

Ordinary shares, fully paid: 42,190; Options: nil

Mr TN Warren, B.Sc. (Hons), Non-Executive, 61 years

Mr Warren joined the Board in May 2006. Mr Warren has had a long and distinguished career with the Shell Group of Companies, spanning many different areas of its business. He retired as Chairman of the Shell companies in Australia and the Pacific Islands on 1 May 2006, after more than 35 years with the Group. Prior to 2002, Mr Warren served as Business Director for Asia-Pacific and Australasia (2001-2002), Director of Exploration and Production Research and Technical Services (1995-2001), General Manager Western Division of the Shell Petroleum Development Company in Nigeria (1993-1995), and General Manager Operations for the Shell Petroleum Development Company in Nigeria (1992-1993). Mr Warren also held various other senior positions within the Group and was a member of Shell's Global Executive Committee for the Exploration and Production Business (1995-2002). Mr Warren was previously a director of Woodside Energy Ltd and was a member of the Business Council of Australia (2002-2006). He is a Director of the Save The Children International Alliance and Chairman of World Energy Council Australia Ltd.

Ordinary shares, fully paid: nil; Options: nil

GROUP SECRETARY

Mr MG Sullivan, B.A., Ll.B., Ll.M., FCIS, 52 years (Resigned 18 May 2009)

Mr Sullivan joined Oil Search in 1997 as General Counsel.

Ordinary shares, fully paid: 94,017; Options: nil; Performance Rights: nil; restricted shares: nil

(Number of ordinary shares held are at the date of ceasing employment with the Group)

Mr SW Gardiner, B.Ec. (Hons), ASA 51 years (Appointed 18 May 2009)

Mr Gardiner joined Oil Search Limited in 2003, after a 20 year career in finance at two of Australia's largest multinational construction materials companies (CSR Limited and Pioneer International Limited) and at Hutchison Telecomms. Mr Gardiner's roles at Oil Search have covered senior corporate finance responsibilities, including twelve months as Acting Chief Financial Officer. In addition to his current role of General Manager Corporate Finance, he was appointed Group Secretary in May 2009.

Ordinary shares, fully paid: 81,672; Options: nil; Performance Rights: 103,453; restricted shares: 38,200

RESULTS AND REVIEW OF OPERATIONS

Financial

The consolidated entity delivered a net profit of US$133.7 million (2008: US$313.4 million) for the year, after providing for income tax of US$106.2 million (2008: US$206.9 million). Excluding significant items (namely, profit on transfer/sale of assets and tax and impairment adjustments), the net profit decreased by 58.5% on the prior year to US$99.6 million, driven by lower revenues.

Operations

2009 revenue from operations was US$512.2 million (2008: US$814.3 million), with crude oil sales contributing US$454.7 million (2008: US $746.8 million). The 39% crude revenue decrease on the prior year was driven by a 35% decrease in realised oil prices from US$100.10/bbl in 2008 to US$65.40/bbl in 2009, and a 7% decrease in oil sales volumes to 6,953,000 barrels. The Company did not enter into any hedges during the period and remained unhedged to oil price movements.

Cash operating expenses declined to US$102.8 million in 2009, compared to US$116.3 million in 2008, in line with lower production and sales and also reflecting tight cost control in the face of inflationary pressures within PNG.

Amortisation and depreciation charges decreased by US$21.8 million, from US$127.2 million to US$105.4 million, due to lower sales volumes, a more favourable mix of production towards fields with lower amortisation rates and lower drilling rig depreciation due to reduced rig utilisation during the period.

Exploration costs expensed during 2009 totalled US$75.7 million, compared to US$91.2 million, due to the lower exploration capital spend on drilling activities. Exploration and evaluation expenditure during the year, including expenditure on the PNG LNG Project and other gas commercialisation activities, was US$438.9 million (2008: US$257.3 million) and development/production expenditure was US$142.3 million (2008: US$161.8 million).

Total oil and gas production, net to the Company, was 8.12 million barrels of oil equivalent (mmboe) in 2009 compared with 8.58 mmboe in 2008, with the 5% year-on-year reduction reflecting underlying field decline rates of about 20% and the sale of MENA producing assets in 2008, partially offset by contributions from the development drilling and well workover campaigns.

In December 2009 the PNG LNG Project coventurers announced that the project had been approved, pending completion of sales and purchase agreements with buyers and finalisation of financing arrangements with lenders. Shortly thereafter, financing documents were executed with a range of export credit agencies, international banks and ExxonMobil, to provide project financing for 70% of the project development costs, with financial close expected in the first quarter of 2010.

The Company's financial position remains healthy, with cash and cash equivalent holdings of US$1,288.1 million (2008: US$534.9 million), including US$33.2 million (2008: $17.4 million) held in joint venture accounts, and no debt at the end of December. The liquidity of the Company was bolstered in October 2009 by a share placement of 151,686,182 shares to institutional investors, and a share purchase plan for eligible shareholders of 6,874,669 shares, raising a total of A$935 million (US$846.6 million net of fees and costs).

DIVIDENDS

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2008: US 4 cents final dividend), to ordinary shareholders in respect of the financial year ended 31 December 2009. The due date for payment is 9 April 2010 to all holders of ordinary shares on the Register of Members on 17 March 2010. The Company's dividend reinvestment plan will remain in operation for the final dividend. Dividends paid and declared during the year are recorded in note 8 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Oil Search 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 of producing and exploration joint ventures and as a non-operator participant in exploration and production joint ventures.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

COMMITTEES OF THE BOARD

During the year ended 31 December 2009 the Company had an Audit Committee, a Remuneration and Nominations Committee, and a Finance and Risk Committee. Members comprising the committees of the Board during the year were:

Audit: Mr MDE Kriewaldt (Chairman), Mr EF Ainsworth, Mr R Igara and Mr JL Stitt. Mr BF Horwood is an ex officio attendee;

Remuneration and Nominations: Mr TN Warren (Chairman), Mr KG Constantinou, Mr R Igara and Mr JL Stitt. Mr BF Horwood is an ex officio attendee;

Finance and Risk: Mr EF Ainsworth (Chairman), Mr G Aopi, Mr KG Constantinou, Mr MDE Kriewaldt and Mr TN Warren. Mr BF Horwood is an ex officio attendee.

ATTENDANCES AT DIRECTORS' AND COMMITTEE MEETINGS

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

		MEETINGS OF COMMITTEES		
DIRECTORS	DIRECTORS' MEETINGS	AUDIT[1]	REMUNERATION AND NOMINATIONS	FINANCE AND RISK[1]
Number of meetings held	7	4	6	4
Number of meetings attended				
BF Horwood[2]	7	4	6	4
PR Botten	7	–	–	–
EF Ainsworth	7	4	–	4
G Aopi	7	–	–	4
KG Constantinou	7	–	6	4
R Igara	7	3	6	–
MDE Kriewaldt	7	4	–	4
JL Stitt	7	4	6	–
TN Warren[4]	5	–	3	3

(1) The Managing Director and Chief Financial Officer attend meetings at the request of the Committee.
(2) Mr Horwood is ex-officio attendee at all the Committees.
(3) Other members of the Board have attended various Committee meetings during the year. These attendances are not included in the above table.
(4) Mr Warren was unable to attend meetings in late 2009 due to illness and has taken leave of absence from the Board with effect from 1 January 2010.

ENVIRONMENTAL DISCLOSURE

The economic entity complies with all environmental laws and regulations and operates at the highest industry standard for environmental compliance. The economic entity has provided for costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the producing assets in which it holds a participating interest.

CORPORATE INFORMATION

Oil Search Limited is a company limited by shares and is incorporated and domiciled in Papua New Guinea. The economic entity had 976 employees as at 31 December 2009 (2008: 1,021). Oil Search Limited is listed on the Australian Securities Exchange and PNG Stock Exchange.

SHARE BASED PAYMENT TRANSACTIONS

There were 1,340,800 (2008: 1,788,080) share options granted during the year to employees under the Employee Share Option Plan, 1,774,985 (2008: 2,437,300) performance rights under the Employee Rights Plan, and 1,397,350 (2008: 481,635) restricted shares issued under the Restricted Share Plan.

As at 31 December 2009 there were 6,511,498 (2008: 6,795,186) performance rights outstanding and 4,481,325 (2008: 4,549,767) options outstanding to take up unissued ordinary shares and 3,626,401 (2008: 2,312,996) restricted shares in Oil Search Limited. These are further detailed in note 24 to the financial statements.

DIRECTORS' AND OTHER OFFICERS' REMUNERATION

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

Details of the amount, in US dollars, of each element of the emoluments for the financial year for directors and executives of the company are disclosed in note 25 to the financial statements.

REMUNERATION REPORT

1 REMUNERATION REPORT

This report has been prepared in accordance with section 300A of the 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 2009 to 31 December 2009. During the year Oil Search has voluntarily complied with section 300A of the Corporations Act 2001 to ensure it meets current best practice reporting for ASX listed companies.

2 REMUNERATION POLICY

Oil Search has a Remuneration Policy based upon "Reward for Performance", where each individual employee's remuneration is differentiated based on various measures of corporate, team, and individual performance.

The objectives of the Oil Search remuneration policy are to:

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

Remuneration for non-executive directors is established using advice from external independent consultants and takes into account:

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

Oil Search has a share trading policy in place for all employees, including key management personnel and directors. Under this policy, employees and directors are not allowed to deal in Oil Search securities outside trading windows, which are generally the four weeks following the announcement of full and half year results, and four weeks following the Annual General Meeting.

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 REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee (the Committee) of the Board provides advice and recommendations to the Board regarding remuneration matters. The Committee's responsibilities for remuneration include:

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration policies;
- Recommendation to the Board on the specific remuneration of executive directors, key management personnel and any other direct reports to the Managing Director;
- Recommendation to the Board of budgets for annual remuneration awards to all other employees;
- Recommendation to the Board on performance measures underpinning all Incentive Plans;
- Proposal to the Board of outcomes for any performance measures underlying Incentive Plans;
- Proposal to the Board of terms and conditions and contracts for any new Directors;
- Approval of terms and conditions and contracts for any new key management personnel and other direct reports of the Managing Director.

The Committee must comprise at least four non-executive directors and the members of the Committee during the year were:

- Mr TN Warren (Chair) – independent non-executive
- Mr KG Constantinou OBE – independent non-executive
- Mr R Igara CMG – independent non-executive
- Mr JL Stitt – independent non-executive

All members of the committee were in place for the full year. The Chairman of the Board, Mr B Horwood, is an ex-officio member of the Committee and attended six meetings of the Committee in 2009. 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 met six times during the year and the Committee Members' attendance records are disclosed in the Directors' Report. A copy of the charter of the Remuneration & Nominations 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. The table below summarises work undertaken by external consultants at the Committee's request in 2009 and also notes additional work undertaken by the same consultants on behalf of management. Where a consultant was engaged by the Committee or the Board their findings were reported directly to the Committee or the Board.

Table 1 – External Consultants Engaged by the Committee in 2009

CONSULTANT	COMMITTEE & BOARD ENGAGEMENTS	MANAGEMENT ENGAGEMENTS
Ernst & Young	Review of employee share plans Total Shareholder Return (TSR) reporting and equity grant fair value calculations	Advice on legislative tax changes Management of employee relocations Individual tax advice to expatriate employees
Hewitt	Review of executive remuneration and market practice on incentives Key Management Personnel remuneration	General remuneration data
Freehills	Review of employee share plan rules Review of Oil Search Share Trading Policy	

4 REMUNERATION STRUCTURE

Oil Search's remuneration structure comprises four elements:

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

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

Total Fixed Remuneration (TFR)

The ranges of TFR payable for all Company positions in the organisation, including those for key management personnel are 80% – 120% of competitive benchmarks. An independent external remuneration consultant engaged by the Committee provides competitive benchmarks for key management personnel. For other roles in the organisation, remuneration information is derived from annual job matching surveys conducted by independent third parties.

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

Short-Term Incentive (STI)

Each employee has the opportunity to earn an annual STI which is based on a percentage of his or her TFR. The STI percentage increases with seniority to ensure a higher proportion of remuneration is "at risk" for our senior employees. The actual STI earned by an employee will be based on a mix of achievement against specific company performance hurdles and his or her individual performance.

At the start of each year, the Board determines the hurdles and target levels of performance required to earn an annual STI. The hurdles are derived presently from:

- Corporate performance against operational metrics which include: Safety; Production; Costs; Increases in Hydrocarbon Reserves under development; and
- Transformational metrics which include: Acquisition of new Hydrocarbon Resources and Achievement of tangible value adding milestones towards Commercialisation of Significant Gas Volumes.

The size of any STI is thus directly related to corporate performance through a range of key measures that affect Shareholder Value.

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.

Employees have the ability to earn between 0% and 200% of their STI opportunity. However the target levels of performance set by the Board are challenging and payment of 100% of STI opportunity to an employee requires exceptional corporate and individual performance. Over the three years the STI program has been in operation, the overall level of STI paid to employees has been:

Table 2 – STI Awards to Employees

STI POTENTIAL RANGE	2007 ACTUAL	2008 ACTUAL	2009 ACTUAL
0% to 200% of STI Opportunity	65.6%	85.9%	**84.6%**

Long-Term Incentive (LTI)

Each employee also has the opportunity to participate in a LTI program. For the majority of employees, this takes the form of a grant of a specific number of Share Options, which are awarded to each individual, provided that the individual has demonstrated an acceptable level of personal performance. Awards under the Employee Share Option Plan (ESOP) are structured as options to acquire ordinary shares in the Company after a 3 year vesting period, at a price equal to the market value of the shares on the date the option is granted.

If a participant ceases employment, the participant will be entitled to exercise vested Share Options within 90 days after employment ceases, or such longer period as the Board may determine (except in the case of a participant's death where personal representatives of the participant may exercise vested Share Options up to 12 months from the date of death). If a participant dies or ceases employment, all unvested Share Options lapse unless the Board determines otherwise.

Any vested Share Options that remain unexercised lapse on the fifth anniversary of their date of grant.

The Employee Share Option Plan rules provide flexibility to allow the use of newly issued or existing shares (for example, through purchase on market) to satisfy awards under the ESOP.

Share Options do not attract any right to dividends or voting.

The Board determines the appropriate size of each award under the ESOP and all eligible employees receive the same number of options. The initial awards under the ESOP were made following the 2004 Annual General Meeting and details of awards for the past five years are presented in the table below:

Table 3 – Details of Awards Under the Employee Share Option Plan (ESOP)

GRANT YEAR	2005	2006	2007	2008	2009
Grant Date	28 Oct 05	28 Jul 06	7 May 07	4 Aug 08	**1 Jun 09**
Vesting Date	13 May 08	28 Jul 09	7 May 10	5 May 11(1)	**13 May 12**(2)
Options per Employee	2,185	2,168	2,170	2,170	**1,600**
Total Options Awarded	1,488,753	1,638,840	1,811,950	1,788,080	**1,340,800**
Exercise Price (A$)	$2.29	$4.15	$3.57	$4.88	**$5.22**

(1) Although the grant of awards under the ESOP in 2008 was delayed due to organisational restructuring following the sale of assets in the Middle East, the Board approved the retention of the previously planned vesting date.

(2) The impact of tax changes on employee share plans in Australia was not clarified until late May 2009 and while the grant was delayed until 1 June 2009, the Board approved the retention of the previously planned vesting date.

The employee benefits from an ESOP grant only if the value of Oil Search shares increases over the five year life of the option, so this form of LTI is directly related to Shareholder Value. The ESOP encourages employees to associate themselves with increasing Shareholder Value.

For key management personnel, and other key/critical managers and staff approved by the Board, the LTI program takes the form of a grant of Performance Rights. Awards under the Performance Rights Plan (PRP) 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 peer groups of companies. For awards prior to 2007, a single peer group of the first 150 companies included in the ASX 200 Index was used. From 2007 onwards, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

- The first 150 companies included in the ASX 200 Index; and
- A selected group of similar sized international oil and gas exploration and production companies.(1)

(1) The current list of companies includes Anadarko Petroleum Corporation, AGL Energy Limited, AWE Limited, Cairn Energy, Canadian Natural Resources, Chesapeake Energy Corporation, Dana Petroleum, Lundin Petroleum, Murphy Oil Corporation, Newfield Exploration, Nexen, Origin Energy, Premier Oil, Roc Oil, Santos, and Tullow Oil.

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.

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.

As is the case with the ESOP, awards under the PRP are aligned with growth in Shareholder Value, measured in terms of Total Shareholder Return relative to other peer companies.

The first awards under the PRP were granted in 2004 and vested in June 2007. The table below details the vesting of Performance Rights issued under the Plan from 2005 to 2009:

Table 4 – Details of Awards Under the Performance Rights Plan[1]

GRANT YEAR	2005	2006	2007[2]	2008	2009
Measurement Period	1 Jan 05 to 31 Dec 07	1 Jan 06 to 31 Dec 08	1 Jan 07 to 31 Dec 09	1 Jan 08 to 31 Dec 10	**1 Jan 09 to 31 Dec 11**
Total Rights Granted	4,076,954	2,736,955	2,783,746	2,437,300	**1,774,985**
Oil Search TSR (3 year)[1]	186%	39%	91%		
Percentile Rank (ASX 150)	85.3%	91.3%	96.0%		
Vesting	100%	100%	50%	May 2011	**May 2012**
Percentile Rank (Int'l Group)			87.5%		
Vesting			50%	May 2011	**May 2012**
Total Vesting	100%	100%	100%	May 2011	**May 2012**

(1) As per the PRP Rules, 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 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) While the 2007 performance rights will not vest until 7 May 2010, Oil Search relative TSR for the period 1 January 2007 to 31 December 2009 is available.

If a participant ceases employment, the participant will be entitled to exercise vested Performance Rights within 90 days after employment ceases, or such longer period as the Board may determine (except in the case of a participant's death when personal representatives of the participant may exercise vested Performance Rights up to 12 months from the date of death). If a participant dies or ceases employment, all unvested Performance Rights lapse unless the Board determines otherwise.

Any vested Performance Rights that remain unexercised lapse on the fifth anniversary of the date of grant.

The Performance Rights Plan rules allow the Company to use newly issued or existing shares (for example, through purchase on market) to satisfy awards under the PRP.

Performance Rights do not attract any right to dividends or voting.

Retention Awards of Restricted Shares

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

Awards under the RSP are structured as grants of restricted shares for nil consideration. 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.

The number of Restricted Shares to be granted to the participant is the number of ordinary shares that can be acquired on market with reference to a specific percentage of the participant's total fixed remuneration (TFR) determined at the time of the grant.

Awards by way of retention under the Restricted Share Plan will only be made where the Board determines that a significant retention risk exists.

Shares were granted under the Restricted Shares Plan as retention awards in May 2007 and December 2007 and these will vest in January 2010 and December 2010 respectively. There have since been additional grants of Restricted Shares to the Executive General Manager Human Resources in 2008 and the Chief Financial Officer in 2009, as part of their recruitment arrangements.

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 are held in trust prior to them vesting and will be released from the trust upon vesting. Whilst the Restricted Shares are held in trust, the Restricted Shares will be subject to disposal restrictions and forfeiture conditions. 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.

The Restricted Share Plan rules allow the Company to use newly issued or existing shares (for example through purchase on market) to satisfy awards under the Plan.

The 50% deferred portion of an executive's STI is awarded as shares under the Restricted Share Plan (See section 5 below).

