



## OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)  
ARBN – 055 079 868

### RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

26 February 2013  
(ASX: OSH; ADR: OISHY)

### HIGHLIGHTS

- 2012 net profit after tax (NPAT) including significant items was US\$175.8 million. Excluding significant items, underlying NPAT was US\$153.0 million.
- Total oil and gas production in 2012 was 6.38 mmboe, within the Company's guidance range despite several shutdowns during the year.
- Sales volumes for the year were 6.13 mmboe, 8% down on 2011.
- The average realised oil price was US\$113.97/bbl compared to US\$116.09/bbl in 2011.
- Total revenue from operations was similar to 2011, at US\$724.6 million.
- Liquidity remains strong, with US\$488.3 million in cash (including JV balances) and an undrawn revolving facility of US\$500 million at year end.
- A 2012 final dividend of two US cents per share was announced, taking the 2012 full year dividend to four US cents per share, consistent with 2011.
- A strong reserves and resource base has been confirmed, with proven and probable reserves increasing, fully replacing production. 2C contingent resources increased by 77.4 mmboe, or 24%, to 395.1 mmboe, underscoring the resource base to underpin further gas commercialisation.

**Commenting on the 2012 results, Oil Search Managing Director, Peter Botten, said:**

"Oil Search delivered a solid set of operational and financial results in 2012 and the Company's growth strategy remains firmly on track, with significant progress made on the PNG LNG Project, gas expansion in PNG and exploration activities in the Middle East.

2012 production of 6.38 mmboe was within the guidance range provided in late 2011. This was a good result given the unexpected facilities shutdown in the third quarter for the Kumul Marine Terminal inspection, resulting in the deferment of approximately 0.4 mmboe of production. The Company was again successful in mitigating the natural decline of our mature PNG oil fields, with in-field drilling and well work continuing to yield high-value incremental barrels.

While total revenue was similar to 2011, Oil Search's reported net profit was 13% lower, at US\$175.8 million. This was largely driven by higher exploration expense, of US\$144.0

million compared to US\$60.6 million in 2011. This reflects the Company's increased level of exploration activity in 2012, with several high impact wells drilled during the year, including the P'nyang South discovery, which resulted in a 24% increase in our contingent resource base.

Reported profits included significant items of US\$22.8 million after tax, comprising a US\$42.0 million profit from asset sales, partly offset by a US\$19.2 million impairment charge related to the PRL 1 (Pandora gas field) retention licence, which expired this month. Excluding significant items, underlying net profit after tax was US\$153.0 million."

### **Dividends**

"The Board has approved the payment of a final dividend of two US cents per share, in line with 2011, to bring the full year dividend to four US cents per share. A fully underwritten dividend reinvestment plan will fund this payment."

### **PNG LNG Project**

"The PNG LNG Project, operated by Esso Highlands Limited, was 75% complete at the end of 2012.

At the LNG plant near Port Moresby, much of the heavy construction on the process trains, tanks, flare and jetty is complete and the focus has moved onto pipework, instrumentation and electrical work. Both the offshore and onshore pipelines are also making good progress. The offshore pipelay was completed in 2012, while 212 kilometres of the 292 kilometre onshore pipe has been welded and clearing of the remaining pipeline route is advancing towards Hides.

Runway paving at the Komo airfield has progressed significantly and Antonov operations, bringing in key items of heavy and sensitive equipment for construction of the Hides Gas Conditioning Plant (HGCP), are expected to begin in April, meeting the required timing of the overall Project schedule. At the HGCP, foundations have been laid and structural steel is being erected.

Drilling on the first two Hides development wells at B pad is presently underway. The second rig is anticipated to start drilling on the C pad in early 2013.

Associated Gas construction works at the Kutubu and Gobe processing facilities are well advanced and preparations are underway for the supply of commissioning gas to the Project. The life extension refurbishment of the Kumul Marine Terminal and PL 2 oil export system is substantially complete.

The Project remains on target for first LNG sales in 2014. We are confident that the Operator will be able to deliver the Project within the revised cost outlook announced in November 2012, of US\$19 billion. As previously indicated, the capital cost increase is expected to be funded 70% by debt and 30% by equity. Discussions are currently underway to secure the US\$1.5 billion of supplemental debt that is provided for under the existing project finance agreement, to fund the 70% debt component.

We are particularly pleased with the Project's continued creation of job opportunities for the local community and workforce development. Nearly 40% of the current 21,220 workforce PNG nationals while, to date, the Project has delivered more than 1.6 million hours of training, with over 678,500 hours delivered in 2012."

## **Gas expansion activities**

"During 2012, Oil Search and its partners made significant headway in finding additional gas to underpin potential LNG expansion in PNG. The P'nyang South 1 gas discovery in PRL 3 resulted in a material increase in estimated gas resources at P'nyang. The PRL 3 JV, led by ExxonMobil, has initiated and is now well advanced with concept selection studies. We are targeting to finalise the optimal development concept in 2013.

In the offshore PNG Gulf region, Oil Search and its partners will begin a drilling campaign in March, once the Stena Clyde semi-submersible rig arrives on-site. The drilling programme, comprising two firm wells, with the option to drill two further wells, will be the first real test of the many leads and prospects identified by the 2011 and 2012 3D seismic surveys. We believe that, given exploration success, the PNG Gulf drilling region could potentially have enough gas to support the development of a future standalone LNG project. Other options for any gas discovered include floating LNG or integration with existing projects."

## **Oil Exploration**

"Despite the many challenges which have led to slow drilling progress, we remain very encouraged by the early results from the Taza well in Kurdistan. The well has proven oil in the Jeribe formation and hydrocarbon influxes below this horizon augur well for the potential of oil in the deeper Euphrates formation also. Our pre-drill estimate of potential recoverable reserves in the Jeribe and Euphrates remains unchanged, in the 250 – 500 million barrel range. Both Taza and the Semda well currently drilling ahead in Tunisia, with potential recoverable reserves of 50 – 100 mmbbls, have the potential to generate material value for Oil Search.