Restricted Shares do not attract any right to voting and Restricted Shares issued by way of retention do not attract any right to dividends. Any dividends payable on Restricted Shares issued as the deferred component of an executive's STI award shares while they are in trust are retained and paid to the executive once the shares have vested.

PNG Retention Program

The PNG LNG Project will significantly change the employment landscape in Papua New Guinea, with the project operator and its contractors looking to hire employees who have similar, if not identical skills to our local workforce. Given the scarcity of experienced local employees in the oil and gas industry in PNG, the retention of our key PNG Citizen employees will be a major factor in ensuring the ongoing viability of our oil operations business.

In order to minimise the risk of losing key/critical employees, a number of initiatives have been implemented during 2009. One of the initiatives was the creation of a retention program specifically designed for our PNG Citizen employees. The PNG Retention Program was implemented in June 2009 to coincide with the commencement of early works activities of the PNG LNG Project.

All permanent employees were eligible to participate in the PNG Retention Program, with any benefit earned under the program being realised in June 2013. The level of participation for employees was dependent on:

- The criticality of the employee's role;
- The employee's performance and potential; and
- The employee's engagement, values and attitude.

For those employees participating at the highest level, their notice period they are required to give to Oil Search on resignation was significantly increased for the duration of the program. The retention of our PNG Citizen employees will continue to be reviewed on a regular basis during the PNG LNG Project.

PNG LNG Project Bonus

The achievement of a final investment decision on the PNG LNG Project was a result of significant and sustained effort over the past few years. In recognition of the achievement and the significant value of the PNG LNG Project for Oil Search, the Board approved a one off bonus for all employees. The bonus is equivalent to 50% of an employee's STI opportunity (70% for the Managing Director) and will only be payable after financial close of the PNG LNG Project is achieved.

5 REMUNERATION OF KEY MANAGEMENT PERSONNEL

For this group, and other senior executives, remuneration is benchmarked against that of similar roles in a primary reference group of some 40 ASX companies of similar size to Oil Search in terms of Enterprise Value, Total Assets, Gross Revenue, and Net Profit after Tax. A smaller and secondary reference group of international energy and mining companies is used to assess whether any particular positions should be treated exceptionally.

Total Fixed Remuneration

TFR, which includes Company superannuation contributions and other remunerative benefits, is targeted within the range of the median and the 62.5 percentile of the reference group, depending on the international marketability and mobility of the executive concerned. Executives may choose to salary package items such as motor vehicles or superannuation contributions. However any costs arising from Fringe Benefits Tax (FBT) or any other tax 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 considered "at risk" remuneration, since any payment is dependent on performance. As explained in section 4 above, the Board's objective is that the size of these incentives should be related to how successful Oil Search is 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 on safety, production, costs, Increases in hydrocarbon reserves under development, and transformational metrics on acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant gas volumes.

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

Short Term Incentive

The STI is an incentive opportunity of between 0%-160% of a senior executive's TFR (0%-200% for the Managing Director), where 80% (100% for the Managing Director) would be awarded for achieving exceptional corporate and individual performance. It is awarded in March each year for performance in the previous calendar year. Performance significantly beyond expectations could be rewarded by STI's up to a maximum of 160% of TFR (200% of TFR for the Managing Director) but such awards would be unusual. Awards since the commencement of the scheme for performance year 2007 have averaged 61.4% of TFR for executives and 78.2% for the Managing Director.

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

For all senior executives, 50% of their STI award is paid in cash and the other 50% is converted to shares under the Restricted Share Plan (RSP) that was approved at the 2007 Annual General Meeting. The shares held under the RSP are held in Trust on behalf of the employee and vest on 31 December of the following year, providing the executive remains employed with Oil Search. Any dividends payable on the shares while they are in trust are retained and paid to the executive once the shares have vested. Further details on the RSP are included in the section on Retention Awards of Restricted Shares above.

Since the introduction of this scheme for performance in calendar year 2007, the Senior Executive STI has resulted in the following outcomes:

Table 5 – Senior Executive STI

	STI RANGE	2007 ACTUAL	2008 ACTUAL	2009 ACTUAL
Managing Director	0 – 200% of TFR	50.0%	100.0%	84.6%
Senior Executives	0 – 160% of TFR	44.0%	68.7%	71.4%

Long Term Incentive (LTI) – Performance Rights

Presently, the number of Performance Rights granted for the Managing Director and other senior executives is based on the following formula;

$$\frac{\text{X\% of TFR}}{\text{Audited Fair Value of one Performance Right}}$$

where X is 55% for the Managing Director and 35% for other senior executives, and "Audited Fair Value of one Performance Right" is the audited fair value at grant of one Performance Right, based on the 20 day Volume Weighted Average Price of Oil Search shares for the 20 trading days following the release of annual results in the year of award. The "Fair Value" is determined by an independent third party, presently Ernst & Young.

Table 6 – Allocation of Performance Rights and Share Options to Key Management Personnel

The grants and vesting level of performance rights over the past five years for current key management personnel is as follows;

	2005		2006		2007		2008		2009	
	NO.	VEST	NO.	VEST	NO.	VEST(1)	NO.	VEST	NO.	VEST
Directors										
P Botten	624,000	100%	361,000	100%	398,091	100%	338,600	2011	**258,900**	**2012**
G Aopi	85,000	100%	57,528(2)	100%	70,072	100%	48,900	2011	**46,000**	**2012**
Executives										
P Bainbridge			128,205	100%	109,258	100%	93,000	2011	**66,800**	**2012**
P Caldwell	116,500	100%	83,846	100%	58,000	100%	61,100	2011	**61,800**	**2012**
P Crute							65,900	2011	**47,400**	**2012**
N Hartley	166,292	100%	106,838	100%	90,012	100%	76,600	2011	**54,900**	**2012**
R Marcellus					91,831(3)	100%	78,200	2011	**56,100**	**2012**
A Miller	206,767	100%	135,256	100%	113,956	100%	96,900	2011	**69,600**	**2012**
Z Todorcevski(4)					66,485	100%	66,485	2011	**146,285**	**2012**
Officers of the Company										
S Gardiner	45,000	100%	24,462	100%	29,753	100%	38,700	2011	**35,000**	**2012**
Former Executives										
M Sullivan(5)	153,058	100%	94,017	100%	79,211	0%	2,170(6)	0%		

(1) The vesting date of 2007 Performance Rights is 7 May 2010. Oil Search's TSR for the period 1 January 2007 to 31 December 2009 will result in 100% vesting.

(2) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

(3) Due to the timing of the commencement the employment of R Marcellus in 2007, the allocation of 91,831 Performance Rights was made on a cash equivalent basis.

(4) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.

(5) M Sullivan resigned from Oil Search effective 31 July 2009.

(6) The grant in 2008 to M Sullivan was made under the Employee Share Option Plan.

Corporate Financial Performance

Table 7 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 7 – Oil Search's Five Year Performance

YEAR ENDED 31 DECEMBER	2005	2006	2007	2008	2009
Net profit after tax (US$m)	200.2	412.0	137.2	313.4	**133.7**
Diluted Earnings per share (US cents)	17.8	36.6	12.15	27.76	**11.10**
Dividends per share (US cents)	7.0	8.0	8.0	8.0	**4.0**
Shares closing price (A$)[1]	$3.65	$3.35	$4.85	$4.65	**$6.12**
Oil Search Three Year TSR[2]	454%	254%	186%	39%	**91%**

(1) The closing price of Oil Search shares is taken on the last day of the financial year.

(2) 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.

Over the five year period from 1 January 2005 to 31 December 2009, Oil Search TSR has been 293%.

Retention Awards of Restricted Shares

849,764 Restricted Shares were granted to the Managing Director and key management personnel in 2007 and will vest in 2010. The objective of these grants was to encourage the retention of their services during a very heated and competitive employment market in the industry.

6 REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

The key management personnel for the purposes of this report are the following employees:

Mr Peter Botten CBE – Managing Director

Incumbent for the full year

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

Mr Gerea Aopi CBE – Executive General Manager Government and Public Affairs and Executive Director

Incumbent for the full year

Gerea is responsible for Government and Public Affairs process in PNG and elsewhere. He is also charged with strategy development and enactment of our Community Affairs and social programs within the Company. Gerea also plays an important role in the interface between the Company, politicians and bureaucrats in PNG.

Mr Philip Bainbridge – Executive General Manager LNG

Incumbent for the full year

The Executive General Manager LNG is the person responsible for managing Oil Search's participation in the PNG LNG Project. Philip works closely with the other Joint Venture partners to ensure the success of the project.

Mr Philip Caldwell – Executive General Manager Oil Operations

Incumbent for the full year

Philip leads Oil Search's operations in PNG and Middle East/North Africa as well as HSES, Procurement, Projects and Subsurface functions.

Mr Paul Crute – Executive General Manager Human Resources

Incumbent for the full year

Paul 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 at the right time in order to achieve the strategic objectives of the organisation.

Mr Nigel Hartley – Executive General Manager LNG Financing

Incumbent for the full year

Nigel is the executive responsible for arranging the significant financing required for Oil Search to participate fully in the PNG LNG project.

Mr Robert Marcellus – Executive General Manager Gas New Business

Incumbent for the full year

Robert has the responsibility for developing new markets for Oil Search gas.

Mr Austin Miller – Executive General Manager Investment and Strategy

Incumbent for the full year

Austin's role is to lead all commercial aspects of Oil Search's business including initiating corporate and asset related strategic planning, general commercial matters and the Company's mergers and acquisitions function.

Mr Zlatko Todorcevski – Chief Financial Officer

Incumbent from 1 June 2009

Zlatko's role is to ensure a sound financial base for the Oil Search group of companies to operate and to provide regular reports incorporating the necessary information to monitor and manage the performance of the group.

Mr Stephen Gardiner – GM Corporate Finance/Group Secretary

Incumbent for the full year

Stephen was acting in the Chief Financial Officer role until the commencement of Zlatko Todorcevksi on 1 June 2009. Stephen also became the Group Secretary on 18 May 2009. In his role, Stephen is responsible for all Group secretarial matters.

Mr Michael Sullivan – General Counsel

Resigned 31 July 2009

In his role as General Counsel, Michael held the responsibility for all Company legal matters. Michael also held the office of Group Secretary until he resigned, effective 18 May 2009.

The remuneration philosophy outlined above is applied consistently to the Company's key management personnel. The following table shows the remuneration breakdown for the current key management personnel:

Table 8 – Current Key Management Personnel Remuneration Mix

ROLE	TFR	STI	LTI	"AT RISK"
Managing Director	39%	39%	22%	61%
GM Papua New Guinea	47%	37%	16%	53%
EGM LNG	47%	37%	16%	53%
EGM Oil Operations	47%	37%	16%	53%
EGM Human Resources	47%	37%	16%	53%
EGM LNG Financing	47%	37%	16%	53%
EGM Gas New Business	47%	37%	16%	53%
EGM Investment and Strategy	47%	37%	16%	53%
Chief Financial Officer	47%	37%	16%	53%
Officers of the Company				
GM Corporate Finance/Group Secretary	62%	19%	19%	38%

The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity. 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 AASB 2. The following table is in US Dollars and for all remuneration reporting where stated in US Dollars, the following exchange rates have been used:

EXCHANGE RATE	2008	2009
AUD/USD	0.8681	**0.7915**
PGK/USD	0.3902	**0.3806**

Table 9 – Key Management Personnel Remuneration (US$)

		SHORT TERM			POST EMPLOY-MENT	LONG TERM	EQUITY[6]		OTHER	TOTAL
NAME	YEAR	SALARIES, FEES AND ALLOW-ANCES[1]	NON MONE-TARY BENE-FITS[2]	SHORT-TERM INCENT-IVE[3]	COMPANY CONTRI-BUTION TO SUPER[4]	LONG SERVICE LEAVE ACCRUAL[5]	PERFORM RIGHTS	REST-RICTED SHARES	SIGN ON BENEFITS	
Directors										
P Botten	**2009**	**1,337,166**	**–**	**1,106,194**	**79,150**	**55,996**	**985,754**	**719,357**	**–**	**4,283,617**
	2008	1,528,724	–	1,405,946	86,810	108,691	937,505	297,576	–	4,365,252
G Aopi	**2009**	**562,806**[7]	**32,351**	**396,486**	**48,660**	**4,377**	**134,239**	**78,458**	**–**	**1,257,377**
	2008	310,347	52,677	291,685	19,732	6,125	100,121	87,142	–	867,829
Executives										
P Bainbridge	**2009**	**497,166**	**–**	**403,462**	**38,841**	**–**	**279,459**	**374,670**	**–**	**1,593,598**
	2008	572,868	–	391,865	44,056	–	219,985	256,860	–	1,485,634
P Caldwell*	**2009**	**663,516**	**–**	**345,474**	**–**	**58,006**	**184,598**	**105,312**	**–**	**1,356,906**
	2008	421,856	–	83,518	–	24,527	176,891	59,737	–	766,529
P Crute*	**2009**	**340,012**	**5,367**	**265,077**	**41,683**	**–**	**118,024**	**401,996**	**71,235**	**1,243,394**
	2008	272,581	–	214,806	7,866	–	37,228	262,233	296,601	1,091,315
N Hartley	**2009**	**352,349**	**8,669**	**338,274**	**55,405**	**12,591**	**230,611**	**207,598**	**–**	**1,205,497**
	2008	398,488	18,696	325,789	142,991	12,874	240,757	105,733	–	1,245,328
R Marcellus	**2009**	**420,438**	**–**	**285,556**	**11,163**	**9,483**	**139,944**	**168,510**	**–**	**1,035,094**
	2008	492,926	–	280,045	50,623	11,982	44,178	66,070	–	945,824
A Miller	**2009**	**528,761**	**–**	**384,517**	**30,094**	**11,173**	**291,929**	**394,639**	**–**	**1,641,113**
	2008	599,778	–	463,169	40,312	105,534	303,432	267,717	–	1,779,942
Z Todorcevski*	**2009**	**373,992**	**7,397**	**254,352**	**6,630**	**–**	**374,425**	**607,264**	**36,952**	**1,661,012**
	2008	–	–	–	–	–	–	–	–	–
Officers of the Company										
S Gardiner*	**2009**	**323,275**	**–**	**139,601**	**11,163**	**8,086**	**101,054**	**34,034**	**–**	**617,213**
	2008	208,420	–	87,012	13,209	–	75,072	37,430	–	421,143
Former Executives										
M Sullivan*	**2009**	**362,392**	**17,796**	**–**	**40,947**	**(9,889)**	**38,597**	**–**	**–**	**449,843**
	2008	355,325	29,835	–	92,868	7,153	176,153	–	–	661,334

* *The following movements occurred in the key management personnel during 2008 and 2009:*
P Crute joined Oil Search on 1 May 2008
P Caldwell became acting EGM Oil Operations on 1 June 2008 and formally occupied the role from 1 January 2009
S Gardiner became acting CFO on 1 June 2008 and ceased in this role on 1 June 2009. He commenced in the office of Group Secretary on 18 May 2009.
Z Todorcevski joined Oil Search on 1 June 2009.
M Sullivan resigned from Oil Search effective 31 July 2009

(1) Includes Salaries, Allowances, Expatriate Allowances and Movements in Annual Leave Accruals.
(2) Includes the grossed up FBT value of all benefits provided to an employee in the year that the FBT is payable.
(3) STI is based on the year that the performance period relates to, regardless of when paid and includes 50% deferred into Oil Search Shares under the Restricted Stock Plan for all key management personnel except S Gardiner.
(4) Superannuation is the employer contributions to an approved superannuation fund.
(5) Long Service Leave Accrual is based on the relevant legislation.
(6) Equity is the expensed value of all Share Options, Performance Rights or Restricted Shares.
(7) Includes the cash equivalent payment of an allocation of 57,528 Performance Rights in 2006.

Details of the vesting profile of the Short Term Incentives awarded as remuneration to each Director of Oil Search, each of the five highest remunerated executives and the key management personnel are detailed in Table 10. Percentages of STI are based on assuming STI awards at 100% of opportunity.

Table 10 – Analysis of STI Included in Remuneration

	INCLUDED IN REMUNERATION US$	% VESTED IN YEAR	% FORFEITED IN YEAR
Directors			
P Botten	1,106,194	84.6%	15.4%
G Aopi	396,486	135.6%	0.0%
Executives			
P Bainbridge	403,462	95.0%	5.0%
P Caldwell	345,474	88.0%	12.0%
P Crute	265,077	88.0%	12.0%
N Hartley	338,274	95.0%	5.0%
R Marcellus	285,556	80.0%	20.0%
A Miller	384,517	87.0%	13.0%
Z Todorcevski	254,352	86.0%	14.0%
Officers of the Company			
S Gardiner	139,601	143.4%	0.0%

7 KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL

Table 11 identifies the contractual provisions for current key management personnel. All employees at Oil Search have no contractual entitlement to future increases in remuneration or entitlement to receive any incentives, whether Short Term or Long Term.

Remuneration for all employees is reviewed via an annual process across the organisation. Remuneration for the Managing Director and the key management personnel is reviewed by the Remuneration 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
- LTI participation in the coming year.

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

Table 11 – Contractual Provisions for Specified Executives

NAME AND JOB TITLE	EMPLOYING COMPANY	CONTRACT DURATION	NOTICE PERIOD COMPANY	NOTICE PERIOD EMPLOYEE	TERMINATION PROVISION
Directors					
P Botten Managing Director	OSL	Ongoing	6 months	6 months	18 months TFR
G Aopi Executive General Manager Government and Public Affairs	OSL	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Executives					
P Bainbridge Executive General Manager, LNG	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Caldwell Executive General Manager, Oil Operations	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Crute Executive General Manager, Human Resources	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
N Hartley Executive General Manager, LNG Financing	POSL	Ongoing	6 months	3 months	6 months + 1 month per year of service (a maximum of 12 months in total) of TFR
R Marcellus Executive General Manager, Gas New Business	POSL	Ongoing	6 months	6 months	1 month per year of service (to a maximum of 12 months) of TFR
A Miller Executive General Manager, Investment & Strategy	POSL	Ongoing	6 months	6 months	1 month per year of service of TFR
Z Todorcevski Chief Financial Officer	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Officers of the Company					
S Gardiner GM Corporate Finance /Group Secretary	POSL	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR

8 EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights issued in accordance with the Performance Rights Plan, or Employee Share Options issued in accordance with the Employee Share Option Plan. The structure of the Rights is detailed in section 4 on Remuneration Structure.

Rights Over Equity Instruments Granted as Remuneration

Details of Rights over ordinary shares in the Company that were granted as remuneration to each key manager during the reporting period and details of Rights that vested during the reporting period are as follows:

Table 12 – Details of Rights Granted

	NUMBER OF RIGHTS GRANTED DURING 2009	GRANT DATE	FAIR VALUE PER RIGHT (A$)	EXERCISE PRICE PER RIGHT (A$)	EXPIRY DATE	NUMBER OF RIGHTS VESTED DURING 2009
Directors						
P Botten	258,900	1 June 2009	$4.70	$0	1 June 2014	361,000
G Aopi	46,000	1 June 2009	$4.70	$0	1 June 2014	57,528[2]
Executives						
P Bainbridge	66,800	1 June 2009	$4.70	$0	1 June 2014	128,205
P Caldwell	61,800	1 June 2009	$4.70	$0	1 June 2014	83,846
P Crute	47,400	1 June 2009	$4.70	$0	1 June 2014	–
N Hartley	54,900	1 June 2009	$4.70	$0	1 June 2014	106,838
R Marcellus	56,100	1 June 2009	$4.70	$0	1 June 2014	–
A Miller	69,600	1 June 2009	$4.70	$0	1 June 2014	135,526
Z Todorcevski[1]	66,485	1 January 2009	$4.43	$0	25 July 2012	–
	66,485	1 January 2009	$4.19	$0	4 August 2013	–
	146,285	1 June 2009	$4.70	$0	1 June 2014	–
Officers of the Company						
S Gardiner	35,000	1 June 2009	$4.70	$0	1 June 2014	24,462
Former Executives						
M Sullivan	Nil			–	–	94,017

(1) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.
(2) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

	NUMBER OF RIGHTS GRANTED DURING 2008	GRANT DATE	FAIR VALUE PER RIGHT (A$)	EXERCISE PRICE PER RIGHT (A$)	EXPIRY DATE	NUMBER OF RIGHTS VESTED DURING 2008
Directors						
P Botten	338,600	4 August 2008	$4.39	$0	4 August 2013	624,000
G Aopi	48,900	4 August 2008	$4.39	$0	4 August 2013	85,000
Executives						
P Bainbridge	93,000	4 August 2008	$4.39	$0	4 August 2013	–
P Caldwell	61,100	4 August 2008	$4.39	$0	4 August 2013	116,500
P Crute	65,900	4 August 2008	$4.39	$0	4 August 2013	–
N Hartley	76,600	4 August 2008	$4.39	$0	4 August 2013	166,292
R Marcellus	78,200	4 August 2008	$4.39	$0	4 August 2013	–
A Miller	96,900	4 August 2008	$4.39	$0	4 August 2013	206,767
Z Todorcevski	–	–	–		–	–
Officers of the Company						
S Gardiner	38,700	4 August 2008	$4.39	$0	4 August 2013	45,000
Former Executives						
M Sullivan[1]	2,170	4 August 2008	$2.16	$4.88	4 August 2013	153,058

(1) For 2008 M Sullivan was awarded Share Options as opposed to Performance Rights.

No Rights have been granted since the end of the financial year. All Rights were provided at no cost to the recipients.

All Rights expire on the earlier of their expiry date or termination of the individual's employment. They are exercisable on the vesting dates detailed in the tables above and the ability to exercise performance rights is conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Rights granted in the current year the earliest exercise date is 13 May 2012.

There was an allocation of deferred STI under the Restricted Shares Plan outlined above for certain key management personnel in 2009. The number of Restricted shares granted during the reporting period is as follows:

Table 13 – Details of Deferred STI and Restricted Shares

	NUMBER GRANTED DURING 2009	GRANT DATE	FAIR VALUE (A$)	EXERCISE PRICE (A$)	VESTING DATE
Directors					
P Botten(1)	165,873	3 March 2009	$4.88	$0	1 January 2011
G Aopi(2)	26,732	3 March 2009	$4.88	$0	1 January 2011
Executives					
P Bainbridge	46,232	3 March 2009	$4.88	$0	1 January 2011
P Caldwell	29,150	3 March 2009	$4.88	$0	1 January 2011
P Crute	25,343	3 March 2009	$4.88	$0	1 January 2011
N Hartley	35,364	3 March 2009	$4.88	$0	1 January 2011
R Marcellus	33,040	3 March 2009	$4.88	$0	1 January 2011
A Miller	50,548	3 March 2009	$4.88	$0	1 January 2011
Z Todorcevski(3)	124,986	1 January 2009	$4.40	$0	1 January 2010
	99,728	1 January 2009	$4.40	$0	1 January 2011
Officers of the Company					
S Gardiner					
Former Executives					
M Sullivan					

(1) The allocation for P Botten was formally approved at the Annual General Meeting on 12 May 2009.
(2) The allocation for G Aopi was formally approved at the Annual General Meeting on 12 May 2009.
(3) The allocation to Z Todorcevski was made as part of his recruitment arrangements.

	NUMBER GRANTED DURING 2008	GRANT DATE	FAIR VALUE (A$)	EXERCISE PRICE (A$)	VESTING DATE
Directors					
P Botten(1)	87,760	7 March 2008	$4.16	$0	1 January 2010
G Aopi(2)	17,537	7 March 2008	$4.16	$0	1 January 2010
Executives					
P Bainbridge	33,331	7 March 2008	$4.16	$0	1 January 2010
P Caldwell					
P Crute(3)	131,356	1 May 2008	$4.95		1 January 2010
	33,898	1 May 2008	$4.95	$0	1 January 2011
N Hartley	27,441	7 March 2008	$4.16	$0	1 January 2010
R Marcellus	28,018	7 March 2008	$4.16	$0	1 January 2010
A Miller	34,740	7 March 2008	$4.16	$0	1 January 2010
Officers of the Company					
S Gardiner					
Former Executives					
M Sullivan(4)	24,148	7 March 2008	$4.16	$0	1 January 2010

(1) The allocation for P Botten was formally approved at the Annual General Meeting on 2 May 2008.
(2) The allocation for G Aopi was formally approved at the Annual General Meeting on 2 May 2008.
(3) The allocation to P Crute was made as part of his recruitment arrangements.
(4) The allocation to M Sullivan was forfeited upon his resignation on 31 July 2009.

Modification of Terms of Equity Settled Share Based Payment Transactions

No terms related to equity–settled share-based payment transactions (including Performance Rights and Share Options granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of Rights Granted as Remuneration

During the reporting period, the following shares were issued on the exercise of Rights previously granted as remuneration:

Table 14 – Details of the Exercise of Rights

2009

	NUMBER OF SHARES	AMOUNT PAID PER SHARE
Directors		
P Botten	**361,000**	**$0**
G Aopi[(1)]	**57,528**	**$0**
Executives		
P Bainbridge	**128,205**	**$0**
P Caldwell	**83,846**	**$0**
P Crute	**–**	**–**
N Hartley	**106,838**	**$0**
R Marcellus	**–**	**–**
A Miller	**135,256**	**$0**
Z Todorcevski	**–**	**–**
Officers of the Company		
S Gardiner	**81,462**	**$0**
Former Executives		
M Sullivan	**94,017**	**$0**

(1) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

2008

	NUMBER OF SHARES	AMOUNT PAID PER SHARE
Directors		
P Botten	1,040,000	$0
G Aopi	129,000	$0
Executives		
P Bainbridge	–	–
P Caldwell	116,500	$0
P Crute	–	–
N Hartley	166,292	$0
R Marcellus	–	–
A Miller	206,767	$0
Z Todorcevski	–	–
Officers of the Company		
S Gardiner	–	–
Former Executives		
M Sullivan	153,058	$0

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

Details of vesting profiles of the Rights granted as remuneration to Executive Directors and key management personnel, which includes the required five named executives of the Company are:

Table 15 – Details of Vesting Profile of Rights

	RIGHTS GRANTED				
	NUMBER	DATE	% VESTED IN YEAR	% FORFEITED IN YEAR	FINANCIAL YEAR OF VESTING
Directors					
P Botten	361,000	28 July 2006	100%	0%	1 January 2009
	398,091	7 May 2007			1 January 2010
	200,285	13 December 2007			1 January 2010
	87,760	7 March 2008			1 January 2010
	338,600	4 August 2008			1 January 2011
	165,873	3 March 2009			1 January 2011
	258,900	1 June 2009			1 January 2012
G Aopi	57,528(1)	28 July 2006	100%	0%	1 January 2009
	70,072	7 May 2007			1 January 2010
	58,651	13 December 2007			1 January 2010
	17,537	7 March 2008			1 January 2010
	48,900	4 August 2008			1 January 2011
	26,732	3 March 2009			1 January 2011
	46,000	1 June 2009			1 January 2012
Executives					
P Bainbridge	128,205	28 July 2006	100%	0%	1 January 2009
	109,258	7 May 2007			1 January 2010
	172,881	13 December 2007			1 January 2010
	33,331	7 March 2008			1 January 2010
	93,000	4 August 2008			1 January 2011
	46,232	3 March 2009			1 January 2011
	66,800	1 June 2009			1 January 2012
P Caldwell	83,846	28 July 2006	100%	0%	1 January 2009
	58,000	7 May 2007			1 January 2010
	60,966	13 December 2007			1 January 2010
	61,100	4 August 2008			1 January 2011
	29,150	3 March 2009			1 January 2011
	61,800	1 June 2009			1 January 2012
P Crute	131,356	1 May 2008			1 January 2010
	33,898	1 May 2008			1 January 2011
	65,900	4 August 2008			1 January 2011
	25,343	3 March 2009			1 January 2011
	47,400	1 June 2009			1 January 2012
N Hartley	106,838	28 July 2006	100%	0%	1 January 2009
	90,012	7 May 2007			1 January 2010
	71,164	13 December 2007			1 January 2010
	27,441	7 March 2008			1 January 2010
	76,600	4 August 2008			1 January 2011
	35,364	3 March 2009			1 January 2011
	54,900	1 June 2009			1 January 2012
R Marcellus	91,831(2)	7 May 2007			1 January 2010
	67,429	13 December 2007			1 January 2010
	28,018	7 March 2008			1 January 2010
	78,200	4 August 2008			1 January 2011
	33,040	3 March 2009			1 January 2011
	56,100	1 June 2009			1 January 2012

	RIGHTS GRANTED				
	NUMBER	DATE	% VESTED IN YEAR	% FORFEITED IN YEAR	FINANCIAL YEAR OF VESTING
A Miller	135,256	28 July 2006	100%	0%	1 January 2009
	113,956	7 May 2007			1 January 2010
	180,188	13 December 2007			1 January 2010
	34,740	7 March 2008			1 January 2010
	96,900	4 August 2008			1 January 2011
	50,548	3 March 2009			1 January 2011
	69,600	1 June 2009			1 January 2012
Z Todorcevski	124,986	1 January 2009			1 January 2010
	66,485	1 January 2009			1 January 2010
	99,728	1 January 2009			1 January 2011
	66,485	1 January 2009			1 January 2011
	146,285	1 June 2009			1 January 2012
Officers of the Company					
S Gardiner	24,462	28 July 2006	100%	0%	1 January 2009
	29,753	7 May 2007			1 January 2010
	38,200	13 December 2007			1 January 2010
	38,700	4 August 2008			1 January 2011
	35,000	1 June 2009			1 January 2012
Former Executives					
M Sullivan	94,017	28 July 2006	100%	0%	1 January 2009
	79,211	7 May 2007	0%	100%	1 January 2010
	24,148	7 March 2008	0%	100%	1 January 2010
	2,170	4 August 2008	0%	100%	1 January 2011

(1) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.

(2) Due to the timing of the commencement the employment of R Marcellus in 2007, the allocation of 91,831 Performance Rights was made on a cash equivalent basis.

Analysis of movements in Rights

The movement during the reporting period, by value of options, rights or restricted shares over ordinary shares in Oil Search held by each key management, including the five named Company Executives, is detailed below:

Table 16 – Movement by Value of Rights

	GRANTED IN YEAR US$(1)	VALUE OF RIGHTS EXERCISED IN YEAR US$(2)			LAPSED IN YEAR US$(3)		
		NO. OF RIGHTS	VALUE PER RIGHT	TOTAL VALUE	NO. OF RIGHTS	VALUE PER RIGHT	TOTAL VALUE
Directors							
P Botten	1,593,306	361,000	$5.07	1,831,539			
G Aopi	272,683	57,528	$4.59	264,094			
Executives							
P Bainbridge	424,144	128,205	$5.07	650,450			
P Caldwell	340,646	83,846	$4.46	374,294			
P Crute	272,613	–	–	–			
N Hartley	338,586	106,838	$5.07	542,044			
R Marcellus	334,220	–	–	–			
A Miller	450,957	135,256	$5.07	686,223			
Z Todorcevski	1,824,851	–	–	–			
Officers of the Company							
S Gardiner	130,202	57,000	$4.19	239,112			
		24,462	$4.72	115,396			
Former Executives							
M Sullivan		94,017	$4.46	419,698	79,211	$1.66	$131,661
					2,170	$1.71	$3,710
					24,148	$3.44	$136,048

(1) The value of the Rights is the fair value at the time of grant for options and performance rights and the share price on the date of grant of the shares issued under the Restricted Shares Plan.

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

(3) The value of the Rights lapsed is the fair value at the time of grant for options and performance rights and the value on the date of grant of the shares issued under the Restricted Shares Plan.

9 NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Policy

Remuneration for Non-Executive Directors is determined by reference to advice from external consultants and subject to the aggregate limit of A$1,950,000 in any calendar year set by shareholders at the 2009 Annual General Meeting. This advice takes into consideration the level of fees paid to directors of other Australian corporations of similar size and complexity to Oil Search, the growing scale of its international activities and the responsibilities and work requirements of Board members.

Remuneration Payable

Fees payable to Non-Executive Directors are reviewed annually and are fixed by the Board as discussed above. Table 17 below sets out the fee structure applied from 1 May 2008. The fees are based on an independent report from Egan & Associates conducted in early 2008 and have not changed for 2009.

Table 17 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars

POSITION	ANNUAL FEE FROM 1 MAY 2008
Chairman of the Board(1)	$390,000
Non-executive Directors other than the Chairman	$130,000
Chairman Audit Committee (additional fee)	$30,000
Chairman Finance and Risk Management Committee (additional fee)	$21,000
Chairman Remuneration and Nominations Committee (additional fee)	$25,500
Member Audit Committee (additional fee)	$20,000
Member Finance and Risk Committee (additional fee)	$14,000
Member Remuneration and Nominations Committee (additional fee)	$17,000

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

From 1 May 2008, each non-executive director also receives a travel allowance of $20,000 per annum to compensate for the extraordinary time spent travelling between Papua New Guinea and Australia to attend Board and Committee Meetings.

Board fees are paid to non-executive directors only.

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

The total remuneration which was paid to each non-executive director in 2009 is set out in Table 18.

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

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

Equity Participation for Non-Executive Directors

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

Details of Directors' Remuneration

The details of the remuneration received by Oil Search directors in 2009 are set out in Table 18 below.

The Managing Director, Mr Botten, and the Executive General Manager Government and Public Affairs, Mr Aopi, are the only executive directors on the Board.

Table 18 – Remuneration (US$) of Directors of Oil Search Limited

		SHORT TERM			POST EMPLOY-MENT	LONG TERM	EQUITY[6]		OTHER	TOTAL
NAME	YEAR	SALARIES, FEES AND ALLOW-ANCES	NON MONE-TARY BENE-FITS	SHORT-TERM INCENT-IVE	COMPANY CONTRI-BUTION TO SUPER	LONG SERVICE LEAVE ACCRUAL	PERFORM RIGHTS	REST-RICTED SHARES	SIGN ON BENEFITS	
Executive Directors										
P Botten	**2009**	**1,337,166**	**–**	**1,106,194**	**79,150**	**55,996**	**985,754**	**719,357**	**–**	**4,283,617**
	2008	1,528,724	–	1,405,946	86,810	108,691	937,505	297,576	–	4,365,252
G Aopi	**2009**	**562,806**[1]	**32,351**	**396,486**	**48,660**	**4,377**	**134,239**	**78,458**	**–**	**1,257,377**
	2008	310,347	52,677	291,685	19,732	6,125	100,121	87,142	–	867,829
Non-Executive Directors										
BF Horwood	**2009**	**324,515**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**324,515**
	2008	332,772	–	–	–	–	–	–	–	332,772
F Ainsworth	**2009**	**151,177**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**151,177**
	2008	152,496	–	–	–	–	–	–	–	152,496
KG Constantinou	**2009**	**143,262**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**143,262**
	2008	143,526	–	–	–	–	–	–	–	143,526
R Igara	**2009**	**148,011**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**148,011**
	2008	147,866	–	–	–	–	–	–	–	147,866
MDE Kriewaldt	**2009**	**153,551**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**153,551**
	2008	154,811	–	–	–	–	–	–	–	154,811
JL Stitt	**2009**	**148,011**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**148,011**
	2008	147,866	–	–	–	–	–	–	–	147,866
TN Warren	**2009**	**149,989**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**149,989**
	2008	150,760	–	–	–	–	–	–	–	150,760

(1) Includes the cash equivalent payment of an allocation of 57,528 Performance Rights in 2006.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS, EMPLOYEES AND AUDITORS

During the financial year, the Company paid premiums to insure all directors, officers and employees of the Company against claims brought against the individual while performing services for the Company 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 Company has agreed to indemnify the directors, officers and employees of the Company against any liability to another person other than the Company or a related body corporate for an act or omission that may arise from their positions as directors, officers and employees of the Company and its controlled entities, to the extent permitted by the PNG Companies Act 1997.

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

During the year the auditor, Deloitte Touche Tohmatsu provided non-audit accounting services for the economic entity. This is outlined in note 26.

Deloitte Touche Tohmatsu's Independence Declaration which forms part of this report is attached on page 75.

LIKELY FUTURE DEVELOPMENTS

Oil and gas production from each of the PNG fields in which the Company holds is expected to continue in 2010. The 2010 work programme includes a development well in the Moran field and a number of workovers. Exploration activity will increase in PNG in 2010, but will reduce somewhat in Middle East/North Africa.

The construction phase for the PNG LNG Project will ramp up in 2010 with major work programmes planned for the LNG plant, field and pipeline development and supporting infrastructure. In addition, work will commence in the oil fields to enable achievement of future associated gas supply obligations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

ROUNDING

The majority of amounts included in this report are rounded to the nearest US$1,000 (where rounding is applicable).

Signed in accordance with a resolution of the Directors.

B. F. Horwood

BF HORWOOD
Chairman

PR BOTTEN
Managing Director

Sydney, 22 February 2010

Deloitte.