In early 2013, we will appraise the Mananda oil and gas field, which was discovered in 2010 by the Mananda 5 well. Our original estimate of potential recoverable reserves was 25 mmbbls, of which 50% was oil. Interpretation of recent seismic has resulted in an increase in our estimate of potential oil reserves, to 30 mmbbls, with significant further upside. Should the Mananda 6 appraisal well be successful in proving these higher reserves levels, we aim to make a development decision by the end of 2013. A development, which would likely be a tie-in to the existing underutilised SE Mananda production system, would add high value barrels to Oil Search, with first production likely in 2015."

## **Safety record**

"Oil Search recorded a Total Recordable Incident Frequency Rate (TRIFR) of 2.64 per million hours worked in 2012, compared to 1.85 in 2011. The rise was disappointing, reflecting an increased level of higher risk drilling and exploration activities in both Kurdistan and PNG.

PNG operations achieved a TRIFR of 1.87 per million hours worked while construction activities associated with PNG LNG Project-related work achieved a TRIFR of 1.91 per million hours. A priority for the Company in 2013 is to improve the safety culture in remote operations away from our producing areas in PNG, especially in MENA, where the focus on safety and environmental performance is less well developed."

## **Reserves and resources**

"A comprehensive independent review of oil reserves was carried out by Netherland Sewell and Associates Inc (NSAI) during the year. This work included a full analysis of

the impact of gas production from our oil fields for the first time, along with the results of in-field and near-field development drilling.

The review resulted in a 7.6 mmboe increase in proven reserves, to 337.7 mmboe, after accounting for production of 6.38 mmboe, with proven and probable (2P) reserves remaining essentially flat at 552.4 mmboe. Best estimate 2C contingent resources increased by 77.4 mmboe, or 24%, to 395.1 mmboe, largely as a result of successful drilling at P'nyang. This resource addition has the potential to underpin growth in our LNG business.

The Company's total 2P reserves and 2C resources increased by 9%, from 870.3 mmboe to 947.5 mmboe. Of these reserves, 503.8 mmboe are associated with the Company's share of the PNG LNG Project and SE Gobe gas sales volumes."

### 2013 Guidance

	2012 Actual	2013 Guidance
Production	6.38 mmboe	6.2 – 6.7 mmboe
Operating costs:		
Underlying (incl corporate costs)	US\$24.82/boe	US\$24 – 26/boe
Gas purchase costs	US\$36.6 million	Approx. US\$40 million (assuming oil prices are consistent with 2012)
Business development costs	US\$12.3 million	US\$11 – 14 million
Non-cash charges	US\$8.11/boe	US\$ 8 – 10/boe
Capital expenditure:		
Exploration	US\$240.6 million	US\$240 – 280 million
PNG LNG	US\$1,492.5 million	US\$1,500 – 1,600 million
Production	US\$111.5 million	US\$170 – 190 million
Other Plant and Equipment	US\$16.4 million	US\$20 – 30 million
Total	US\$1,861.1 million	US\$1,930 – 2,100 million

**PETER BOTTEN, CBE**  
**Managing Director**  
**26 February 2013**

## FINANCIAL PERFORMANCE

Year to 31 December	2010	2011	2012	% change 2012/2011
<b>SALES DATA</b>				
Total oil and gas production (mmbbl)	7.66	6.69	6.38	-5
Total saleable oil production (mmbbl)	6.63	5.53	5.31	-4
Total oil liftings (mmbbl)	6.45	5.64	5.21	-8
Gas equivalent sales (mmscf)	5,631	5,742	5,372	-6
Total oil and gas sales (mmbbl)	7.41	6.63	6.13	-8
Realised oil price (US\$/bbl)	80.19	116.09	113.97	-2
<b>FINANCIAL DATA (US\$ million)</b>				
Revenue from operations	583.6	732.9	724.6	-1
Operating expenses	(87.5)	(101.9)	(153.7)	+51
Royalties and levies	(9.8)	(12.0)	(12.0)	Unch
Other expenses	(14.5)	(23.1)	(22.3)	-3
Business development costs	(6.2)	(10.3)	(12.3)	+20
EBITDAX	465.6	585.6	524.3	-10
Site Restoration	(7.1)	(1.6)	(7.6)	+386
Amortisation/Depreciation	(42.7)	(49.7)	(41.9)	-16
Exploration costs expensed	(125.0)	(60.6)	(144.0)	+138
EBIT	290.7	473.7	330.9	-30
Net financing (costs)/income	(0.8)	(0.7)	(4.6)	+593
Profit on sale of investments	3.2	0.1	45.1	N.M.
Impairment	(15.8)	(33.2)	(23.8)	-28
Profit before tax	277.2	439.9	347.6	-21
Taxation expense	(91.6)	(237.4)	(171.8)	-28
<b>Profit after tax after significant items</b>	<b>185.6</b>	<b>202.5</b>	<b>175.8</b>	<b>-13</b>
<b>Profit after tax before significant items</b>	<b>144.1</b>	<b>235.7</b>	<b>153.0</b>	<b>-35</b>
<b>PER SHARE DATA</b>				
Basic EPS before significant items (US cents)	11.0	17.9	11.5	-36
Basic EPS after significant items (US cents)	14.2	15.4	13.2	-14
Diluted EPS before significant items (US cents)	11.0	17.8	11.5	-35
Diluted EPS after significant items (US cents)	14.1	15.3	13.2	-14
CFPS (US cents)	26.5	29.3	14.8	-49
Interim dividend (US cents)	2.0	2.0	2.0	Unch
Final dividend (US cents)	2.0	2.0	2.0	Unch
Total dividend for the year (US cents)	4.0	4.0	4.0	Unch

Notes:

- In accordance with IFRS 8 "Accounting Policies Changes in Accounting Estimates and Errors", prior year comparatives have been restated where applicable.
- Numbers and percentage moves may not add due to rounding.

## FACTORS AFFECTING THE RESULT

### Oil and gas production and sales

Total oil and gas production in 2012 net to Oil Search was 6.38 million barrels of oil equivalent (mmboe). While 5% lower than in 2011, the result was in line with guidance and was achieved despite an unscheduled shutdown for an inspection of the Kumul Marine Terminal following the observation of a minor sheen on the sea surface.