Deloitte Touche Tohmatsu
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The Directors
Oil Search Limited
Level 27, Angel Place
123 Pitt Street
Sydney NSW 2000

22 February 2010

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 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Australian *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

John A Leotta
Partner
Chartered Accountants

	NOTE	CONSOLIDATED 2009 US$'000	CONSOLIDATED 2008 US$'000	CHIEF ENTITY 2009 US$'000	CHIEF ENTITY 2008 US$'000
Revenue from operations	2	**512,154**	814,330	**945**	4,967
Operating expenses		**(86,444)**	(93,383)	**(1,904)**	(781)
Amortisation – site restoration		**(8,556)**	(9,919)	**–**	–
Amortisation – oil and gas assets		**(86,418)**	(99,564)	**(124)**	(517)
Depreciation – operating assets		**(5,727)**	(12,086)	**–**	–
Royalties, development, and mining levies		**(8,050)**	(13,842)	**–**	–
Costs of sales		**(195,195)**	(228,794)	**(2,028)**	(1,298)
Gross profit from operating activities		**316,959**	585,536	**(1,083)**	3,669
Other expenses	3	**(12,988)**	(14,705)	**(3,168)**	(2,723)
Profit/(loss) from operating activities		**303,971**	570,831	**(4,251)**	946
Exploration costs expensed		**(75,729)**	(91,234)	**(4,870)**	(9,796)
Net impairment	4	**–**	(91,530)	**–**	–
Contractual adjustments to profit on sale of joint venture interests	4	**(500)**	(1,000)	**–**	–
Profit on sale of MENA assets	4	**–**	127,639	**–**	–
State Back–In LNG surplus	4	**15,414**	–	**–**	–
Profit/(loss) on sale of other non–current assets		**–**	(494)	**6,149**	–
Interest income	5	**5,543**	13,768	**2,115**	8,219
Borrowing costs	5	**(8,869)**	(7,675)	**(865)**	(2,116)
Profit/(loss) from continuing operations before income tax		**239,830**	520,305	**(1,722)**	(2,747)
Income tax expense	6	**(106,150)**	(206,943)	**(6,540)**	(943)
Net profit/(loss) after tax		**133,680**	313,362	**(8,262)**	(3,690)
Other comprehensive income					
Foreign currency translation differences for foreign operations		**6,414**	(6,957)	**–**	–
Total comprehensive income for the year		**140,094**	306,405	**(8,262)**	(3,690)

		US CENTS	US CENTS
Basic earnings per share	7	**11.53**	27.98
Diluted earnings per share	7	**11.46**	27.76

The Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

		CONSOLIDATED		CHIEF ENTITY	
	NOTE	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current assets					
Cash and cash equivalents	21(a)	**1,288,077**	534,928	**1,031,238**	238,663
Receivables	9	**108,783**	96,132	**146,399**	37,476
Inventories	10	**59,518**	52,854	**–**	126
Current tax asset		**–**	–	**2,117**	833
Other assets	11	**4,424**	3,748	**124**	122
Total current assets		**1,460,802**	687,662	**1,179,878**	277,220
Non-current assets					
Receivables	9	**416**	42,848	**–**	–
Other non–current assets	11	**1,206**	1,651	**–**	–
Exploration and evaluation assets	12	**808,318**	516,256	**63,202**	95,208
Oil and gas assets	13	**638,026**	588,133	**–**	1,672
Other property, plant and equipment	14	**76,220**	80,006	**247**	247
Investments	15	**–**	–	**326,507**	326,507
Deferred tax assets	16	**92,402**	88,901	**1,576**	9,852
Total non-current assets		**1,616,588**	1,317,795	**391,532**	433,486
Total assets		**3,077,390**	2,005,457	**1,571,410**	710,706
Current liabilities					
Payables	17	**204,119**	169,580	**20,912**	15,440
Provisions	18	**11,963**	12,276	**80**	80
Current tax liabilities		**49,231**	15,128	**–**	–
Total current liabilities		**265,313**	196,984	**20,992**	15,520
Non-current liabilities					
Provisions	18	**122,152**	114,621	**–**	288
Deferred tax liabilities	19	**96,744**	100,625	**1,175**	158
Total non-current liabilities		**218,896**	215,246	**1,175**	446
Total liabilities		**484,209**	412,230	**22,167**	15,966
Net assets		**2,593,181**	1,593,227	**1,549,243**	694,740
Shareholders' equity					
Share capital	20	**1,550,213**	620,491	**1,550,213**	620,491
Reserves	20	**5,447**	1,514	**10,475**	9,867
Retained profits		**1,037,521**	971,222	**(11,445)**	64,382
Total shareholders' equity		**2,593,181**	1,593,227	**1,549,243**	694,740

The Statements of Financial Position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

		CONSOLIDATED		CHIEF ENTITY	
	NOTE	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Cash flows from operating activities					
Receipts from customers		**472,029**	881,017	**1,134**	10,630
Payments to suppliers and employees		**(110,501)**	(114,841)	**(13,402)**	(31,563)
Interest received		**6,205**	14,676	**2,200**	9,725
Borrowing costs paid		**(4,205)**	(4,287)	**(861)**	(2,101)
Income tax (paid)/refund		**(79,429)**	(269,142)	**1,469**	(7,999)
Net operating cash flows	21(b)	**284,099**	507,423	**(9,460)**	(21,308)
Cash flows from investing activities					
Payments for property, plant and equipment		**(6,656)**	(25,765)	**–**	(23)
Payments for exploration and evaluation expenditure		**(324,216)**	(250,940)	**(100,901)**	(45,333)
Payments for production expenditure		**(138,821)**	(168,049)	**(632)**	(4,670)
Proceeds from State Back-In LNG		**87,542**	–	**–**	–
Proceeds from sale of property, plant and equipment		**–**	18	**–**	–
Cash inflow on sale of joint venture interests		**–**	209,842	**–**	–
Net investing cash flows		**(382,151)**	(234,894)	**(101,533)**	(50,026)
Cash flows from financing activities					
Proceeds from underwriter of dividend reinvestment plan (DRP)		**50,081**	–	**50,081**	–
Dividend payments (net of DRP)(1)	8	**(49,875)**	(89,415)	**(50,081)**	(89,415)
Net proceeds from share issues		**850,195**	–	**850,195**	–
Purchase of treasury shares		**(1,761)**	(7,666)	**–**	–
Loans to related entity		**2,561**	15,902	**53,373**	92,032
Net financing cash flows		**851,201**	(81,179)	**903,568**	2,617
Net (decrease)/increase in cash and cash equivalents held		**753,149**	191,350	**792,575**	(68,717)
Cash and cash equivalents at the beginning of the year		**534,928**	343,578	**238,663**	307,380
Cash and cash equivalents balance at end of year	21(a)	**1,288,077**	534,928	**1,031,238**	238,663

(1) Total dividend payments including cash and dividend reinvestment was $67.4 million. Total dividend payments net of dividends reinvested under the dividend reinvestment plan was $50.1 million.

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

CONSOLIDATED	SHARE CAPITAL US$'000	RESERVES US$'000	RETAINED PROFITS US$'000	TOTAL US$'000
Balance at 1 January 2008	625,602	16,214	747,316	1,389,132
Transfer of vested shares	9,767	(9,767)	–	–
Settlement of equity based employee share payments	(14,878)	–	–	(14,878)
Employee share-based remuneration	–	9,690	–	9,690
Purchase of treasury shares	–	(7,666)	–	(7,666)
Net exchange differences	–	–	(41)	(41)
Net profit after tax for the year(1)	–	–	313,362	313,362
Exchange differences on translation of foreign operations(2)	–	(6,957)	–	(6,957)
Dividends provided for or paid	–	–	(89,415)	(89,415)
Balance at 1 January 2009	**620,491**	**1,514**	**971,222**	**1,593,227**
Issue of shares through dividend reinvestment plan	**67,565**	**–**	**–**	**67,565**
Issue of shares through institutional placement	**811,563**	**–**	**–**	**811,563**
Issue of shares through share purchase plan	**35,959**	**–**	**–**	**35,959**
Costs associated with share issues	**(967)**	**–**	**–**	**(967)**
Transfer of vested shares	**5,812**	**(5,812)**	**–**	**–**
Settlement of equity based employee share payments	**84**	**–**	**–**	**84**
Issue of shares on exercise of options and rights	**9,706**	**–**	**–**	**9,706**
Employee share-based remuneration	**–**	**12,351**	**–**	**12,351**
Purchase of treasury shares	**–**	**(1,761)**	**–**	**(1,761)**
Issue of treasury shares	**–**	**(6,066)**	**–**	**(6,066)**
Net exchange differences	**–**	**(1,193)**	**–**	**(1,193)**
Net profit after tax for the year(1)	**–**	**–**	**133,680**	**133,680**
Exchange differences on translation of foreign operations(2)	**–**	**6,414**	**–**	**6,414**
Trust distribution	**–**	**–**	**(22)**	**(22)**
Dividends provided for or paid	**–**	**–**	**(67,359)**	**(67,359)**
Balance at 31 December 2009	**1,550,213**	**5,447**	**1,037,521**	**2,593,181**
Chief Entity				
Balance at 1 January 2008	625,602	9,944	157,633	793,179
Transfer of vested shares	9,767	(9,767)	–	–
Settlement of equity based employee share payments	(14,878)	–	–	(14,878)
Employee share-based remuneration	–	9,690	–	9,690
Dividends received on shares held in trust(3)	–	–	(146)	(146)
Net loss after tax for the year(1)	–	–	(3,690)	(3,690)
Dividends provided for or paid	–	–	(89,415)	(89,415)
Balance at 1 January 2009	**620,491**	**9,867**	**64,382**	**694,740**
Issue of shares through dividend reinvestment plan(4)	**67,565**	**–**	**–**	**67,565**
Issue of shares through institutional placement	**811,563**	**–**	**–**	**811,563**
Issue of shares through share purchase plan	**35,959**	**–**	**–**	**35,959**
Costs associated with share issues	**(967)**	**–**	**–**	**(967)**
Transfer of vested shares	**5,812**	**(5,812)**	**–**	**–**
Settlement of equity based employee share payments	**84**	**–**	**–**	**84**
Issue of shares on exercise of options and rights	**9,706**	**–**	**–**	**9,706**
Employee share-based remuneration	**–**	**12,351**	**–**	**12,351**
Issue of treasury shares	**–**	**(6,066)**	**–**	**(6,066)**
Net exchange differences	**–**	**135**	**–**	**135**
Dividends received on shares held in trust(3)	**–**	**–**	**(206)**	**(206)**
Net loss after tax for the year(1)	**–**	**–**	**(8,262)**	**(8,262)**
Dividends provided for or paid	**–**	**–**	**(67,359)**	**(67,359)**
Balance at 31 December 2009	**1,550,213**	**10,475**	**(11,445)**	**1,549,243**

(1) Net profit after tax plus exchange differences equate to total comprehensive income.
(2) Exchange differences equate to net income recognised directly in equity.
(3) Dividends received on shares held in Retention Share Plan Trust are eliminated on a Group basis.
(4) Net of underwriting fee.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Oil Search Limited, the chief entity, is incorporated in Papua New Guinea (PNG). The consolidated financial report for the year ended 31 December 2009 comprises the chief entity and its controlled entities (consolidated entity).

The financial statements were authorised for issue by the directors on 23 February 2010.

(A) BASIS OF PREPARATION

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

All amounts in these statements are expressed in US dollars, as this is the functional and presentational currency of the consolidated entity.

(i) Issued standards adopted during year

- IFRS 8 "Operating Segments", including an early adoption of "Improvements to IFRS (April 2009)";
- Revised IAS 1 "Presentation of Financial Statements".

(ii) Issued standards not early adopted

At 31 December 2009, certain new accounting standards and interpretations have been published that will become mandatory in future reporting periods. Oil Search has not elected to early-adopt these new or amended accounting standards and interpretations. The expected impact of these changed accounting requirements should not materially alter Oil Search's financial results at the date of this report. The consolidated entity will adopt the following standards during the applicable mandatory annual reporting periods:

- Amended IFRS 2 "Group Cash-settled Share-based Payment Transactions" applicable for annual reporting periods beginning on or after 1 January 2010 and must be applied retrospectively;
- Revised IFRS 3 "Business Combinations", applicable for annual reporting periods beginning on or after 1 July 2009;
- IFRS 9 "Financial Instruments", applicable for annual reporting periods beginning on or after 1 January 2013 (this standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement");
- IFRS 9 "Financial Instruments – Amendments to other IFRSs", applicable for annual reporting periods beginning on or after 1 January 2013 (to be adopted upon application of IFRS 9);
- Various Standards "Improvements to IFRS's 2008" – dealt with on a standard-by-standard basis, generally applicable for annual reporting periods beginning on or after 1 July 2009;
- IAS 24 "Related Party Disclosures", applicable for annual reporting periods beginning on or after 1 January 2011;
- Amended IAS 27 "Consolidated and Separate Financial Statements", applicable for annual reporting periods beginning on or after 1 July 2010;
- Amended IAS 32 "Classification of Rights Issues", applicable for annual reporting periods beginning on or after 1 February 2010;
- Amended IAS 39 "Eligible Hedged Items - Amendments to IAS 39 Financial Instruments: Recognition and Measurement", applicable for annual reporting periods beginning on or after 1 July 2009; and
- Interpretation 17 "Distributions of Non-Cash Assets to owners", applicable for annual reporting periods beginning on or after 1 July 2009.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Oil Search Limited (the parent company) and its controlled subsidiaries, after elimination of all inter-company transactions. Subsidiaries are consolidated from the date the parent obtains control and until such time as control ceases.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition above the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(C) CURRENCY TRANSLATION

Translation of transactions denominated in currencies other than US dollars

Transactions in currencies other than US dollars (US$) of entities within the economic entity are converted to US$ at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the economic entity that are outstanding at the balance date and are denominated in currencies other than US$ have been converted to US$ using rates of exchange ruling at the end of the financial year.

All resulting exchange differences arising on settlement or retranslation are brought to account in determining the profit or loss for the financial year.

Translation of financial reports of overseas operations

All operations outside Australia have a functional currency of US$. Exchange gains and losses arising on translation of non US$ functional currency financial statements are brought to account directly in equity.

(D) INCOME RECOGNITION

Oil, gas and other liquid sales

The economic entity's revenue, which is mainly derived from the sale of crude oil, is brought to account after each shipment is loaded. Gas sales are recognised on production following delivery into the pipeline.

Dividend income

Dividend income is taken to profit after dividends have been declared.

(E) CAPITALISATION OF BORROWING COSTS

Interest and other finance charges on borrowings for major capital projects are capitalised until the commencement of production and then amortised over the estimated economic life of the project. Where only part of a project is commissioned, interest capitalisation occurs on a pro-rata basis. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(F) LEASES

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit on a straight line basis over the lease term.

(G) SHARE-BASED REMUNERATION

The Group currently operates equity-settled, share-based compensation plans of share options, performance rights and restricted shares. In accordance with IFRS 2, the fair value of the employee services received in exchange for the grant of the options and rights is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to their grant date fair value, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options, rights and restricted shares that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The reserve for the Company's own shares ("treasury shares") represents the cost of shares held by the trustee of an equity compensation plan that the Group is required to include in the consolidated financial statements. This reserve will be reversed with any surplus or deficit on sale shown as an adjustment to retained earnings when the underlying shares are exercised under share rights. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(H) 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 income statement 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 economic entity's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet 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 balance sheet. 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 balance sheet 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 balance sheet date. Deferred tax is charged or credited in the income statement, 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(I) INVENTORIES

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

(i) materials, which include drilling and maintenance stocks, are valued at the cost of acquisition; and
(ii) petroleum products, comprising extracted crude oil and condensate stored in tanks and pipeline systems, are valued using the full absorption cost method.

Inventories are accounted for on a FIFO basis.

(J) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation expenditures are accounted for under the successful efforts method. Exploration licence acquisition costs for established areas are initially capitalised except for new unexplored areas which are expensed as incurred. For exploration wells, costs directly associated with the drilling of wells are initially capitalised pending evaluation of whether potentially economic reserves of hydrocarbons have been discovered.

Costs are expensed where the well does not result in the successful discovery of potentially economically recoverable hydrocarbons, unless the well is to be used in the recovery of economically recoverable hydrocarbons.

All other exploration and evaluation expenditures including directly attributable general administration costs, geological and geophysical costs and new venture activity expenditures are charged as expenses in the income statement as incurred, except where:

- The expenditure relates to an exploration discovery that:
  - at balance date, an assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or where
  - a decision on additional major capital expenditure is pending; or
  - additional exploration wells or appraisal work is underway or planned
- The expenditure relates to a discovery well and it is expected that the expenditure will be recouped by future exploitation or sale.

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.

(K) OIL AND GAS ASSETS

Assets in development

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. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation. Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploitation. When a determination has been made that those expenditures will not be recouped and/or no further appraisal will be undertaken, they will be written off.

Amortisation of oil and gas assets

Costs in relation to producing assets are amortised on a production output basis. In relation to the Kutubu, Gobe, Greater Moran and SE Mananda oil fields, exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortised over the remaining estimated economic life of the fields. Producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

Costs in relation to the Hides gas to electricity project are amortised in order to expense accumulated exploration and development costs over the two years remaining under the sales contract with the Porgera Joint Venture for supply of gas to the Porgera Gold Mine.

Restoration costs

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the balance sheet at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. 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 profit and loss 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.

(L) OTHER PROPERTY, 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 economic entity in the year of disposal.

Depreciation

Depreciation on corporate 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:

- Motor vehicles 20.0%
- Office furniture 13.0%
- Office equipment 20.0%
- Buildings 3.0%
- Computer equipment 33.3%
- Rigs Drilling days based on a 10 year drilling life

Depreciation is applied to joint venture plant and equipment so as to expense the cost over the estimated economic life of the reserves with which it is associated.

(M) IMPAIRMENT OF ASSETS

The carrying amounts of all assets, other than inventory, certain financial assets and deferred tax assets, are reviewed at each balance sheet 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.

An impairment loss is recognised in the income statement when the carrying amount of an asset or its cash generating unit (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.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet 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.

(N) JOINTLY CONTROLLED OPERATIONS

Exploration, development and production activities of the economic entity are carried on through joint ventures with other parties and the economic entity's interest in each joint venture is brought to account by including in the respective classifications, where material, the share of individual assets and liabilities.

(O) 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. Vested benefits are classified as current liabilities.

The contributions made to defined contribution superannuation funds by entities within the economic entity are charged against profits when due. In Australia, contributions of up to 9% of employees' salaries and wages are legally required to be made.

(P) FINANCIAL INSTRUMENTS

Trade receivables

Trade receivables are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables and other accounts payable are recognised when the economic entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are stated at amortised cost.

Borrowings

Interest-bearing bank loans are initially recorded at fair value net of transaction costs. Finance charges are accounted for on an accrual basis at the effective interest rate.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash at bank and on hand and short-term interest-bearing investments readily convertible into cash which are subject to an insignificant risk of charges in value, net of outstanding bank overdrafts.

Investments

Investments are initially measured at fair value. Investments classified as available-for-sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Hedging contracts

Hedging contracts are periodically entered into to limit the financial exposure of the economic entity in relation to oil price, interest rate and foreign exchange movements. Such derivatives are initially recorded at fair value and remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to foreign currency risk of firm commitments and highly probable forecast transactions are recognised directly in equity. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the profit or loss for the period.

(Q) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually 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 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.

The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment are discussed in notes 12 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 therefore requires management to make judgements regarding the removal date, environmental legislation, 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(k).

The carrying amount of the provision for restoration is disclosed in note 18.

Reserve estimates

The estimated reserves are management assessments and take into consideration reviews by an independent third party, Netherland Sewell and Associates under the reserve audit program requiring an external audit of each 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 income statement and the calculation of inventory.

Reserves estimation conforms with guidelines prepared by the Society of Petroleum Engineers.

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(h). 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 income statement.

The carrying amount of exploration and evaluation assets is disclosed in note 12.

(R) ROUNDING

The majority of amounts included in this report are rounded to the nearest US$1,000.

2 REVENUE FROM OPERATIONS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Oil sales (gross)	**454,678**	746,779	**945**	4,057
Gas and refined product sales	**27,721**	35,375	**–**	910
Other field revenue	**29,755**	32,176	**–**	–
	512,154	814,330	**945**	4,967

3 OTHER EXPENSES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Salaries and short term employee benefits	**(34,074)**	(39,524)	**–**	–
Post-employment benefits	**(2,141)**	(2,697)	**–**	–
Employee share-based remuneration	**(12,351)**	(9,690)	**–**	–
Premises and equipment – operating leases	**(3,623)**	(4,083)	**–**	–
Other expenses	**(19,984)**	(28,646)	**(3,602)**	(3,241)
Corporate cost recoveries	**61,445**	76,588	**–**	–
Net corporate expenses	**(10,728)**	(8,052)	**(3,602)**	(3,241)
Depreciation	**(4,715)**	(5,661)	**–**	–
Foreign currency (losses)/gains	**2,455**	(992)	**434**	518
	(12,988)	(14,705)	**(3,168)**	(2,723)

4 SIGNIFICANT ITEMS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Excess of proceeds over written down book value in relation to State Back-In LNG	**15,414**	–	**–**	–
Applicable income tax benefit	**6,378**	–	**–**	–
	21,792	–	**–**	–
Reinstatement of tax benefits, following LNG Project development approval	**12,766**	–	**–**	–
Contractual adjustment to profit on sale of JV interest	**(500)**	(1,000)	**–**	–
Proceeds on sale of MENA assets	**–**	225,321	**–**	–
Assets and liabilities disposed	**–**	(97,682)	**–**	–
Net profit on sale of MENA assets	**–**	127,639	**–**	–
Impairment losses	**–**	(91,530)	**–**	–
Applicable income tax benefit	**–**	38,287	**–**	–
Net impairment losses	**–**	(53,243)	**–**	–
Total significant items	**34,058**	73,396	**–**	–

5 NET FINANCING COSTS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Interest received or receivable from others	**5,543**	13,768	**2,115**	8,219
Interest paid or payable to:				
others	**(12)**	(857)	**–**	–
subsidiaries	**–**	–	**(859)**	(961)
	(12)	(857)	**(859)**	(961)
Borrowing costs	**(4,638)**	(1,336)	**(2)**	(1,140)
	(4,650)	(2,193)	**(861)**	(2,101)
Unwinding of discount on site restoration	**(4,219)**	(5,482)	**(4)**	(15)
Total borrowing costs expensed	**(8,869)**	(7,675)	**(865)**	(2,116)
Net financing costs	**(3,326)**	6,093	**1,250**	6,103

6 INCOME TAX

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
The major components of tax expenses are:				
Current tax expense	**109,413**	245,229	**–**	3,509
Deferred tax expense/(income)	**11,686**	(34,235)	**2,824**	(3,623)
Adjustments for current tax of prior periods	**(14,949)**	(4,051)	**3,716**	1,057
Income tax expense	**106,150**	206,943	**6,540**	943
Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
Pre-tax profit/(loss)	**239,830**	520,305	**(1,722)**	(2,747)
Tax at PNG rate for petroleum (50%)	**119,917**	260,154	**(861)**	(1,374)
Effect of differing tax rates across tax regimes	**(9,979)**	2,291	**460**	1,255
	109,938	262,445	**(401)**	(119)
Tax effect of items not tax deductible or assessable:				
Profit on sale of MENA assets	**–**	(63,819)	**–**	–
Under/(over) provisions in prior periods	**(14,949)**	(4,051)	**3,716**	1,057
Non-deductible expenditure	**32,700**	15,241	**3,225**	5
Non-assessable income	**(6,378)**	–	**–**	–
Write-back of deferred tax liabilities	**(12,766)**	–	**–**	–
Other	**(2,395)**	(2,873)	**–**	–
Income tax expense	**106,150**	206,943	**6,540**	943
The amount of the deferred tax expense/(benefit) recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	**23,019**	(29,810)	**1,251**	(3,046)
Other assets	**(501)**	(5,287)	**1,844**	–
Provisions	**(12,603)**	(2,114)	**91**	(577)
Other items	**(745)**	3,225	**(760)**	
Tax losses	**2,516**	(249)	**398**	–
	11,686	(34,235)	**2,824**	(3,623)

7 EARNINGS PER SHARE

	CONSOLIDATED	
	2009 US$'000	2008 US$'000
Basic earnings per share (excluding significant items)	**8.60**	21.43
Basic earnings per share (including significant items)	**11.53**	27.98
Diluted earnings per share (excluding significant items)	**8.54**	21.26
Diluted earnings per share (including significant items)	**11.46**	27.76

	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	**1,159,038,387**	1,119,841,193
Employee share options	**947,483**	1,252,663
Employee performance rights	**6,738,826**	7,834,413
Diluted earnings per share	**1,166,724,697**	1,128,928,269

Basic earnings per share (excluding significant items) have been calculated on a net profit after tax of US$99.622 million (2008: US$239.966 million).

Basic earnings per share (including significant items) have been calculated on a net profit after tax of US$133.680 million (2008: US$313.362 million).

Diluted earnings per share have been calculated on a net profit after tax of US$133.680 million (2008: US$313.362 million). There are 3,190,125 options (2008: 4,549,767), and 6,511,498 rights (2008: 6,795,186) 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.

8 DIVIDENDS PAID OR PROPOSED

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Unfranked[(1)] dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends[(2)]	**25,991**	44,794	**25,991**	44,794
Unfranked a dividends paid during the year:				
Ordinary – previous year final	**44,682**	44,767	**44,682**	44,767
Ordinary – current year interim[(3)]	**22,677**	44,648	**22,677**	44,648
	67,359	89,415	**67,359**	89,415

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

(2) On 22 February 2010, the Directors declared a final unfranked dividend in respect of the current year, of US 2 cents per ordinary share (2008: US 4 cents final dividend), to be paid to the holders of ordinary shares on 9 April 2010. The proposed final dividend for 2009 are payable to all holders of ordinary shares on the Register of Members on 17 March 2010. The estimated dividends to be paid are US$25,991,244 and have not been included as a liability in these financial statements.

(3) On 25 August 2009, the Directors declared an interim unfranked dividend in respect of the current half-year, of US 2 cents per ordinary share, paid to the holders of ordinary shares on 9 October 2009.

9 RECEIVABLES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current				
Trade debtors	**81,347**	41,222	**–**	189
Other debtors[1]	**27,436**	54,910	**788**	8,549
Amounts due from subsidiary entities	**–**	–	**145,611**	28,738
	108,783	96,132	**146,399**	37,476
Non-current				
Amounts due by:				
subsidiaries	**–**	–	**–**	–
other entities	**416**	42,848	**–**	–
	416	42,848	**–**	–

(1) During the year no receivables have been determined to be impaired and no related impairment loss has been charged to the Income Statement.

10 INVENTORIES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current				
At cost				
Materials and supplies	**53,316**	47,693	**–**	113
Petroleum products	**6,202**	5,161	**–**	13
	59,518	52,854	**–**	126

11 OTHER ASSETS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current				
Prepayments	**4,424**	3,748	**124**	122
Non-current				
Prepayments	**1,206**	1,651	**–**	–

12 EXPLORATION AND EVALUATION ASSETS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
At cost	**823,818**	567,699	**63,202**	95,208
Less impairment	**(15,500)**	(51,443)	**–**	–
	808,318	516,256	**63,202**	95,208
Balance at start of year	**516,256**	376,894	**95,208**	62,578
Transfer to another subsidiary	**–**	–	**(149,857)**	–
Expenditure incurred during the year	**438,922**	257,286	**122,791**	42,426
Exploration costs expensed during the year	**(75,729)**	(91,234)	**(4,870)**	(9,796)
Impairment losses	**–**	(17,153)	**–**	–
Disposals	**(70,985)**	(9,669)	**–**	–
Net exchange differences	**(146)**	132	**–**	–
Transferred to producing assets	**–**	–	**(70)**	–
Balance at end of year	**808,318**	516,256	**63,202**	95,208

13 OIL AND GAS ASSETS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Assets in development				
At cost	**–**	–	**–**	–
Less accumulated amortisation	**–**	–	**–**	–
	–	–	**–**	–
Balance at start of year	**–**	33,766	**–**	–
Additions	**–**	4,214	**–**	–
Disposals	**–**	(37,176)	**–**	–
Amortisation	**–**	(804)	**–**	–
Balance at end of year	**–**	–	**–**	–
Producing assets				
At cost	**1,716,818**	1,579,987	**6,371**	7,911
Less accumulated amortisation and impairment	**(1,078,792)**	(991,854)	**(6,371)**	(6,239)
	638,026	588,133	**–**	1,672
Balance at start of year	**588,133**	599,523	**1,672**	1,955
Transfer to another subsidiary	**–**	–	**(1,889)**	–
Transferred from exploration and evaluation assets	**–**	–	**70**	–
Additions	**142,325**	157,584	**178**	226
Disposals	**–**	(14,880)	**–**	–
Impairment (losses)/reversals	**–**	(54,590)	**–**	–
Changes in restoration obligations	**3,062**	9,146	**101**	(56)
Amortisation of site restoration	**(8,556)**	(9,919)	**–**	–
Amortisation	**(86,938)**	(98,731)	**(132)**	(453)
Balance at end of year	**638,026**	588,133	**–**	1,672
Total oil and gas assets	**638,026**	588,133	**–**	1,672

14 OTHER PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
At cost	**149,071**	142,415	**247**	247
Less accumulated depreciation and impairment	**(72,851)**	(62,409)	**–**	–
	76,220	80,006	**247**	247
Rigs				
Balance at start of year	**71,632**	75,057	**–**	–
Reclassification to other plant and equipment	**(316)**	–	**–**	–
Additions	**1,853**	28,865	**–**	–
Disposals	**–**	(485)	**–**	–
Depreciation	**(5,727)**	(12,086)	**–**	–
Impairment losses	**–**	(19,707)	**–**	–
Net exchange differences	**–**	(12)	**–**	–
Balance at end of year	**67,442**	71,632	**–**	–
Other property, plant and equipment				
Balance at start of year	**8,374**	12,758	**247**	224
Reclassification from rigs	**316**	–	**–**	–
Additions	**3,232**	3,151	**–**	23
Depreciation	**(4,715)**	(5,661)	**–**	–
Net exchange differences	**1,571**	(1,874)	**–**	–
Balance at end of year	**8,778**	8,374	**247**	247

15 NON-CURRENT INVESTMENTS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Available-for-sale assets:				
Shares not quoted on securities exchange(1)	**962**	962	**–**	–
Accumulated impairment losses	**(962)**	(962)	**–**	–
	–	–	**–**	–
Shares in subsidiaries (at cost)	**–**	–	**326,507**	326,507
	–	–	**326,507**	326,507

(1) Shares in Misima Mines Limited 2009: 3,772,843 (2008: 3,772,843) ordinary shares at acquisition cost.

16 DEFERRED TAX ASSETS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Temporary differences				
Other assets	**1,512**	5,453	**–**	–
Provisions	**69,135**	61,993	**24**	134
Exploration and development	**–**	–	**–**	9,608
Other	**921**	2,933	**–**	110
Tax losses recognised	**20,834**	18,522	**1,552**	–
	92,402	88,901	**1,576**	9,852

17 PAYABLES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current				
Trade creditors and accruals	**204,119**	166,127	**18,869**	14,018
Other payables	**–**	3,453	**2,043**	1,422
	204,119	169,580	**20,912**	15,440

18 PROVISIONS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current				
Employee entitlements	**11,883**	12,196	**–**	–
Directors retirement allowances	**80**	80	**80**	80
	11,963	12,276	**80**	80
Non-current				
Site restoration[(1)]	**121,402**	114,121	**–**	288
Other	**750**	500	**–**	–
	122,152	114,621	**–**	288
Movement in site restoration provision				
Balance at start of year	**114,121**	99,493	**288**	114
Revision of provision	**3,062**	9,146	**–**	9
Unwinding of discount	**4,219**	5,482	**4**	15
Reclassification	**–**	–	**–**	150
Transfer to another subsidiary	**–**	–	**(292)**	–
Balance at end of year	**121,402**	114,121	**–**	288

(1) These provisions are in relation to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the producing assets in which the economic entity holds a participating interest. No usage of this provision is expected during the next 12 months.

19 DEFERRED TAX LIABILITIES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Temporary differences				
Exploration and development	**86,708**	95,141	**1,037**	–
Prepayments and receivables	**206**	219	**138**	158
Other assets	**9,830**	5,250	**–**	–
Other differences	**–**	15	**–**	–
	96,744	100,625	**1,175**	158

20 SHARE CAPITAL AND RESERVES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Issued 1,299,562,220 (2008: 1,119,841,193)				
Ordinary shares, fully paid (no par value)	**1,550,213**	620,491	1,550,213	620,491

	2009 SHARES	2008 SHARES	2009 US$'000	2008 US$'000
Movements in issued and fully paid shares				
Balance at the beginning of the period	**1,119,841,193**	1,119,841,193	**620,491**	625,602
Transfer of vested shares from employee				
equity compensation reserve	**–**	–	**5,812**	9,767
Settlement of equity based share based payments	**–**	–	**84**	(14,878)
Ordinary shares issued on exercise of options and rights, and grant of restricted shares	**4,611,679**	–	**9,706**	–
DRP underwriting agreement[(1)]				
Ordinary shares issued at US$3.62 (2008 final dividend)	**9,485,203**	–	**34,347**	–
Ordinary shares issued at US$5.56 (2009 interim dividend)	**2,828,355**	–	**15,735**	–
DRP[(2)]				
Ordinary shares issued at US$3.55 (2008 final dividend)	**2,945,598**	–	**10,457**	–
Ordinary shares issued at US$5.45 (2009 interim dividend)	**1,289,341**	–	**7,026**	–
Institutional placement				
Ordinary shares issued at US$5.47	**151,686,182**	–	**811,563**	–
Share purchase plan				
Ordinary shares issued at US$5.23	**6,874,669**	–	**35,959**	–
Share issue costs			**(967)**	–
	1,299,562,220	1,119,841,193	**1,550,213**	620,491

(1) The DRP was fully underwritten for the 2008 final dividend and the 2009 interim dividend.

(2) The price for shares issued under the DRP was calculated in accordance with the DRP Rules and is the arithmetic average of the daily volume weighted average sales price of all Oil Search shares sold on the Australian Securities Exchange (excluding off-market trades) during the trading days immediately after the Record Date for the dividend less a discount of 2.00%.

EMPLOYEE SHARE OPTION PLAN, PERFORMANCE RIGHTS PLAN, AND RESTRICTED SHARES PLAN

At balance date, there are 4,481,325 options (2008: 4,549,767), 6,511,498 performance rights (2008: 6,795,186), and 3,626,401 restricted shares (2008: 2,312,996) 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 25 for further details). During the year, a total of 1,016,826 share options (2008: 1,212,935) and 1,794,821 rights (2008: 4,076,548) were exercised and 392,416 options (2008: 555,276) and 396,822 rights (2008: 996,802) were forfeited. No restricted shares were exercised however 83,945 restricted shares were forfeited during the year. There were 1,340,800 share options (2008: 1,788,080) granted under the Employee Share Option Plan, 1,774,985 performance rights (2008: 2,437,300) granted under the Performance Rights Plan, and 1,397,350 restricted shares (2008: 481,635) granted under the Restricted Share Plan during the year.

A) RESERVES AT THE END OF THE FINANCIAL YEAR

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Foreign currency translation reserve	**2,737**	(3,677)	**–**	–
Amalgamation reserve	**–**	–	**(2,990)**	(2,990)
Reserve for treasury shares	**(16,821)**	(7,666)	**–**	–
Employee equity compensation reserve	**19,531**	12,857	**13,465**	12,857
Balance at end of year	**5,447**	1,514	**10,475**	9,867

B) MOVEMENTS IN RESERVES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Foreign currency translation reserve				
Balance at start of year	**(3,677)**	3,280	**–**	–
Translation of financial statements of foreign subsidiaries	**6,414**	(6,957)	**–**	–
Balance at end of year	**2,737**	(3,677)	**–**	–

The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	CONSOLIDATED		CHIEF ENTITY	
Amalgamation reserve				
Balance at start of year	**–**	–	**(2,990)**	(2,990)
Balance at end of year	**–**	–	**(2,990)**	(2,990)

The amalgamation reserve was used to record the retained earnings of entities amalgamated into the chief entity in 2006.

	CONSOLIDATED		CHIEF ENTITY	
Reserve for treasury shares				
Balance at start of year	**(7,666)**	–	**–**	–
Purchase of shares during financial year	**(1,761)**	(7,666)	**–**	–
Issue of shares during financial year	**(6,066)**	–	**–**	–
Net exchange differences	**(1,328)**	–	**–**	–
Balance at end of year	**(16,821)**	(7,666)	**–**	–

The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust.

	CONSOLIDATED		CHIEF ENTITY	
Employee equity compensation reserve				
Balance at start of year	**12,857**	12,934	**12,857**	12,934
Expense recognised in employing subsidiaries during financial year	**12,351**	9,690	**12,351**	9,690
Transfer of vested shares to share capital	**(5,812)**	(9,767)	**(5,812)**	(9,767)
Issue of treasury shares	**–**	–	**(6,066)**	–
Net exchange differences	**135**	–	**135**	–
Balance at end of year	**19,531**	12,857	**13,465**	12,857

The employee equity compensation reserve is used to record the share based remuneration obligations to employees in relation to Oil Search Limited ordinary shares held by the Employee Option and Rights Share Plans, which have not vested as at the end of the year.

21 STATEMENT OF CASH FLOWS

(A) FOR THE PURPOSES OF THE STATEMENT OF CASH FLOWS, CASH AND CASH EQUIVALENTS INCLUDES CASH ON HAND AND AT BANK, DEPOSITS AT CALL, AND BANK OVERDRAFT

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Cash at bank and on hand(1)	**151,694**	93,917	**105,471**	16,213
Share of cash in joint ventures	**33,182**	17,415	**534**	659
Interest-bearing short-term deposits(2)	**1,103,201**	423,596	**925,233**	221,791
	1,288,077	534,928	**1,031,238**	238,663

(1) Includes US$22.5 million (2008: nil) in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US$435 million revolving facility agreement.

(2) Includes US$16.4 million (2008: US$28.7 million) held as security for letters of credit on issue.

(B) RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Net profit/(loss) after tax	**133,680**	313,362	**(8,262)**	(3,690)
Add/(deduct):				
Exploration costs expensed	**75,729**	91,234	**4,870**	9,796
Impairment loss	**–**	91,530	**–**	–
Profit on sale of investment and joint venture interests	**–**	(127,639)	**–**	–
Contractual adjustments to profit on sale of joint venture interests	**500**	–	**–**	–
State Back-In LNG surplus	**(15,414)**	–	**–**	–
Profit/(loss) on sale of non-current assets	**–**	494	**(6,149)**	–
Amortisation – site restoration	**8,556**	9,919	**–**	–
Unwinding of site restoration discount	**4,219**	5,482	**4**	15
Amortisation – oil and gas assets	**86,418**	99,564	**124**	517
Cost of share options	**12,351**	9,690	**–**	–
Depreciation	**10,442**	17,747	**–**	–
Exchange losses – unrealised	**6,549**	(4,865)	**–**	–
Movement in tax provisions	**26,721**	(62,199)	**8,009**	2,572
Net (decrease)/increase in provisions	**(313)**	466	**–**	–
Settlement of equity based employee share payments	**84**	(14,878)	**84**	(14,878)
Decrease/(increase) in inventories	**(6,436)**	804	**105**	621
Decrease/(increase) in other current assets	**(324)**	(467)	**15**	(14)
(Decrease)/increase in payables	**(46,298)**	(29,019)	**(16,466)**	(8,472)
Decrease/(increase) in receivables	**(12,365)**	106,239	**8,051**	1,999
Decrease/(increase) in intercompany	**–**	–	**–**	(9,628)
Other	**–**	(41)	**155**	(146)
	150,419	194,061	**(1,198)**	(17,618)
Net cash flows from operating activities	**284,099**	507,423	**(9,460)**	(21,308)

(C) FINANCING FACILITY

Oil Search (PNG) Limited ("OSP") signed a five year financing facility effective 23 October 2008 for US$435 million, decreasing by US$14.5 million at the end of each quarter. A facility limit of US$362.5 million was available at 31 December 2009. There was a nil drawn balance as at 31 December 2009 (2008: nil). As part of the terms and conditions of this facility, OSP has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited. Refer to notes 29(a) and 32(a)(ii).