Oil sales were 5.21 million barrels, 8% lower than in 2011, reflecting lower production levels and timing of liftings. Gas equivalent sales attributed to Hides GTE declined 6% to 5.37 billion cubic feet, due to lower offtake from the Porgera Gold Mine. 27,000 barrels of associated condensate was sold. Oil and gas sales for 2012 totalled 6.13 mmboe, 8% lower than in 2011.

### Realised oil prices

Oil Search realised an average oil price of US\$113.97 per barrel in 2012, 2% lower than the price achieved in 2011 of US\$116.09. The Company remained unhedged during the period and as a result, benefitted fully from sustained strength in the oil price.

### Operating revenues

Total revenue from operations in 2012 was US\$724.6 million, broadly flat on 2011, with lower crude revenue resulting from lower oil sales and a slightly weaker realised oil price largely offset by increased revenue from gas sales and other field revenue.

Gas revenue rose from US\$49.0 million to US\$95.6 million, due to a new Hides GTE sales contract established following the expiry in December 2011 of the previous 20 year agreement. Other field revenue increased due to higher rig utilisation and day rates.

Revenue was comprised as follows:

Revenue (US\$ million)	2011	2012	% change
Sale of oil	654.3	593.2	-9
Sale of gas and refined products	49.0	95.6	+95
Other field revenue*	29.6	35.7	+21
<b>Total</b>	<b>732.9</b>	<b>724.6</b>	<b>-1</b>

\* Primarily tariff and rig income

### Operating cash costs and business development costs

Total cash operating costs, including US\$36.6 million of gas purchase costs related to the new Hides GTE sales agreement, increased from US\$137.0 million, or US\$20.78 per barrel, in 2011 to US\$188.0 million or US\$30.82 per barrel, in 2012. If the gas purchase costs are excluded, the underlying operating cost per barrel was US\$24.82, within the guidance range. The underlying cost increase was driven by ongoing inflationary cost pressures in PNG, a strengthening PNG Kina and a robust Australian dollar. In addition, US\$5.8 million of one-off costs associated with the Kumul Marine Terminal investigation and severe weather damage repairs were incurred during the year.

PNG field operating costs (including Hides) were US\$110.0 million, compared with US\$92.4 million in 2011. PNG oil field costs, excluding Hides and tariffs, averaged

US\$18.46 per barrel compared with US\$15.15 per barrel in 2011, with the increase reflecting the cost pressures noted above and the spread of higher costs over a slightly lower production base.

<b>Operating costs (US\$ million )</b>	<b>2011</b>	<b>2012</b>	<b>% change</b>
Field costs	92.4	110.0	+19
Other opex	17.5	19.2	+10
Purchases of hydrocarbons	4.1	36.6	N.M.
Net corporate costs	21.8	20.8	-5
FX (gains)/losses	1.2	1.4	+17
<b>Operating Costs</b>	<b>137.0</b>	<b>188.0</b>	<b>+37</b>

An additional US\$12.3 million of costs related to new venture, business development and corporate screening activities was expensed in 2012, compared to US\$10.3 million expensed in 2011.

### **Non-cash costs**

Total non-cash charges, including depreciation, amortisation and site restoration, decreased marginally, from US\$51.3 million in 2011 to US\$49.5 million in 2012. Amortisation declined by 24% reflecting lower overall production from the Company's oil fields in PNG and the mix of production shifting to fields with lower amortisation rates, while a higher corporate asset base resulted in a 10% increase in depreciation. The site restoration charge increased from US\$1.6 million in 2011 to US\$7.6 million in 2012, due to a change in the discount rate used to calculate the restoration obligation.

On a per barrel of oil equivalent basis, non-cash costs for 2012 were US\$8.11 per barrel, which was within the guidance range.

<b>Non-cash costs (US\$ million )</b>	<b>2011</b>	<b>2012</b>	<b>% change</b>
Amortisation	38.4	29.3	-24
Depreciation	11.4	12.6	+10
Site restoration	1.6	7.6	+386
<b>Total</b>	<b>51.3</b>	<b>49.5</b>	<b>-4</b>

### **Exploration expense**

Exploration and evaluation expenditure for 2012 totalled US\$240.6 million. US\$185.6 million was spent on activities in PNG, with the majority outlaid on the P'nyang South and Trapia wells and onshore and offshore PNG seismic. The remaining US\$55.0 million was spent on site preparation and drilling of the Taza 1 well in Kurdistan and preparatory work for the Semda well in Tunisia.

In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other support costs related to exploration activity were expensed. This resulted in a pre-tax charge of US\$144.0 million, including US\$70.0 million attributable to the Trapia well in PNG, US\$20.5 million related to the IDT 25 Koi lange test and US\$14.5 million related to exploration activities in the Middle East/North Africa.

## Interest income/expense

A net interest charge of US\$4.6 million was incurred in 2012. This included facility fees associated with the Company's bank facilities and higher interest expense associated with the unwinding of long term liabilities, primarily the Company's restoration obligations, partially offset by net interest income on invested cash. Interest charges related to PNG LNG project finance drawdowns are being capitalised until the commencement of production.

## Taxation expense

Tax expense on statutory profit (including the impact of disposals and impairment charges) in 2012 was US\$171.8 million, compared to US\$237.4 million in 2011. This resulted in an effective tax rate of 49%. Excluding the impact of significant items, the effective tax rate was 53%, slightly higher than the statutory tax rate for oil earnings in PNG of 50%, due to the non-deductibility of exploration expenses in MENA.

## Significant Items

The Company conducted an impairment review at 31 December 2012, which compared the asset carrying value to the estimated net present value of future cash flows from each asset. This resulted in a pre-tax impairment charge of US\$23.8 million (US\$19.2 million post tax) related to the offshore PRL 1 (Pandora gas field) retention licence in the Gulf of Papua, which expired in February 2013, having reached its maximum 15 year term.

The Company also recorded a pre-tax profit of US\$32.4 million (US\$29.3 million after tax) from the sale of Block 3 in Yemen to Total S.A. and a pre-tax profit of US\$12.7 million (US\$12.7 million after tax) associated with the farm-down of a number of licences in PNG, including the Gulf farm-down to Total S.A..