22 INTERESTS IN JOINTLY CONTROLLED OPERATIONS

(A) NET ASSETS EMPLOYED IN JOINT VENTURES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current assets				
Cash	**33,182**	17,415	**534**	659
Receivables	**10,343**	17,871	**180**	297
Inventories	**47,678**	40,637	**–**	113
Non-current assets				
Exploration and evaluation assets	**808,318**	516,256	**63,202**	95,208
Oil and gas assets	**638,026**	588,133	**–**	1,672
Current liabilities	**(169,160)**	(82,309)	**(3,050)**	(9,988)
	1,368,387	1,098,003	**60,866**	87,961

(B) INTERESTS IN JOINTLY CONTROLLED OPERATIONS

The principal activities of the following jointly controlled operations in which the economic entity holds an interest are the exploration for and the production of crude oil and natural gas.

Contingent liabilities and commitment for expenditure in respect of the jointly controlled operations are disclosed in notes 29 and 30, respectively.

(i) Production joint ventures

			% INTEREST	
		COUNTRY	2009	2008
PDL 1[1]	Hides gas to electricity project	PNG	**100.00**	100.00
PDL 2[2,3]	Kutubu & Moran oil fields	PNG	**60.05**	60.05
PDL 2[2]	South East Mananda oil fields	PNG	**72.27**	72.27
PDL 3	Gobe oil field	PNG	**36.36**	36.36
PDL 4[2]	Gobe oil field	PNG	**10.00**	10.00
PDL 5[3]	Moran oil field	PNG	**40.69**	40.69
PDL 6[2,3]	Moran oil field	PNG	**71.07**	72.52
PL 1[2]	Hides gas pipeline	PNG	**100.00**	100.00
PL 2[2]	Kutubu oil pipeline	PNG	**60.05**	60.05
PL 3[2]	Gobe oil pipeline	PNG	**17.78**	17.78

(1) Economic entity is operator of the gas to electricity project.

(2) Joint venture operated by the economic entity.

(3) Whilst not the operator of PDL 5, the economic entity operates the Greater Moran Unit, incorporating PDL 2, 5 and 6, under a separate commercial arrangement.

22 INTERESTS IN JOINTLY CONTROLLED OPERATIONS continued

(ii) Exploration joint ventures

		% INTEREST	
	COUNTRY	2009	2008
PPL 190(1)	PNG	**62.56**	62.56
PPL 219(1)	PNG	**71.25**(3)	72.52
PPL 233	PNG	**52.50**	52.50
PPL 234(1)	PNG	**80.00**(3)	100.00
PPL 239(1)	PNG	**80.00**(3)	100.00
PPL 240(1)	PNG	**100.00**(3)	90.00(2)
PPL 244	PNG	**30.00**(3)	40.00
PPL 260(1)	PNG	**50.00**(4)	–
EL 1720, 1721, 1722, 1723, 1724, 1725, 1726	PNG	**100.00**	–
Bina Bawi	Iraq	**–**	6.00
Shakal	Iraq	**15.00**	15.00
Area 18	Libya	**30.00**(5)	30.00
Le Kef	Tunisia	**50.00**	50.00
Tajerouine(1)	Tunisia	**100.00**	100.00
Block 3(1)	Yemen	**60.00**	60.00
Block 7(1)	Yemen	**34.00**(4)	34.00(4)

(1) Joint venture operated by the economic entity.
(2) Awaiting government department approval and registration of 10.00% transfer to Oil Search.
(3) Awaiting government department approval.
(4) Awaiting ministerial grant.
(5) Notice of withdrawal submitted.

(iii) Gas licence joint ventures

			% INTEREST	
		COUNTRY	2009	2008
PDL 1	Hides gas field	PNG	**16.66**	21.50
PDL 7	South Hides gas field	PNG	**40.69**	–
PDL 8	Angore gas field	PNG	**40.69**	–
PDL 9	Juha gas field	PNG	**24.42**	–
PRL 1	Pandora gas field	PNG	**17.73**	5.00
PRL 2	Juha gas field	PNG	**31.51**	31.51
PRL 3	P'nyang gas field	PNG	**38.51**	38.51
PRL 8(1)	Kimu gas field	PNG	**60.71**	60.71
PRL 9	Barikewa gas field	PNG	**42.55**	42.55
PRL 10(1)	Uramu gas field	PNG	**59.55**(3)	49.55(2)
PRL 11	Angore gas field	PNG	**52.50**	52.50
PRL 12	South Hides gas field	PNG	**–**	52.50
PNG LNG	PNG LNG project	PNG	**29.00**	34.05
PL 4	PNG LNG project	PNG	**29.00**	–
PL 5	PNG LNG project	PNG	**29.00**	–
PL 6	PNG LNG project	PNG	**29.00**	–
PL 7	PNG LNG project	PNG	**29.00**	–
PL 8	PNG LNG project	PNG	**29.00**	–

(1) Joint venture operated by the economic entity.
(2) Awaiting government department approval and registration of 10.00% transfer to Oil Search.
(3) Awaiting government department approval.

23 SEGMENT REPORTING

INFORMATION ABOUT REPORTABLE SEGMENTS

The Group's segments are arranged primarily by location of operation (e.g. PNG and MENA) followed by the commodity (e.g. oil, gas or LNG).

Each managed segment has a management team that is accountable to the Managing Director.

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

	PNG				MENA		CORPORATE		TOTAL	
	OIL AND GAS 31 DECEMBER		LNG 31 DECEMBER		OIL AND GAS 31 DECEMBER		31 DECEMBER		31 DECEMBER	
US$'000	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
External revenues	**512,154**	795,781	**–**	–	**–**	18,549	**–**		**512,154**	814,330
Amortisation – site restoration	**(8,556)**	(9,919)	**–**	–	**–**	–	**–**	–	**(8,556)**	(9,919)
Amortisation – oil and gas assets	**(86,418)**	(93,899)	**–**	–	**–**	(5,665)	**–**	–	**(86,418)**	(99,564)
Depreciation – operating assets	**(5,727)**	(12,086)	**–**	–	**(194)**	(132)	**(4,521)**	(5,529)	**(10,442)**	(17,747)
Foreign currency gains/(losses)	**9,284**	(1,362)	**–**	–	**–**	(27)	**(6,829)**	397	**2,455**	(992)
Exploration and other costs	**(18,658)**	(64,114)	**–**	–	**(57,071)**	(27,120)	**–**	–	**(75,729)**	(91,234)
Employee share based remuneration	**–**	–	**–**	–	**–**	–	**(12,351)**	(9,690)	**(12,351)**	(9,690)
Operating costs	**(94,552)**	(113,267)	**–**	–	**(489)**	(5,095)	**2,170**	12,775	**(92,871)**	(105,587)
EBIT	**307,527**	501,134	**–**	–	**(57,754)**	(19,490)	**(21,531)**	(2,047)	**228,242**	479,597
Profit on sale of MENA assets									**–**	127,639
Loss on sale of joint venture interests									**(500)**	(1,000)
Loss on sale of other non-current assets									**–**	(494)
State Back-In LNG surplus									**15,414**	–
Unwinding of discount on site restoration									**(4,219)**	(5,482)
Impairment									**–**	(91,530)
Interest income									**5,543**	13,768
Interest expense									**(4,650)**	(2,193)
Reportable segment profit before income tax									**239,830**	520,305
Income tax expense									**(106,150)**	(206,943)
Net profit after tax									**133,680**	313,362
Capital expenditure										
Exploration and evaluation assets	**(42,720)**	(111,527)	**(312,426)**	(79,210)	**(83,776)**	(66,549)	**–**	–	**(438,922)**	(257,286)
Oil and gas assets – development and production	**(142,325)**	(155,115)	**–**	–	**–**	(6,683)	**–**	–	**(142,325)**	(161,798)
Property, plant and equipment	**(1,853)**	(28,865)	**–**	–	**–**	–	**(3,232)**	(3,151)	**(5,085)**	(32,016)
Total capital expenditure	**(186,898)**	(295,507)	**(312,426)**	(79,210)	**(83,776)**	(73,232)	**(3,232)**	(3,151)	**(586,332)**	(451,100)

23 SEGMENT REPORTING continued

GEOGRAPHICAL SEGMENTS

The Oil Search Group operates primarily in Papua New Guinea but also has activities in Yemen, Libya, Iraq, Tunisia and Australia. Production from the designated segments is sold on commodity markets and may be sold to other geographical segments.

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

	REVENUES		NON-CURRENT ASSETS	
US$'000	2009	2008	2009	2008
PNG	**512,154**	795,781	**1,542,403**	1,278,489
Australia	**–**	–	**16,965**	8,838
MENA	**–**	18,549	**57,220**	30,468
Total	**512,154**	814,330	**1,616,588**	1,317,795

MAJOR CUSTOMERS

Revenue from one customer of the Group's PNG oil and gas segment represents approximately $368.3 million or 77% of the Group's total oil and gas sales revenues (2008: $529.3 million, 70%) and 72% of the Group's total revenue of $512.2 million (2008: 65% of $814.3 million).

Revenue from each of the other customers is less than 10% of total revenue for the Group.

24 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	**4,711**	4,930	**–**	–
Directors' retirement allowances	**80**	80	**80**	80
Long service leave entitlements	**7,172**	7,266	**–**	–
	11,963	12,276	**80**	80
Balance at start of year	**12,276**	11,810		–
Additional provision	**7,308**	8,797	**–**	–
Reversal of provision	**–**	(2,627)	**–**	–
Provision utilised	**(7,621)**	(5,704)	**–**	–
Balance at end of year	**11,963**	12,276	**–**	–

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 Middle East and North Africa. These amounts are payable in the normal course of business either when leave is taken or on termination of employment.

EMPLOYEE SHARE OPTION PLAN

The Employee Share Option Plan was established in 2004 where selected employees of the economic entity are granted options over ordinary shares of Oil Search Limited. The options are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The options cannot be transferred and are not quoted on the Australian Securities Exchange. If an employee ceases to be employed by the Group they forfeit any options and rights that have not vested, subject to Board discretion. There are currently 824 (2008: 790) employees participating in the Employee Share Option Plan.

	JUNE 2009 GRANT[3]	AUGUST 2008 GRANT[2]	MAY 2007 GRANT	JULY 2006 GRANT	OCTOBER 2005 GRANT[1]	JUNE 2004 GRANT
Grant date	**1 June 2009**	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005	25 June 2004
Share price at grant date	**A$5.73**	A$5.65	A$3.66	A$4.13	A$3.30	A$1.30
Exercise date	**13 May 2012**	5 May 2011	7 May 2010	28 July 2009	13 May 2008	25 June 2007
Exercise price	**A$5.22**	A$4.88	A$3.57	A$4.15	A$2.29	A$1.25
Number of options						
Balance at 1 January 2009	**–**	1,757,700	1,436,540	1,168,552	110,175	76,800
Granted during period	**1,340,800**	–	–	–	–	–
Forfeited during period	**(49,600)**	(206,150)	(88,970)	(47,696)	–	–
Exercised during period[4]	**–**	–	–	(893,216)	(46,810)	(76,800)
Balance at 31 December 2009	**1,291,200**	1,551,550	1,347,570	227,640	63,365	–
Exercisable at 31 December 2009		–	–	227,640	63,365	–
Average share price at date of exercise				A$6.02	A$5.57	A$5.03
Balance at 1 January 2008	**–**	–	1,696,940	1,433,048	1,236,710	163,200
Granted during period	**–**	1,788,080	–	–	–	–
Forfeited during period	**–**	(30,380)	(260,400)	(264,496)	–	–
Exercised during period[5]	**–**	–	–	–	(1,126,535)	(86,400)
Balance at 31 December 2008	**–**	1,757,700	1,436,540	1,168,552	110,175	76,800
Exercisable at 31 December 2008	**–**	–	–	–	110,175	76,800
Average share price at date of exercise					A$6.14	A$5.40

(1) Whilst not formally granted until 28 October 2005, the 2005 options were awarded on 13 May 2005, when the share price was A$2.29.
(2) Whilst not formally granted until 4 August 2008, the 2008 options were awarded on 5 May 2008, when the share price was A$4.88.
(3) Fair value of options granted on 1 June 2009 is A$2.02.
(4) Settled by cashing out and cancelling the options or by issuing new shares on market.
(5) Settled by cashing out and cancelling the options or by purchasing shares on market.

Options were priced using a binomial option pricing model using the following inputs:

	JUNE 2009 GRANT	AUGUST 2008 GRANT	MAY 2007 GRANT	JULY 2006 GRANT	OCTOBER 2005 GRANT	JUNE 2004 GRANT
Volatility	**40%**	38%	32%	35%	40%	40%
Dividend yield	**4.55%**	1.50%	2.90%	1.80%	1.73%	3.00%
Risk-free interest rate	**2.00%**	5.96%	5.93%	5.90%	5.27%	5.60%

An expense of US$2,098,765 (2008: US$1,525,701) has been recognised in the income statement in respect of these options. All options expire two years after their vesting date or on termination of employment.

PERFORMANCE RIGHTS PLAN

An employee Performance Rights Plan was established in 2004 where selected employees of the economic entity 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. For awards prior to 2007, a single peer group of the first 150 companies included in the ASX 200 Index was used. From 2007 onwards, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

- The first 150 companies included in the ASX 200 Index; and
- A selected group of similar sized international oil and gas exploration and production companies.

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 148 (2007: 132) employees participating in the Performance Rights Plan.

24 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS continued

	JUNE 2009 GRANT[1]	AUGUST 2008 GRANT[2,3]	MAY 2007 GRANT[3,4]	JULY 2006 GRANT[5]	OCTOBER 2005 GRANT[6]	JUNE 2004 GRANT[7]
Grant date	**1 June 2009**	4 Aug 2008	7 May 2007	28 July 2006	28 Oct 2005	25 June 2004
Share price at grant date	**A$5.73**	A$5.65	A$3.66	A$4.13	A$3.30	A$1.30
Exercise date	**13 May 2012**	5 May 2011	7 May 2010	28 July 2009	13 May 2008	25 June 2007
Exercise price	**A$ nil**	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of rights						
Balance at 1 January 2009	**–**	2,411,600	2,282,415	1,953,147	65,952	82,072
Granted during period	**1,774,985**	66,485	66,485	–	–	–
Forfeited during period	**(37,200)**	(85,800)	(235,178)	(38,644)	–	–
Exercised during period[8]	**–**	–	–	(1,680,376)	(32,373)	(82,072)
Balance at 31 December 2009	**1,737,785**	2,392,285	2,113,722	234,127	33,579	–
Exercisable at 31 December 2009	**–**	–	–	234,127	33,579	–
Average share price at date of exercise				A$6.02	A$5.57	A$5.03
Balance at 1 January 2008	**–**	–	2,692,852	2,525,811	3,419,773	792,800
Granted during period	**–**	2,437,300	–	–	–	–
Forfeited during period	**–**	(25,700)	(408,258)	(562,844)	–	–
Exercised during period[9,10]	**–**	–	(2,179)	(9,820)	(3,353,821)	(710,728)
Balance at 31 December 2008	**–**	2,411,600	2,282,415	1,953,147	65,952	82,072
Exercisable at 31 December 2008	**–**	–	–	–	65,952	82,072
Average share price at date of exercise			A$5.59	A$5.59	A$6.14	A$5.40

(1) Performance period 1 January 2009 – 31 December 2011. Fair value of shares granted on 1 June 2009 is A$4.70.
(2) Performance period 1 January 2008 – 31 December 2010.
(3) Board discretion exercised in granting rights to new executive in 2009 for prior grant periods.
(4) Performance period 1 January 2007 – 31 December 2009.
(5) Performance period 1 January 2006 – 31 December 2008. All rights vested on 28 July 2009.
(6) Performance period 1 January 2005 – 31 December 2007. All rights vested on 13 May 2008.
(7) Performance period 1 January 2004 – 31 December 2006. All rights vested on 25 June 2007.
(8) Settled by cashing out or cancelling the rights or by issuing new shares.
(9) Settled by cashing out and cancelling the rights or by purchasing shares on market.
(10) Board discretion exercised in relation to the death, resignation or termination of employment.

Performance rights were priced using a Monte-Carlo simulation model using the following inputs:

	JUNE 2009 GRANT	AUGUST 2008 GRANT	MAY 2007 GRANT	JULY 2006 GRANT	OCTOBER 2005 GRANT	JUNE 2004 GRANT
Volatility	**40%**	38%	32%	35%	40%	40%
Dividend yield	**2.00%**	1.50%	2.90%	1.80%	1.73%	3.00%
Risk-free interest rate	**4.16%**	6.00%	5.98%	5.93%	5.25%	5.60%

An expense of US$5,770,782 (2008: US$5,366,398) has been recognised in the financial statements in respect of these rights. All rights that have vested expire two years after their exercise date or on termination of employment.

RESTRICTED SHARE PLAN

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

Restricted shares are granted under the plan in two situations. First as a way of retaining key management and other employees. Second, by way of mandatory deferral of a portion of a selected participant's short term incentive award. Awards under the Restricted Share Plan are structured as grants of restricted shares for nil consideration. Restricted shares will be held on behalf of participants in trust, subject to the disposal restrictions and forfeiture conditions, until release under the terms of the plan and in accordance with guidelines approved by shareholders at the Annual Meeting in 2007. There are currently 621 (2008: 47) employees participating in the Restricted Share Plan.

EXECUTIVES	MARCH 2009 GRANT	JANUARY 2009 GRANT	JANUARY 2009 GRANT	MAY 2008 GRANT	MAY 2008 GRANT	MARCH 2008 GRANT	DECEMBER 2007 GRANT	MAY 2007 GRANT
Grant date	**3 March 2009**	**1 January 2009**	**1 January 2009**	1 May 2008	1 May 2008	7 March 2008	13 December 2007	4 May 2007
Share price at grant date	**A$4.80**	**A$4.65**	**A$4.65**	A$4.95	A$4.95	A$4.16	A$4.55	A$3.38
Exercise date	**1 January 2011**	**1 January 2011**	**1 January 2010**	1 January 2011	1 January 2010	1 January 2010	13 December 2010	1 January 2010
Exercise price	**A$ nil**	**A$ nil**	**A$ nil**	A$ nil	A$ nil	A$ nil	A$ nil	A$ nil
Number of shares								
Balance at 1 January 2009	**–**	**–**	**–**	33,898	131,356	260,898	1,203,675	683,169
Granted during period	**412,282**	**99,728**	**124,986**	–	–	–	–	–
Forfeited during period	**–**	**–**	**–**	–	–	(24,148)	(56,533)	–
Balance at 31 December 2009	**412,282**	**99,728**	**124,986**	33,898	131,356	236,750	1,147,142	683,169
Exercisable at 31 December 2009				–	–	–	–	–
Balance at 1 January 2008	**–**	**–**	**–**	–	–	–	1,298,870	863,926
Granted during period	**–**	**–**	**–**	33,898	131,356	316,381	–	–
Forfeited during period	**–**	**–**	**–**	–	–	(55,483)	(95,195)	(180,757)
Balance at 31 December 2008	**–**	**–**	**–**	33,898	131,356	260,898	1,203,675	683,169

OIL SEARCH (PNG) LIMITED	MARCH 2009 GRANT
Grant date	**15 June 2009**
Share price at grant date	**A$5.80**
Exercise date	**17 June 2013**
Exercise price	**A$ nil**
Number of shares	
Balance at 1 January 2009	**–**
Granted during period	**760,354**
Forfeited during period	**(3,264)**
Balance at 31 December 2009	**757,090**
Exercisable at 31 December 2009	
Balance at 1 January 2008	**–**
Granted during period	**–**
Forfeited during period	**–**
Balance at 31 December 2008	**–**

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

An expense of US$4,481,155 (2008: US$2,798,314) has been recognised in the income statement in respect of these restricted shares.

25 KEY MANAGEMENT PERSONNEL REMUNERATION

(A) DIRECTORS' REMUNERATION

	2009 US$	2008 US$
Short-term benefits	**4,653,519**	4,819,476
Long-term benefits	**60,373**	114,816
Post-employment benefits	**127,810**	106,542
Share-based payments	**1,917,808**	1,422,344
	6,759,510	6,463,178

The number of Directors of Oil Search Limited where remuneration falls within the following bands:

	NO.	NO.
US$140,000 – US$149,999	**4**	3
US$150,000 – US$159,999	**2**	3
US$320,000 – US$329,999	**1**	–
US$330,000 – US$339,999	**–**	1
US$860,000 – US$869,999	**–**	1
US$1,250,000 – US$1,259,999	**1**	–
US$4,280,000 – US$4,289,999	**1**	–
US$4,360,000 – US$4,369,999	**–**	1

The insurance premium paid during the year to insure the Directors against claims made against them while performing services for the Company has not been disclosed as it would breach the confidentiality clause in the insurance policy.

(B) EXECUTIVES' REMUNERATION (EXCLUDING DIRECTORS)

Amounts received or due and receivable by executive officers of the economic entity whose remuneration is US$100,000 or more, from entities in the economic entity and related entities.

	2009 US$	2008 US$
Short-term benefits	**6,425,630**	7,172,446
Long-term benefits	**89,450**	80,335
Post-employment benefits	**235,926**	416,307
Share-based payments	**4,052,664**	2,422,484
	10,803,670	10,091,572

The number of executive officers whose remuneration falls within the following bands:

	2009 NO.	2008 NO.
US$420,000 – US$429,999	**–**	2
US$440,000 – US$449,999	**1**	–
US$610,000 – US$619,999	**1**	–
US$660,000 – US$669,999	**–**	1
US$760,000 – US$769,999	**–**	1
US$940,000 – US$949,999	**–**	1
US$1,030,000 – US$1,039,999	**1**	–
US$1,090,000 – US$1,099,999	**–**	1
US$1,200,000 – US$1,209,999	**1**	–
US$1,240,000 – US$1,249,999	**1**	1
US$1,260,000 – US$1,269,999	**–**	1
US$1,350,000 – US$1,359,999	**1**	–
US$1,480,000 – US$1,489,999	**–**	1
US$1,590,000 – US$1,599,999	**1**	–
US$1,660,000 – US$1,669,999	**1**	–
US$1,690,000 – US$1,699,999	**1**	–
US$1,770,000 – US$1,779,999	**–**	1

26 AUDITORS' REMUNERATION

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$	2008 US$	2009 US$	2008 US$
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	**225,635**	428,610	**90,254**	54,127
Other services	**23,884**	44,811	**–**	–
	249,519	473,421	**90,254**	54,127

27 RELATED PARTY TRANSACTIONS

(A) KEY MANAGEMENT PERSONNEL

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2009, 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]	
	2009	2008	2009	2008	2009	2008
Directors						
BF Horwood	**12,500**	–	**–**	–	**–**	–
PR Botten	**1,403,590**	1,040,000	**995,591**	1,097,697	**453,918**	288,045
G Aopi	**124,066**	121,450	**164,972**	118,972	**102,920**	76,188
F Ainsworth	**–**	–	**–**	–	**–**	–
KG Constantinou	**–**	–	**–**	–	**–**	–
R Igara	**10,000**	10,000	**–**	–	**–**	–
MD Kriewaldt	**14,590**	12,000	**–**	–	**–**	–
JL Stitt	**42,190**	9,600	**–**	–	**–**	–
TN Warren	**–**	–	**–**	–	**–**	–
Executives						
P Bainbridge	**128,205**	–	**269,058**	330,463	**252,444**	206,212
P Caldwell	**173,846**	156,500	**180,900**	202,946	**90,116**	60,966
P Crute	**–**	–	**113,300**	65,900	**190,597**	165,254
S Gardiner	**81,672**	–	**103,453**	149,915	**38,200**	38,200
N Hartley	**56,838**	166,292	**221,512**	273,450	**133,969**	98,605
R Marcellus	**–**	–	**134,300**	78,200	**128,487**	95,447
A Miller	**388,613**	44,000	**280,456**	346,112	**265,476**	214,928
M Sullivan[2]	**94,017**	–	**–**	173,228	**–**	24,148
Z Todorcevski	**–**	–	**279,255**	–	**224,714**	–

(1) Refer to note 24.
(2) Number of ordinary shares held by the Executive at date of ceasing employment with the Group.

During the year the economic entity acquired hotel, conference facility and accommodation services in PNG from companies of which Mr KG Constantinou is a Director. These services were based upon normal commercial terms and conditions, totalling US$40,195 (2008: US$264,028).

(B) OTHER TRANSACTIONS

(1) Interests in subsidiaries are disclosed in note 31.

(2) Loans receivable from subsidiaries are disclosed in note 9. Interest revenue and expenses brought to account by the company in respect of these loans during the financial year is disclosed in note 5.

(3) Interest held in joint ventures are set out in note 22.

(4) Assets have been transferred between Group companies during the period at book value to prepare the Group structure for the LNG project.

(5) Other than transactions between entities within the economic entity (as disclosed in note 5 to the financial statements), which were made under normal commercial terms and conditions, there were no other related party transactions during the year to 31 December 2009.

28 LEASES

	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Operating leases not capitalised in the accounts				
Rental of premises and motor vehicles				
Payable within 12 months	**4,790**	1,084	**–**	–
Payable 1 to 2 years	**4,981**	403	**–**	–
Payable 2 to 5 years	**11,398**	1,296	**–**	–

29 CONTINGENT LIABILITIES

(A) GUARANTEES

As part of the terms and conditions of a Loan Agreement between Oil Search (PNG) Limited ("OSP") as borrower and the Commonwealth Bank of Australia lending syndicate for the provision of a US$435 million term revolving facility, OSP provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

(B) CONTINGENT CLAIMS

Various claims for damages, occurring through the ordinary course of business, existed at balance sheet date. Legal advice indicates it is unlikely that any significant liabilities will arise from these outstanding claims.

The ultimate parent company will provide necessary financial support to ensure any subsidiary companies with a net current asset deficiency, will pay their debts as and when they fall due.

30 COMMITMENTS FOR EXPENDITURE

(A) EXPLORATION AND EVALUATION EXPENDITURE

The economic entity, together with joint venture partners, has undertaken exploration programmes. The Directors estimate the economic entity's future contribution to these joint ventures, based on firm commitments and other likely expenditure for existing joint venture interests at 31 December 2009, will be US$229.7 million (2009: US$124.0 million) during the year ending 31 December 2010. A further US$800.0 million to US$1,100.0 million (2009: US$314.9 million) is expected to be spent on the continuation of the development phase of the LNG project post a successful financial close decision, additional LNG-related expenditure and other gas activities.

These obligations may vary from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the economic entity.

(B) DEVELOPMENT EXPENDITURE

The economic entity, through its participation in various joint ventures, has capital expenditure commitments for 2010 in relation to the Kutubu, Gobe, Moran and South East Mananda Projects. At balance date, the Directors estimate that the economic entity has commitments of US$20.1 million in respect of the Kutubu Project (2009: US$106.2 million); US$0.3 million in respect of the Gobe Project (2009: US$0.1 million); US$14.1 million in respect of the PNG pipeline (2009: US$4.6 million); US$30.7 million in respect of the Moran Project (2009: US$31.4 million); with no committed spend for the South East Mananda Project (2009: nil).

(C) OTHER CAPITAL EXPENDITURE

Corporate capital expenditure commitments total US$6.9 million (2009: US$3.2 million), including US$1.8 million (2009: US$1.9 million) associated with drilling rigs.

31 CONSOLIDATED ENTITIES

	OWNERSHIP INTEREST % 2009	OWNERSHIP INTEREST % 2008	COUNTRY OF INCORPORATION
Oil Search (Middle Eastern) Limited	**100**	100	British Virgin Is.
Oil Search (Iraq) Limited	**100**	100	British Virgin Is.
Oil Search (Libya) Limited	**100**	100	British Virgin Is.
Oil Search (Tunisia) Limited	**100**	100	British Virgin Is.
Oil Search (ROY) Limited	**100**	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	**100**	–	PNG
Oil Search (Tumbudu) Limited	**100**	100	PNG
Oil Search (PNG) Limited	**100**	100	PNG
Oil Search (Drilling) Limited	**100**	100	PNG
Oil Search (Exploration) Inc.	**100**	100	Cayman Is.
Oil Search (LNG) Limited	**100**	–	PNG
Oil Search (PNG) Investments Limited	**100**	–	PNG
Oil Search (Petroleum) Limited	**100**	–	PNG
Oil Search (LNG Interests) Limited	**100**	–	PNG
Papuan Oil Search Limited	**100**	100	Australia
Oil Search Limited Retention Share Plan Trust	**100**	100	Australia

32 FINANCIAL INSTRUMENTS

(A) TERMS, CONDITIONS AND ACCOUNTING POLICIES

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

(i) Financial assets

RECOGNISED FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
Receivables – trade	9	Trade receivables are carried at amortised costs less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms.
Receivables – Related parties/entities	9	Amounts (other than trade debts) receivable from related parties/entities are carried at amortised cost less any allowance for doubtful debts.	Receivables from related parties/entities are payable at call. Refer to note 27(b).
Short-term deposits	21(a)	Short-term deposits are stated at amortised cost. Interest is recognised in the profit and loss account at the effective interest rate.	Short-term deposits have maturity dates of three months or less.

32 FINANCIAL INSTRUMENTS continued

[ii] Financial liabilities

RECOGNISED FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
Trade creditors and accruals	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.	Trade liabilities are normally settled on 30 day terms.
Accounts payable – Related parties/entities	–	Loans from related parties are carried at amortised cost. Interest is taken up as an expense on an accrual basis.	Amounts owing to related parties/entities are payable at call.
Secured loans	–	Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over the estimated life of the project. All other interest on borrowings is expensed at the effective interest rate.	The secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields. Interest is charged at LIBOR plus a margin. Details of the security over the secured loans are set out in note 29(a).

[iii] Equity

RECOGNISED FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
Ordinary shares	20	Ordinary share capital is recognised at the historical US$ equivalent of capital raised, net of capital raising costs.	Under the PNG Companies' Act, the concept of Authorised Capital no longer exists and there is no limit on the number of shares the company may issue. Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 20 and 24.
Hedges	–	From time to time the economic entity enters into hedging arrangements in circumstances where it is necessary to ensure adequate cash flow to meet financial commitments. As per IAS 39: Financial Instruments Recognition and Measurement the company recognises the fair value of outstanding effective hedges in the Balance Sheet. Hedging settlements are included in the profit and loss at the same time as the underlying physical exposure is recognised in the profit and loss.	There are no outstanding forward sales contracts at balance date (2008: nil). As at 31 December 2009, there are no outstanding barrels hedged (2008: nil).

(B) FINANCIAL 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 balance sheet items. The management of borrowings and surplus cash also create liquidity and credit risk exposures. Monetary assets and liabilities denominated in currencies other than the Group's functional currency, US dollars (US$), may also give rise to translation exposures.

The Group's overall approach is to enter into hedges using derivative financial instruments only in circumstances where it is necessary to ensure adequate cash flow to meet future financial commitments. Financial risk management is undertaken by Group Treasury and risks are managed within the parameters of the Board approved Financial Risk Management policy.

(i) Market risk

Foreign exchange risk

The Group has revenue flows and major capital obligations predominantly denominated in US$ and the functional currency for the preparation of consolidated accounts is US$.

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

- Administrative and business development expenditures incurred at the corporate level in Australian dollars (A$); and
- Operating and capital expenditures incurred by the Group in its role of Operator in Papua New Guinea Kina (PGK) and A$.

In addition to these operational foreign exchange exposures, the Group may also be exposed to one-off transactional flows which occur on an ad hoc basis: i.e. capital equipment purchases in currencies other than US$. The Group is not exposed to material translation exposures as the majority of its assets and liabilities are denominated in US$.

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.

The Operator cash flows are managed independently to the Group's corporate exposures, reflecting the interests of joint venture partners in the Operator cash flows. A$ and PGK are bought on the spot market in excess of immediate requirements. Where these currencies are purchased in advance of requirements, A$ and PGK cash balances do not exceed three months requirements.

As at 31 December 2009, there were no foreign exchange deals outstanding (2008: nil).

No currency sensitivity analysis is provided as there were no derivative financial instruments in place to hedge residual foreign exchange exposure and any non-derivative financial instruments are directly denominated in the functional currency of the entity in which it is taken out.

Interest rate risk

The Group is exposed to interest rate exposure directly through borrowings and investments in each of the currencies of its operations. Surplus cash is invested in short term (floating) instruments due to uncertainty of timing of major cash outflows. Whilst some of the invested cash is in PGK and A$, the primary exposure is to US interest rates.

Interest rate risk management

Interest rate risk is managed on a Group basis at the corporate level. Limits on the proportion of fixed interest rate exposure are applied and interest rates may be fixed for a maximum term of four years or the remaining life of term debt facilities, whichever is the longer.

As at 31 December 2009, as there was no debt outstanding and there was no interest rate hedging in place (2008: nil). Surplus cash was invested in short term instruments with an average maturity of 1 to 2 months.

32 FINANCIAL INSTRUMENTS continued

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 higher or lower and all other variables were held constant, the consolidated entity's:

- net profit after tax would increase/decrease by $0.8 million (2008: $0.6 million).

At the reporting date, if interest rates had been 25 basis points higher or lower and all other variables were held constant, the company's:

- net profit after tax would increase/decrease by $0.5 million (2008: $0.3 million).

Consolidated

		FIXED INTEREST RATE MATURING IN:					
FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE US$'000	1 YEAR OR LESS US$'000	1-5 YEARS US$'000	MORE THAN 5 YEARS US$'000	NON INTEREST BEARING US$'000	TOTAL CARRYING AMOUNT AS PER THE BALANCE SHEET US$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
2009							
Financial assets							
Cash and cash equivalents	**184,876**	**1,103,201**	**–**	**–**	**–**	**1,288,077**	**0.7**
Receivables – trade	**–**	**–**	**–**	**–**	**81,347**	**81,347**	
Other debtors	**–**	**–**	**–**	**–**	**27,436**	**27,436**	
Non-current receivables	**–**	**–**	**–**	**–**	**416**	**416**	
Total financial assets	**184,876**	**1,103,201**	**–**	**–**	**109,199**	**1,397,276**	
Financial liabilities							
Trade creditors and accruals	**–**	**–**	**–**	**–**	**204,119**	**204,119**	
Other payables	**–**	**–**	**–**	**–**	**–**	**–**	
Total financial liabilities	**–**	**–**	**–**	**–**	**204,119**	**204,119**	
2008							
Financial assets							
Cash and cash equivalents	111,332	423,596	–	–	–	534,928	3.4
Receivables – trade	–	–	–	–	41,222	41,222	
Other debtors	–	–	–	–	54,910	54,910	
Non-current receivables	–	–	–	–	42,848	42,848	
Total financial assets	111,332	423,596	–	–	138,980	673,908	
Financial liabilities							
Trade creditors and accruals	–	–	–	–	166,127	166,127	
Other payables	–	–	–	–	3,453	3,453	
Total financial liabilities	–	–	–	–	169,580	169,580	

There exists no unrecognised financial instruments at balance date.

Chief Entity

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE US$'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS US$'000	1-5 YEARS US$'000	MORE THAN 5 YEARS US$'000	NON INTEREST BEARING US$'000	TOTAL CARRYING AMOUNT AS PER THE BALANCE SHEET US$'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
2009							
Financial assets							
Cash and cash equivalents	**106,005**	**925,233**	**–**	**–**	**–**	**1,031,238**	**0.7**
Receivables – trade	**–**	**–**	**–**	**–**	**–**	**–**	
Other debtors	**–**	**–**	**–**	**–**	**788**	**788**	
Total financial assets	**106,005**	**925,233**	**–**	**–**	**788**	**1,032,026**	
Financial liabilities							
Trade creditors and accruals	**–**	**–**	**–**	**–**	**18,869**	**18,869**	
Other payables	**–**	**–**	**–**	**–**	**2,043**	**2,043**	
Total financial liabilities	**–**	**–**	**–**	**–**	**20,912**	**20,912**	
2008							
Financial assets							
Cash and cash equivalents	16,871	221,792	–	–	–	238,663	3.4
Receivables – trade	–	–	–	–	189	189	
Other debtors	–	–	–	–	8,549	8,549	
Total financial assets	16,871	221,792	–	–	8,738	247,401	
Financial liabilities							
Trade creditors and accruals	–	–	–	–	14,018	14,018	
Other payables	–	–	–	–	1,422	1,422	
Total financial liabilities	–	–	–	–	15,440	15,440	

There exists no unrecognised financial instruments at balance date.

Commodity price risk

The Group has exposure to commodity price risk associated with the production and sale of crude.

Commodity risk management

The Group does not seek to limit its exposure to the fluctuations in oil prices; rather the central aim of oil price risk management is to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. Hedge cover targets are determined through detailed modelling of the Group's position under various oil price scenarios. The policy ensures that maturities of the hedges are spread over time and there is no fixed minimum hedge cover level. This allows the Group not to be forced to price a significant proportion of its exposure in an unfavourable oil price environment.

As at 31 December 2009, there was no oil price hedging in place (2008: nil).

No commodity price sensitivity analysis is required as there was no hedging in place.

(ii) 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 crude.
- Other receivables.

32 FINANCIAL INSTRUMENTS continued

Credit risk management

Global credit limits have been established across all categories of financial transactions. The limits are based on the credit ratings provided by Standard and Poor's, and Moody's.

The Group markets Kutubu crude on behalf of the Joint Lifting Consortium, primarily selling crude to investment grade counterparties, provided the counterparties enter into Buyer Consent Deeds as required under the terms of the Group's debt facility. Sales to all other buyers are secured by letters of credit issued by single "A" rated banks and confirmed by the ANZ Banking Corporation.

At 31 December 2009 (2008: nil) there was no significant concentration of credit risk exposure to any counterparty.

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

		CONSOLIDATED		CHIEF ENTITY	
	NOTE	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Current					
Cash at bank and on hand	21(a)	**151,694**	93,917	**105,471**	16,213
Share of cash in joint ventures	21(a)	**33,182**	17,415	**534**	659
Interest-bearing short-term deposits	21(a)	**1,103,201**	423,596	**925,233**	221,791
Receivables	9	**108,783**	96,132	**146,399**	37,476
		1,396,860	631,060	**1,177,637**	276,139
Non-current					
Receivables	9	**416**	42,848	**–**	–
		416	42,848	**–**	–

[iii] Liquidity risk

The Group has exposure to liquidity risk if it is unable to settle transactions in the normal course of business and if new funding and refinancing cannot be obtained as required and on reasonable terms.