## Operating cash flows

Year to 31 December (US\$ million)	2011	2012	% change
Net receipts	560.4	408.9	-27
Net interest income	4.3	1.3	-71
Tax paid	(178.5)	(213.9)	+20
<b>Operating cash flow (OCF)</b>	<b>386.2</b>	<b>196.2</b>	<b>-49</b>
Net investing cash flow	(1,316.8)	(1,753.6)	+33
Net financing cash flow	714.5	998.2	+40
<b>Net cash flow</b>	<b>(216.1)</b>	<b>(559.2)</b>	<b>+159</b>
OCF per share (US cents)	<b>29.3</b>	<b>14.8</b>	<b>-50</b>

Net operating cash flow decreased primarily due to lower sales volumes, the timing of cash receipts and higher income tax paid, including US\$40.0 million related to PNG tax returns from prior years, upon receipt of final assessments from the PNG tax authority.

During 2012, Oil Search's net investing cash flow included:

- Expenditure of \$US1,485.4 million on the PNG LNG Project (US\$1,059.3 million in 2011).
- Expenditure of US\$126.6 million on exploration and evaluation (US\$121.9 million in 2011).
- US\$114.8 million on production activities (US\$128.5 million in 2011).
- US\$10.4 million on property, plant and equipment (US\$7.1 million in 2011).

The Company distributed US\$53.1 million to shareholders by way of the 2011 final and 2012 interim dividends. This distribution was funded by a fully underwritten dividend reinvestment plan.

### Balance sheet

As at 31 December (US\$ million)	2008	2009	2010	2011	2012
Cash and short term deposits	534.9	1,288.1	1,263.6	1,047.5	488.3
Term debt	Nil	Nil	929.7	1,747.6	2,866.1
Net cash / (debt)	534.9	1,288.1	333.9	(700.1)	(2,377.8)

At the end of 2012, Oil Search had a net debt position of US\$2,377.8 million, comprising PNG LNG project finance debt of US\$2,866.1 million and US\$488.3 million of cash, including joint venture balances.

The Company had an undrawn corporate debt facility of US\$500 million, providing total liquidity of US\$988.3 million.

Following the increase in the estimated cost of the PNG LNG Project, the co-venture participants intend to expand the existing US\$14 billion PNG LNG project finance facility by raising supplemental commitments of US\$1.5 billion.

## DIVIDENDS

The Board of Directors announced a final dividend for 2012 of two US cents per share, resulting in a total dividend for the 2012 financial year of four US cents per share. This was consistent with dividend levels in 2011 and in line with the Board's policy to maintain steady dividends until first LNG sales from the PNG LNG Project in 2014. When cash flows from the LNG Project commence, the Board intends to reassess the dividend policy to ensure shareholders share directly in the cash generation, while retaining sufficient funds to finance growth opportunities as they arise.

The Record Date for the final 2012 dividend payment is 14 March 2013 and the Payment Date is 9 April 2013. The shares will trade ex-dividend from 7 March 2013.

The Company's Dividend Reinvestment Plan will operate for the final dividend and it is intended that any shortfall be underwritten.

## 2012 PRODUCTION SUMMARY

Year to 31 December	2011		2012		% Change	
	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production (bopd)	Net to OSH (mmbbls)	Gross daily production	Net to OSH
<b>Oil production</b>						
Kutubu	13,816	3.028	14,865	3.267	+8	+8
Moran	12,708	2.296	10,290	1.865	-19	-19
Gobe Main	1,128	0.041	1,065	0.039	-5	-5
SE Gobe	2,230	0.208	2,120	0.198	-5	-5
SE Mananda	217	0.057	82	0.022	-62	-62
<b>Total PNG Oil</b>	<b>30,100</b>	<b>5.631</b>	<b>28,421</b>	<b>5.390</b>	<b>-5</b>	<b>-4</b>
Hides Liquids	356	0.130	307	0.112	-14	-14
<b>Total Oil &amp; Condensate</b>	<b>30,456</b>	<b>5.761</b>	<b>28,728</b>	<b>5.503</b>	<b>-5</b>	<b>-4</b>
<b>Gas production</b>	<b>mmscf/d</b>	<b>mmscf</b>				
Hides Gas Production	15.24	5,562	14.39	5,267	-5	-5
<b>Total Oil and Gas Production</b>	<b>boepd</b>	<b>mmboe</b>				
<b>Total production</b>	<b>32,995</b>	<b>6.688</b>	<b>31,126</b>	<b>6.380</b>	<b>-5</b>	<b>-5</b>

Notes:

- Prior period comparatives updated for subsequent changes.
- Numbers may not add due to rounding.

## 2012 ANNUAL RESERVES STATEMENT

Proven Reserves					
Licence/Field	End 2011 Reserves	Production	Discoveries/ Extensions/ Revisions	Acquisitions / Divestments	End 2012 Reserves
PDL 2 - Kutubu	9.6	3.3	9.5	-	15.9
PDL 2 – SE Mananda	0.1	-	-	-	0.1
PDL 2/5/6 – Moran Unit	9.1	1.9	4.1	-	11.3
PDL 4 – Gobe Main	0.1	-	-	-	0.1
PDL 3/4 - SE Gobe	0.3	0.2	0.4	-	0.5
PDL 1 - Hides	10.3	1.0	-	-	9.3
PNG LNG Project	300.6	-	-	-	300.6
<b>Total</b>	<b>330.1</b>	<b>6.4</b>	<b>14.0</b>	<b>-</b>	<b>337.7</b>
Proven & Probable Reserves					
Licence/Field	End 2011 Reserves	Production	Discoveries/ Extensions/ Revisions	Acquisitions / Divestments	End 2012 Reserves
PDL 2 - Kutubu	16.4	3.3	9.0	-	22.1
PDL 2 – SE Mananda	0.5	-	(0.2)	-	0.3
PDL 2/5/6 – Moran Unit	19.2	1.9	(1.4)	-	15.9
PDL 4 – Gobe Main	0.2	-	-	-	0.2
PDL 3/4 - SE Gobe	0.6	0.2	0.3	-	0.7
PDL 1 - Hides	10.3	1.0	-	-	9.3
PNG LNG Project	505.4	-	(1.6)	-	503.8
<b>Total</b>	<b>552.6</b>	<b>6.4</b>	<b>6.2</b>	<b>-</b>	<b>552.4</b>

## 2012 RESERVES AND RESOURCES SUMMARY<sup>(1,2)</sup>

Reserves & Resources							
Licence/Field	Oil Search Interest	Liquids <sup>(3)</sup> (mmbbl)	Gas <sup>(4,5)</sup> (bscf)	Oil Equivalent <sup>(6)</sup> (mmboe)	Liquids <sup>(3)</sup> (mmbbl)	Gas <sup>(4,5)</sup> (bscf)	Oil Equivalent <sup>(6)</sup> (mmboe)
<b>Reserves</b>		<b>Proven (1P)</b>			<b>Proven &amp; Probable (2P)</b>		
PDL 2 - Kutubu	60.0%	15.9	-	15.9	22.1	-	22.1
PDL 2 – SE Mananda	72.3%	0.1	-	0.1	0.3	-	0.3
PDL 2/5/6 – Moran Unit	49.5%	11.3	-	11.3	15.9	-	15.9
PDL 4 – Gobe Main	10.0%	0.1	-	0.1	0.2	-	0.2
PDL 3/4 - SE Gobe	25.6%	0.5	-	0.5	0.7	-	0.7
PDL 1 - Hides <sup>(7)</sup>	100.0%	1.1	48.8	9.3	1.1	48.8	9.3
<b>Oil Fields and Hides GTE Reserves</b>		<b>29.0</b>	<b>48.8</b>	<b>37.2</b>	<b>40.4</b>	<b>48.8</b>	<b>48.6</b>
PNG LNG Project Reserves <sup>(8)</sup>	29.0%	38.4	1,572.8	300.6	61.5	2,653.9	503.8
<b>Subtotal Reserves</b>		<b>67.5</b>	<b>1,621.6</b>	<b>337.7</b>	<b>101.9</b>	<b>2,702.7</b>	<b>552.4</b>
<b>Contingent Resources</b>		<b>1C</b>			<b>2C</b>		
Other Gas and Liquids <sup>(9,10)</sup>					31.5	2,181.7	395.1
<b>Subtotal Resources</b>		-	-	-	<b>31.5</b>	<b>2,181.7</b>	<b>395.1</b>
<b>Total Reserves and Resources</b>		<b>67.5</b>	<b>1,621.6</b>	<b>337.7</b>	<b>133.4</b>	<b>4,884.4</b>	<b>947.5</b>

**Notes:**

1. Numbers may not add due to rounding.
2. Oil fields proven reserves (1P) and proven and probable reserves (2P) are as certified by independent auditors Netherland, Sewell & Associates, Inc. (NSAI) in 2012. 1P PNG LNG Project reserves are as certified in 2008 by independent auditors, NSAI. 2P PNG LNG Project reserves and contingent resources (2C) are based on a combination of independent audit, PNG LNG Project operator 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 GTE. Other gas resources include a combination of raw gas, raw gas reduced for condensate production and fuel and flare.
5. For the PNG LNG Project, shrinkage has been applied to raw gas for field condensate, plant liquids recovery and fuel and flare.
6. Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf/bbl)
7. Hides reserves associated with the GTE Project only.
8. PNG LNG Project reserves comprise the Kutubu, Moran, Gobe Main, SE Hedinia, Hides, Angore and Juha fields. In addition, third party sales gas and plant condensates have been included for SE Gobe in 2P at the post-sales agreement SE Gobe field interest
9. Other gas and liquids resources comprise the Company's other fields including SE Mananda, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields, as well as the 2010 AI Meashar-1 and Mananda 5 discoveries
10. Included in these volumes are 191.1 bcf for PRL 1 (Pandora). Tenure to this licence expired on 22 February 2013.

The information in this reserves statement has been compiled by Jon Rowse, Oil Search's General Manager – Subsurface, who is a full-time employee of the Company. Dr. Rowse has over 24 years of relevant experience, is qualified in accordance with ASX Listing Rule 5.11 and has consented to publish this report.

**For more information regarding this report, please contact:**

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Group Manager, Investor Relations

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**Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 26 February 2013. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to [www.oilsearch.com](http://www.oilsearch.com). If you experience any technical difficulties, please call:**

**+61 2 8280 6000**

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

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**[www.oilsearch.com](http://www.oilsearch.com)**

**OIL SEARCH LIMITED**  
**and its subsidiaries**  
ARBN 055 079 868

**Preliminary final report 2012**

**APPENDIX 4E**

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

This information should be read in conjunction with the  
**Financial Report for the year ended 31 December 2012**

**Results for announcement to the market**

		<i>% Change</i> <sup>(2)</sup>	Year ended 31 December			
			2012		2011	
			US\$'000	A\$'000 <sup>(1)</sup>	US\$'000	A\$'000 <sup>(1)</sup>
Revenue from operations	<i>down</i>	<i>-1.1%</i>	<b>724,619</b>	<b>699,507</b>	732,869	710,282
Net profit after tax attributable to members	<i>down</i>	<i>-13.2%</i>	<b>175,834</b>	<b>169,740</b>	202,483	196,242
Net operating cash flow	<i>down</i>	<i>-49.2%</i>	<b>196,226</b>	<b>189,426</b>	386,193	374,291

		<i>% Change</i> <sup>(2)</sup>	Year ended 31 December			
			2012		2011	
			US cents	A cents	US cents	A cents
Final dividend per security <sup>(3)</sup>			<b>2.00</b>	<b>TBA</b> <sup>(4)</sup>	2.00	1.92
Interim dividend paid per security <sup>(3)</sup>			<b>2.00</b>	<b>1.91</b>	2.00	1.95
Basic earnings per share	<i>down</i>	<i>-13.9%</i>	<b>13.22</b>	<b>12.76</b> <sup>(1)</sup>	15.35	14.88 <sup>(1)</sup>

(1) Amounts shown have been converted from US\$ to A\$ at the average exchange rate of 1.0359 (2011: 1.0318).

(2) % change calculations are based on the US\$ figures.

(3) No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea.

(4) The Australian dollar amount will be fixed at the rate of exchange applicable on the day of the record date for determining entitlements to the final ordinary dividend, being 14 March 2013.