Liquidity risk management

The Group manages liquidity risk by ensuring that there are sufficient funds available to meet its financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. The Group's liquidity 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.

Oil Search (PNG) Limited ("OSP") signed a five year financing facility effective 23 October 2008 for US$435 million, decreasing by US$14.5 million at the end of each quarter. A facility limit of US$362.5 million was available at 31 December 2009. There was a nil drawn balance as at 31 December 2009 (2008: nil). As part of the terms and conditions of this facility, OSP has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

As at 31 December 2009, the Group has surplus cash of US$1,255 million invested in short term instruments (2008: US$517 million).

[iv] Capital risk

Capital management

The consolidated entity 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.

(C) FAIR VALUES

The aggregate fair values of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

	AGGREGATE FAIR VALUE			
	CONSOLIDATED		CHIEF ENTITY	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Financial assets				
Cash	**1,288,077**	534,928	**1,031,238**	238,663
Receivables – trade	**81,347**	41,222	**–**	189
Other debtors	**27,436**	54,910	**788**	8,549
Non-current receivables	**416**	42,848	**–**	–
Total financial assets	**1,397,276**	673,908	**1,032,026**	247,401
Financial liabilities				
Trade creditors and accruals	**204,119**	166,127	**18,869**	14,018
Other payables	**–**	3,453	**2,043**	1,422
Total financial liabilities	**204,119**	169,580	**20,912**	15,440

The methods and assumptions used to estimate the fair value of financial instruments are outlined below:

Cash

The carrying amount is fair value due to the liquid nature of these assets.

Receivables/payables

Due to the short term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

DIRECTORS' DECLARATION
31 DECEMBER 2009

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 Company and of the consolidated entity:

(i) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and their 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.

Signed in accordance with a resolution of the directors.

On behalf of the Board of Directors

BF HORWOOD
Chairman

PR BOTTEN
Managing Director

Sydney, 22 February 2010

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

We have audited the accompanying financial report of Oil Search Limited (the Company), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 76 to 112.

Directors' Responsibility for the Financial Report

The directors of the entity are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the Companies Act 1997. This responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Opinion

In our opinion, the financial report of Oil Search Limited is in accordance with the Companies Act 1997, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date;

(b) complying with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee); and

(c) proper accounting records, in all material respects, have been kept.

Other Information

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 57 to 73 of the directors' report for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report and have voluntarily complied with section 300A of the Australian *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Standards on Auditing.

Auditor's Opinion

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2009, complies with section 300A of the Australian *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 22 February 2010

DELOITTE TOUCHE TOHMATSU

John A Leotta
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 22 February 2010

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SHAREHOLDER INFORMATION

OIL SEARCH LIMITED

ARBN 055 079 868

(a) The distribution of ordinary shares ranked according to size as at 28 February 2010 was:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	18,775	10,348,957	0.80
1,001 – 5,000	20,591	52,641,006	4.05
5,001 – 10,000	5,140	37,996,030	2.92
10,001 – 100,000	3,247	71,478,650	5.50
100,001 – 999,999,999	222	1,127,097,577	86.73
	47,975	1,299,562,220	100.00

(b) The 20 largest ordinary shareholders representing 77.94% of the ordinary shares as at 28 February 2010 were as follows:

	SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
1	HSBC Custody Nominees (Australia) Limited	206,248,143	15.87
2	Independent Public Business Corporation	196,604,177	15.13
3	National Nominees Limited	183,035,902	14.08
4	JP Morgan Nominees Australia Limited	180,092,577	13.86
5	Citicorp Nominees Pty Limited	72,513,613	5.58
6	ANZ Nominees Limited (Cash Income Account)	35,524,384	2.73
7	Cogent Nominees Pty Limited	26,591,432	2.05
8	AMP Life Limited	15,203,877	1.17
9	Australian Foundation Investment Company Limited	13,127,042	1.01
10	Citicorp Nominees Pty Ltd (CFS WSLE Geared Share Fund Account)	10,177,277	0.78
11	RBC Dexia Investor Services Australia Nominees Pty Limited	9,916,692	0.76
12	Queensland Investment Corporation	8,970,795	0.69
13	Citicorp Nominees Pty Ltd (CFS W/SALE GBL RES Fund Account)	8,443,763	0.65
14	Tasman Asset Management Limited (Tyndall)	8,091,591	0.62
15	Citicorp Nominees Pty Ltd (CFS WSLE Imputation Fund Account)	7,717,843	0.59
16	UBS Nominees Pty Ltd	7,124,938	0.55
17	Australian Reward Investment Alliance	6,298,759	0.48
18	National Superannuation Fund Limited	6,081,472	0.47
19	HSBC Custody Nominees (Australia) Limited (Account 2)	5,566,367	0.43
20	UBS Wealth Management Australia Nominees Pty Ltd	5,529,858	0.43
Total		1,012,860,502	77.94

(c) Issued capital as at 28 February 2010 was:

1,299,562,220 ordinary fully paid shares
4,483,510 unlisted employee options
6,471,882 unlisted performance rights
2,450,140 restricted shares

(d) The following interests were registered on the Company's register of Substantial Shareholders as at 28 February 2010:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Independent Public Business Corporation as Trustee of The General Business Trust of Papua New Guinea*	196,604,177	15.13
The Capital Group Companies	66,302,975	5.13

* Independent Public Business Corporation (IPBC) has issued bonds that are exchangeable for IPBC's Oil Search shares on prescribed terms and conditions to International Petroleum Investment Corporation (IPIC), a wholly owned subsidiary of the Abu Dhabi Government.

(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 28 February 2010, 1,108 holders held unmarketable parcels of ordinary shares in the Company.

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

ANNUAL MEETING

Oil Search's 2010 Annual Meeting will be held at the Crowne Plaza, Cnr Hunter and Douglas Street, Port Moresby, Papua New Guinea on Friday 23 April 2010, commencing at 11.00am.

2008 FINAL DIVIDEND

The 2009 final dividend will be paid on 9 April 2010 to shareholders registered as at the close of business on 17 March 2010.

The dividend will be paid in PNG Kina for those shareholder 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, 17 March 2010.

The dividend will be unfranked and no withholding tax will be deducted. The Company's Dividend Reinvestment Plan, which will be underwritten, will operate for the 2009 final dividend.

SHARE REGISTRY: ENQUIRIES

Oil Search's share register is handled by Computershare, the world's leading transfer agency/share registry. Please contact Computershare for all shareholding related enquiries:

Computershare Investor Services Pty Limited

GPO Box 2975
Melbourne VIC 3001,
Australia

Telephone:
Within Australia: 1300 855 080
Outside Australia: 61 3 9415 4000

Facsimile: 61 2 8235 8150

Email: web.queries@computershare.com.au

Website:www.computershare.com

CHANGE OF SHAREHOLDER DETAILS

Shareholders should notify Computershare, in writing, of any changes in shareholder details such as:

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

REGISTER OF DEPOSITARY RECEIPTS

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

Telephone: (1-212) 815 2276
Facsimile: (1-212) 571 3050

SHARE CODES

ASX 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 and activities, the following information for investors is available:

- Annual Reports
- Profit Announcements
- Press Releases
- Quarterly Reports
- Drilling updates
- Presentations
- Archived Webcasts.

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

2010 FINANCIAL CALENDAR[1]	
28 January	Release of 2009 4Q results
23 February	Release of 2009 Full Year results
11 March	Ex-dividend date for 2009 final dividend
17 March	Record date for 2009 final dividend
9 April	Payment of 2009 final dividend
27 April	Release of 2010 1Q results
23 April	2010 Annual Meeting
27 July	Release of 2010 2Q results
24 August	Release of 2010 Half Year results
13 September	Ex-dividend date for 2010 interim dividend
17 September	Record date for 2010 interim dividend
11 October	Payment of 2010 interim dividend
26 October	Release of 2010 3Q results
31 December	End of Financial Year

(1) Dates are subject to change.

CORPORATE DIRECTORY

SENIOR MANAGEMENT

Peter Botten CBE
Managing Director (Australia)

Gerea Aopi CBE
Executive General Manager, Government and Public Affairs and Executive Director (Papua New Guinea)

Philip Bainbridge
Executive General Manager, LNG (Australia)

Philip Caldwell
Executive General Manager, Oil Operations (Papua New Guinea)

Paul Crute
Executive General Manager, Human Resources (Australia)

Stephen Gardiner
General Manager Finance/ Group Secretary (Australia)

Nigel Hartley
Executive General Manager, LNG Financing (Australia)

Robert Marcellus
Executive General Manager, Gas New Business (Australia)

Austin Miller
Executive General Manager, Investment & Strategy (Australia)

Zlatko Todorcevski
Chief Financial Officer (Australia)

REGISTERED OFFICE

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Credit House
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Papua New Guinea

PO Box 842
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Papua New Guinea

Telephone: (675) 322 5599
Facsimile: (675) 322 5566

AUSTRALIAN OFFICES

Sydney office

Level 27
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123 Pitt Street
Sydney NSW 2000

GPO Box 2442
Sydney NSW 2001

Telephone: (61-2) 8207 8400
Facsimile: (61-2) 8207 8500

Brisbane office

555 Coronation Drive
Cnr Landsborough Terrace
Toowong QLD 4066

PO Box 2270
Toowong QLD 4066

Telephone: (61-7) 3114 1799
Facsimile: (61-7) 3114 1750

YEMEN OFFICE

Oil Search (ROY) Limited
PO Box 16380
Sana'a
Republic of Yemen

Telephone: (967-1) 423 440/441/422
Facsimile: (967-1) 410 314

DUBAI OFFICE

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

Telephone: (971) 4 331 4884
Facsimile: (971) 4 331 1610

TUNISIAN OFFICE

Oil Search (Tunisia) Limited
Bureau B1, Entree B bis, Immeuble Kenzet
Rue du lac Tchad, Les Berges du lac
1053, Tunis
Tunisia

Telephone: (216) 71 960 306
Facsimile: (216) 71 960 473

1C

Low estimate of contingent resources

1P

Proven reserves

2C

Best estimate of contingent resources

2P

Proven and Probable reserves

barrel/bbl

The standard unit of measurement for all production and sales – one barrel equals 159 litres or 35 Imperial gallons

bscf/bcf

Billion standard cubic feet where a billion is defined as 10^9. On average 1 bscf of sales gas = 1.055 petajoules

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 cubic feet gas is equivalent to 1 barrel of oil

bopd

Barrels of oil per day

BTU

British Thermal Units, a measure of thermal energy. 1 BTU is equivalent to 1,055 joules

DEVELOPMENT WELL

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

GOR

Gas to oil ratio

hydrocarbons

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

LNG

Liquefied natural gas

LPG

Liquid petroleum gas

MENA

Middle East/North Africa

mmbbl

Million barrels

mmscf/d

Million standard cubic feet per day

MTPA

Million tonnes per annum (LNG)

PDL

Petroleum Development Licence

PL

Pipeline Licence

PRL

Petroleum Retention Licence

PJ

Petajoules – joules are the metric measurement unit for energy – a petajoule is equal to 1 joule x 10^{15}

PNG

Papua New Guinea

PPL

Petroleum Prospecting Licence

SEISMIC SURVEY

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

tcf

Trillion cubic feet (measurement of gas volume)

wildcats

Exploration wells testing new play concepts or structures distanced from current fields

DEFINITION OF RESERVES AND CONTINGENT RESOURCES

Proven Reserves

Proven 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. Proven 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. Proven (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.

Proven developed producing reserves are those reserves which are expected to be produced from existing completion intervals now open for production in existing wells.

Proven developed non-producing reserves are (1) those reserves expected to be produced from existing completion intervals in existing wells, but due to pending pipeline connections or other mechanical or contractual requirements hydrocarbon sales have not yet commenced, and (2) other non-producing reserves which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, which are expected to be produced through these wells in the predictable future, where the cost of making such oil and gas available for production should be relatively small compared to the cost of a new well.

Proven undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

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, "Proven 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. These resources would be expected to be booked in the reserves category once commercialisation arrangements have been finalised.

1C denotes the low estimate of contingent resources.

2C denotes the best estimate of contingent resources

TEN YEAR SUMMARY[1]

	2009 US$ 000	2008 US$ 000	2007 US$ 000
INCOME STATEMENT			
Revenue from operations	**512,154**	814,330	718,755
Other income/(expenses)	**–**	–	803
Foreign exchange (losses)/gains	**2,455**	(992)	(1,423)
Operating expenses	**(94,494)**	(107,225)	(104,702)
Net corporate costs	**(10,728)**	(8,052)	(15,214)
EBITDAX[3]	**409,387**	**698,061**	**598,219**
Amortisation and depreciation	**(96,860)**	(117,311)	(124,822)
Amortisation – site restoration	**(8,556)**	(9,919)	(11,117)
Amortisation negative goodwill	**–**	–	–
Exploration costs expensed and written-off	**(75,729)**	(91,234)	(163,324)
EBIT	**228,242**	**479,597**	**298,956**
Net interest and borrowing costs	**(3,326)**	6,093	22,791
Capital profit	**14,914**	126,145	1,968
Acquisition accounting adjustment	**–**	–	–
Net impairment reversals/(losses)	**–**	(91,530)	129
Operating profit before income tax	**239,830**	**520,305**	**323,844**
Income tax expense	**(106,150)**	(206,943)	(185,972)
Net profit after income tax, significant items	**133,680**	**313,362**	**137,872**
Significant items	**34,058**	73,396	(3,621)
Net profit after tax, before significant items	**99,622**	**239,966**	**141,493**
Dividends paid – ordinary	**(67,359)**	(89,415)	(89,587)
Dividends paid – preference	**–**	–	–
BALANCE SHEET			
Total assets	**3,077,390**	2,005,457	1,833,479
Total cash	**1,288,077**	534,928	343,578
Total debt	**–**	–	–
Shareholders' equity	**2,593,181**	1,593,227	1,389,132
OTHER INFORMATION			
Average realised oil price (US$/bbl)	**65.40**	100.10	77.78
Average realised gold price (US$/ounce)	**N/A**	N/A	N/A
Net annual oil production (mmstb)	**7.20**	7.71	8.98
Net annual gas production (bcf)[4]	**5.52**	5.35	4.80
Total BOE net annual production (mmboe)	**8.12**	8.60	9.78
Net annual gold production (ounces)	**N/A**	N/A	N/A
Exploration and evaluation expenditure incurred (US$'000)	**438,922**	257,286	222,391
Assets in development expenditure incurred (US$'000)	**–**	4,214	37,617
Producing assets expenditure incurred (US$'000)	**142,325**	157,584	57,219
Operating cash flow (US$'000)	**284,099**	507,423	326,783
Operating cash flow per ordinary share (US cents)	**24.5**	45.3	29.2
Diluted EPS (including significant items) (US cents)	**11.5**	27.8	12.2
Basic EPS (excluding significant items) (US cents)	**8.6**	21.4	12.6
Ordinary dividend per share (US cents)	**4.0**	8.0	8.0
Special dividend per share (US cents)	**–**	–	–
Gearing (%)	**–**	–	–
Return on average shareholders' funds (%)	**6.4%**	21.0%	10.1%
Number of issued shares – ordinary (000's)	**1,299,562,220**	1,119,841	1,119,841
Number of issued shares – preference (000's)	**–**	–	–
EXCHANGE RATES			
Year end A$: US$	**0.897**	0.693	0.791
Average A$: US$	**0.792**	0.868	0.836

(1) Prior year comparatives have been restated where necessary, in order to achieve consistency with current year disclosures.
(2) Reflects changes in accounting policies.
(3) Earnings before interest, borrowing costs, tax, depreciation and amortisation, and exploration costs expensed.
(4) Hides gas production for 2008 and 2009 includes vent gas. Vent gas not reported prior to 2008.

2006 US$ 000	2005 US$ 000	RESTATED 2004[2] US$ 000	2003 US$ 000	2002 US$ 000	2001 US$ 000	2000 US$ 000
644,534	663,993	416,296	350,801	233,003	123,865	139,698
4,000	(479)	837	–	–	–	–
(886)	(1,076)	(620)	2,716	1,505	11	(2,232)
(91,140)	(99,022)	(75,461)	(103,595)	(65,172)	(30,528)	(39,276)
(11,751)	(9,596)	(10,224)	(10,867)	(8,665)	(3,861)	(4,980)
544,757	**553,820**	**330,828**	**239,055**	**160,671**	**89,487**	**93,210**
(98,421)	(85,013)	(62,981)	(73,655)	(61,910)	(41,786)	(43,003)
(4,554)	(9,725)	(6,112)	(5,960)	(3,613)	(2,318)	(1,250)
–	–	–	9,428	5,576	–	–
(46,765)	(37,334)	(64,276)	(12,467)	(13,982)	(7,165)	(2,067)
395,017	**421,748**	**197,459**	**156,401**	**86,742**	**38,218**	**46,890**
21,802	(2,035)	(4,158)	(8,074)	(3,853)	(11,276)	(12,861)
258,321	4,663	9,621	5,575	1,734	–	–
–	350	7,497	–	–	–	–
(65,180)	–	–	–	–	–	–
609,960	**424,726**	**210,419**	**153,902**	**84,623**	**26,942**	**34,029**
(197,978)	(224,548)	(103,138)	(68,224)	(37,623)	(14,887)	(939)
411,982	**200,178**	**107,281**	**85,678**	**47,000**	**12,055**	**33,090**
204,437	–	–	–	–	–	–
207,545	**200,178**	**107,281**	**85,678**	**47,000**	**12,055**	**33,090**
(100,739)	(55,896)	(33,424)	(10,557)	–	–	–
–	–	–	(1,158)	(2,965)	(3,730)	(5,147)
1,802,755	1,519,529	1,329,801	1,377,033	1,197,703	868,919	834,403
477,884	212,163	210,367	102,645	60,843	40,282	34,886
–	126,000	168,000	200,000	192,105	215,000	248,909
1,340,980	1,020,713	869,747	846,385	787,314	500,799	446,281
67.22	58.06	41.65	29.80	24.87	18.88	18.01
N/A	N/A	N/A	361.00	320.00	N/A	N/A
9.22	11.15	10.00	9.51	7.70	5.89	7.09
5.13	5.40	5.50	5.30	3.80	5.47	5.44
10.20	12.18	11.05	10.40	8.34	6.80	8.00
N/A	N/A	N/A	161,475	108,979	N/A	N/A
120,929	78,624	75,556	52,908	28,629	25,004	32,482
294	104,625	6,145	27,165	57,671	52,296	18,830
143,367	76,799	45,815	–	–	–	–
398,978	357,715	276,716	191,257	127,915	73,215	58,631
35.6	32.0	24.8	17.3	13.0	12.0	10.6
36.6	17.8	9.6	7.7	4.5	1.8	5.4
18.5	17.9	13.5	7.7	4.5	1.4	5.0
8.0	5.0	4.0	1.0	1.0	–	–
–	2.0	–	1.0	–	–	–
–	–	–	10.3%	14.3%	25.9%	32.4%
34.9%	21.2%	12.5%	10.5%	7.3%	2.5%	7.8%
1,119,841	1,118,895	1,114,385	1,113,790	1,088,429	663,390	576,454
–	–	–	–	802	802	802
0.791	0.734	0.779	0.743	0.556	0.506	0.549
0.752	0.762	0.737	0.653	0.539	0.508	0.573

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OIL SEARCH LIMITED

www.oilsearch.com