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**Financial Report**  
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**OIL SEARCH LIMITED**  
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**Financial Report**  
**for the year ended 31 December 2012**

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**Directors' Report 31 December 2012**

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The directors submit their report for the financial year ended 31 December 2012.

## **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, BCom, FAICD, FCPA (Chairman), Non-Executive, 71 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: 25,000; Options: nil*

**Mr PR Botten, CBE, BSc, ARSM, (Managing Director), Executive, 58 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 Millenium 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: 2,139,122; Options: nil; Performance Rights: 953,272; Restricted shares: 112,493*

**Mr G Aopi, CBE, BEc, BAC, MBA, Executive, 58 years**

Mr Aopi joined the Board as an Executive Director on 18 May 2006 and presently holds the position of Executive General Manager External & Government Affairs and Sustainability. Mr Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, and filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. He was previously the Chairman of Telikom PNG Ltd and Independent Public Business Corporation (IPBC). 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: 243,526; Options: nil; Performance Rights: 240,736; Restricted shares: 128,046*

**Mr KG Constantinou, OBE, Non-Executive, 55 years**

Mr Constantinou joined the Board on 16 April 2002. He is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Mr Constantinou is Chairman of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions, Alotau International Hotel, Pacific Games 2015 Authority and Bank of South Pacific. He is a Director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, Grand Pacific Hotel in Fiji and Airlines PNG Limited. Mr Constantinou is also Vice President of the Employers Federation of Papua New Guinea, Deputy Chairman of St John Council, 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*

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**Directors' Report 31 December 2012**

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**Mr R Igara, CMG, BEc, GradDip (Intl. Law), MBA, MAICD, PNGID, Non-Executive, 59 years**  
*(Resigned 5 June 2012)*

Mr Igara joined the Board on 16 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 Papua New Guinea, Acting Secretary for Treasury and Chairman of Mineral Resources Development Company Limited. Mr Igara was an independent Director of Orogen Minerals and a member of the board of the Bank of PNG. He has also held chairmanships of other boards of statutory bodies, including the PNG Investment Promotion Authority. He was the founding Chief Executive Officer of PNG Sustainable Development Program Ltd (PNGSDP Ltd), a company which has a 52% interest in Ok Tedi Mining Ltd, and Executive Director (Strategic Investments Group) within PNGSDP Ltd. Mr Igara currently manages his family business and undertakes public policy, management and investment advisory services. He also serves on the board of Innovative Agro Industry Ltd as well as the boards of several community and not-for-profit organisations in Papua New Guinea and the Pacific.

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

**Mr MDE Kriewaldt, BA, LLB (Hons), FAICD, Non-Executive, 63 years** *(Resigned 8 May 2012)*

Mr Kriewaldt joined the Board on 16 April 2002. Mr Kriewaldt is a director of BrisConnections and ImpediMed Limited. He is Chairman of Opera Queensland and immediate past President of the Queensland division of the Institute of Company Directors. He has previously served as a Director of Macarthur Coal Limited, Suncorp Metway Limited, Campbell Brothers Limited, 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*

**Dr AJ Kantsler, BSc (Hons), PhD, GAICD, FTSE, Non-Executive, 62 years**

Dr Kantsler joined the Board on 19 July 2010. Until his retirement in mid 2010, Dr Kantsler worked with Woodside Petroleum for 15 years, where he was most recently the Executive Vice President Health, Safety and Security. Prior to this, Dr Kantsler was Woodside Petroleum's Executive Vice-President Exploration & New Ventures from 1996 to 2009. Before joining Woodside Petroleum, Dr Kantsler had extensive experience with the Shell Group of companies working in various exploration roles in Australia and internationally. Dr Kantsler has been a Director of Forte Consolidated Limited. He was also Councillor and Director of the Australian Petroleum Production and Exploration Association (APPEA) for 15 years, where, as well as being chairman of several of APPEA's committees, he was Chairman from 2000 to 2002. In 2005, Dr Kantsler was awarded the APPEA Reg Sprigg Medal for his outstanding contribution to the oil and gas industry in Australia. Dr Kantsler was also a founding member of the Australian Government's Council for Australian Arab Relations (CAAR), where he served for two terms. He is Managing Director of Transform Exploration Pty Ltd, a Director of Savcor Group Limited and the Chamber of Commerce & Industry, WA.

*Ordinary shares, fully paid: 17,090; Options: nil*

**Mr RJ Lee, BEng (Chem) (Hons), MA (Oxon), FAICD, Non-Executive 62 years**

Mr Lee joined the Board on 9 May 2012. Mr Lee has extensive resource banking and international commercial experience. His previous senior executive roles include 16 years with CSR Limited and 9 years in the position of Chief Executive Officer of NM Rothschild Australia Limited. Mr Lee is Chairman of Salmat Limited, Deputy Chairman of Ridley Corporation Limited and a Director of Newcrest Mining Limited.

*Ordinary shares, fully paid: 20,000; Options: nil*

**OIL SEARCH LIMITED**  
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**Directors' Report 31 December 2012**

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**Mr B Philemon, Non-Executive 67 years**

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

*Ordinary shares, fully paid: 7,165; Options: nil*

**Mr KW Spence, BSc (Geophysics) (Hons), Non-Executive 59 years**

Mr Spence joined the Board on 9 May 2012. Mr Spence brings over thirty years of oil and gas experience to the Board, having served in senior executive positions with Woodside Petroleum Limited, including Chief Operating Officer and Acting Chief Executive. Mr Spence was with Shell for 18 years prior to Woodside. Mr Spence is Chairman of Clough Limited and Geodynamics Limited. He is a Director of Verve Energy and also chairs a number of other bodies including the National Offshore Petroleum Safety and Environmental Management Authority Advisory Board and the Australian Institute of Management (WA).

*Ordinary shares, fully paid: nil; Options: nil*

**Mr JL Stitt, MA (Hons), FAICD, Non-Executive, 69 years (Resigned 8 May 2012)**

Mr Stitt joined the Board on 2 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 worldwide 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*

**Dr ZE Switkowski, BSc (Hons), PhD, FAICD, FTSE, Non-Executive, 64 years**

Dr Switkowski joined the Board on 22 November 2010. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia). Dr Switkowski currently serves as a Director of Tabcorp Limited and Lynas Corporation Limited and is Chairman of Suncorp Group and Opera Australia. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is former Chairman of the Australian Nuclear Science and Technology Organisation. He holds an honours degree in science and a PhD in nuclear physics from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.

*Ordinary shares, fully paid: 175,000; Options: nil*

**GROUP SECRETARY**

**Mr SW Gardiner, BEc (Hons), ASA, 54 years**

Mr Gardiner joined Oil Search Limited in 2004, after a twenty year career in finance at two of Australia's largest multinational construction materials companies and a major Australian telecoms company. Mr Gardiner's roles at Oil Search have covered senior corporate finance and corporate services responsibilities. In November 2012 Mr Gardiner was appointed to the position of Chief Financial Officer of Oil Search. Mr Gardiner is also the Group Secretary of Oil Search, a role he has held since May 2009.

*Ordinary shares, fully paid: 151,812; Options: nil; Performance Rights: 185,060; Restricted shares: 8,178*

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**Directors' Report 31 December 2012**

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**RESULTS AND REVIEW OF OPERATIONS**

**Financial**

The consolidated entity delivered a net profit of US\$175.8 million (2011: US\$202.5 million) for the year, after providing for income tax of US\$171.8 million (2011: US\$237.4 million).

**Operations**

2012 revenue from operations was US\$724.6 million (2011: US\$732.9 million), with crude oil sales contributing US\$593.2 million (2011: US\$654.3 million). The 9.3% crude revenue decrease on the prior year was driven by a 1.8% decrease in realised oil prices from US\$116.09/bbl in 2011 to US\$113.97/bbl in 2012, and a 7.6% decrease in oil sales volumes to 5,205,000 barrels. The Company did not establish any oil hedges during the period and remained unhedged to oil price movements.

Net cash from operating activities decreased to US\$196.2 million in 2012, compared to US\$386.2 million in 2011. This was primarily due to lower oil sales, higher tax payments following finalisation of assessments for prior years, non-recurring costs associated with the Kumul Marine Terminal (KMT) oil sheen incident and severe weather conditions, the impact of adverse foreign exchange movements and working capital movements.

In August 2012, Oil Search signed an extension agreement to its gas sales agreement with the Porgera gold mine to supply 56 billion cubic feet of gas (bcf) (including associated liquids) until the earlier of December 2021 or when the maximum sales volume has been reached. At the same time, Oil Search signed a parallel agreement with the owners of the Hides gas field to access the extra 56 bcf.

In December 2012 Oil Search completed the sale of its 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. of France, resulting in a \$29.3 million net profit on sale.

During 2012, Oil Search also farmed down select Gulf of Papua licences (offshore PPLs 234, 244 and PRL10, and onshore PPLs 338 and 339) to TOTAL S.A. of France, resulting in a \$9.3 million net profit on sale.

Under the PNG Oil and Gas Act, Oil Search's 24.09% interest in PRL 1 (Pandora Gas Field) is required to be relinquished in February 2013 as the licence has reached its 15 year maximum term. As a consequence of the relinquishment, Oil Search has recorded a pre-tax \$23.8 million impairment to the carrying value of its exploration assets associated with this licence.

Amortisation and depreciation charges decreased by US\$1.8 million compared to the prior year, from US\$51.3 million to US\$49.5 million, due to lower sales volumes.

Exploration, development and production costs expensed during 2012 totalled US\$144.0 million, compared to US\$60.6 million in 2011. This included the write-off of current and past costs in relation to two unsuccessful wells, Trapia (US\$70.0 million) and the IDT 25 Koi Iange test (US\$20.5 million). It also included US\$32.7 million outlaid on PNG seismic costs.

Exploration and evaluation expenditure during the year was US\$240.6 million (2011: US\$144.6 million), development expenditure was \$1,492.5 million (2011: US\$1,286.5 million) and production expenditure was US\$111.5 million (2011: US\$129.4 million).

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Total oil and gas production was 6.38 million barrels of oil equivalent (mmboe) in 2012 compared with 6.69 mmboe in 2011, with the 4.6% year-on-year reduction due to:

- Underlying field decline rates;
- Major planned shutdowns at the Central and Gobe Processing Facilities to allow essential modifications for the PNG LNG Project and Associated Gas tie in work; and
- An unplanned shut-in in July to allow an inspection of the KMT loading system following identification of an oil sheen in proximity to the loading facility.

During the year, further progress was made on the construction of the PNG LNG Project, operated by Esso Highlands Limited (the operator), an affiliate of the Exxon Mobil Corporation. Site preparation and infrastructure development activities as well as the heavy construction phase, continued during the year. The operator has confirmed the Project remains on track to achieve first LNG sales in 2014 and is now approximately 75% complete. The Operator advised that the capital cost estimate for the Project increased from US\$15.7 billion to US\$19.0 billion. Foreign exchange is the largest single contributor to the increase, at US\$1.4 billion. This brings the total realised and estimated foreign exchange impact (through to first LNG deliveries) to US\$2.1 billion since Project sanction. Delays from work stoppages and land access issues, which have led to increased construction and drilling costs, have added US\$1.2 billion to the cost estimate. In addition, adverse logistics and weather conditions, including rainfall exceeding historic norms for most of the last two years, are estimated to have added US\$0.7 billion.

It is expected that the capital cost increase in the PNG LNG Project will continue to be financed on the same ratio of debt and equity, namely 70% debt and 30% equity contributions from the Project co-venturers. Under the existing terms of the PNG LNG project financing, the co-venturers intend to expand the US\$14 billion PNG LNG Project Financing Facility by issuing supplemental debt of US\$1.5 billion dollars. The process to increase the project financing has commenced and it is envisaged that the agreements associated with the new tranche of debt will be executed around the middle of 2013. Oil Search's additional equity contributions will be funded by its existing cash balances, operating cash flows and the new five year, US\$500 million revolving credit facility that was executed in October 2012.

PNG LNG Project activities in 2012 included:

- Continued construction of Trains 1 and 2, the main jetty and associated facilities at the LNG plant site near Port Moresby;
- Completion of the offshore pipeline;
- Continuation of the onshore pipe lay, past Kutubu and towards Hides;
- Continued construction of the Komo airfield and the earthworks and foundations of the Hides Gas Conditioning Plant;
- Continued well pad development and the commencement of drilling at the Hides field;
- Further work on the Associated Gas Project by Oil Search.

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**Directors' Report 31 December 2012**

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On 29 October 2012 Oil Search signed documentation with a 15 member banking group for a US\$500 million five year, non-amortising revolving credit facility. The new corporate facility replaces the previous US\$435 million amortising facility that was due to expire in September 2013.

At 31 December 2012 the Company's cash and cash equivalent holdings totalled US\$488.3 million (2011: US\$1,047.5 million), including US\$8.1 million (2011: \$9.8 million) held in joint venture accounts, and debt of US\$2,866.0 million at the end of December (2011: \$1,747.6 million).

**DIVIDENDS**

Subsequent to balance date, the directors approved the payment of a final unfranked dividend of US 2 cents per ordinary share (2011: US 2 cents final dividend) to ordinary shareholders in respect of the financial year ended 31 December 2012. The due date for payment is 9 April 2013 to all holders of ordinary shares on the Register of Members on 14 March 2013. 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, development 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.

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**Directors' Report 31 December 2012**

**COMMITTEES OF THE BOARD**

During the year ended 31 December 2012 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<sup>1</sup> (Chairman), Mr RJ Lee<sup>2</sup> (Chairman), Mr R Igara<sup>3</sup>, Dr AJ Kantsler, Mr B Philemon<sup>4</sup>, Mr KW Spence<sup>5</sup> and Mr JL Stitt<sup>6</sup>. Mr BF Horwood is an ex officio attendee;

**Remuneration and Nominations:** Dr ZE Switkowski (Chairman), Mr KG Constantinou, Mr R Igara<sup>3</sup>, Mr B Philemon<sup>4</sup>, Mr KW Spence<sup>5</sup> and Mr JL Stitt<sup>6</sup>. Mr BF Horwood is an ex officio attendee;

**Finance and Risk:** Dr AJ Kantsler (Chairman), Mr G Aopi, Mr KG Constantinou, Mr MDE Kriewaldt<sup>1</sup>, Mr RJ Lee<sup>2</sup> and Dr ZE Switkowski. Mr BF Horwood is an ex officio attendee.

(1) Mr MDE Kriewaldt was Chairman of the Audit Committee and a Member of the Finance and Risk Committee until his resignation from the Board effective 8 May 2012.

(2) Mr RJ Lee was appointed to the Board effective 9 May 2012. Mr Lee became Chairman of the Audit Committee and a Member of the Finance and Risk Committee effective 19 July 2012.

(3) Mr R Igara was a Member of the Audit Committee and the Remuneration & Nominations Committee until his resignation from the Board effective 5 June 2012.

(4) Mr B Philemon was appointed to the Board effective 5 November 2012. Mr Philemon became a Member of the Audit Committee and the Remuneration and Nominations Committee effective the date of his appointment.

(5) Mr KW Spence was appointed to the Board effective 9 May 2012. Mr Spence became a Member of the Audit Committee and Remuneration and Nominations Committee effective 19 July 2012.

(6) Mr JL Stitt was a Member of the Audit Committee and the Remuneration and Nominations Committee until his resignation from the Board effective 8 May 2012.

**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:

Directors	Directors' Meetings	Meetings of committees		
		Audit <sup>(1)</sup>	Remuneration and Nominations	Finance and Risk <sup>(1)</sup>
Number of meetings held	9	4	4	4
Number of meetings attended				
BF Horwood <sup>(2)</sup>	9	3	4	4
PR Botten	9	-	-	-
G Aopi	9	-	-	4
KG Constantinou	8	-	4	4
R Igara	4	2	2	-
MDE Kriewaldt	4	2	-	2
JL Stitt	4	2	2	-
AJ Kantsler	9	4	-	4
ZE Switkowski	9	-	4	4
RJ Lee	5	2	-	2
KW Spence	5	2	2	-
B Philemon	1	-	1	-

(1) The Managing Director and Chief Financial Officer attend meetings at the request of the Committee.

(2) Mr Horwood is ex-officio attendee at the Audit Committee, Remuneration & Nominations Committee and Finance & Risk Committee.

Note: Other members of the Board have attended various Committee meetings during the year. These attendances are not included in the above table.

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**Directors' Report 31 December 2012**

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**ENVIRONMENTAL DISCLOSURE**

The economic entity complies with all environmental laws and regulations and aims to operate 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 1,200 employees as at 31 December 2012 (2011: 1,125). Oil Search Limited is listed on the Australian Securities Exchange and Port Moresby Stock Exchange.

**SHARE BASED PAYMENT TRANSACTIONS**

There were 1,744,200 share appreciation rights (2011: 1,498,560) granted under the Employee Share Appreciation Rights Plan. There were 1,899,900 performance rights (2011: 1,696,500) granted under the Performance Rights Plan, and 108,513 restricted shares (2011: 443,289) granted under the Restricted Share Plan during the year.

As at 31 December 2012, there are 469,930 options (2011: 1,659,552), 4,291,120 share appreciation rights (2011: 2,918,020), 5,344,915 performance rights (2011: 5,735,932), and 1,295,197 restricted shares (2011: 1,657,365) 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 26 for further details).

**DIRECTORS' AND OTHER OFFICERS' REMUNERATION**

The Remuneration and Nominations Committee of the Board is responsible for reviewing compensation for the directors and staff and recommending compensation levels to the Board. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis with reference to relevant employment market conditions, with the overall benefit of maximising shareholder value by the retention of high quality personnel. To achieve this objective the Board links a component of executive director and other staff emoluments to the 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 27 to the financial statements.

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**1. REMUNERATION REPORT**

This report has been prepared in accordance with section 300A of the Australian Corporations Act 2001 and summarises the arrangements in place for the remuneration of directors, key management personnel and other employees of Oil Search for the period from 1 January 2012 to 31 December 2012. Although it is not a requirement for PNG companies, Oil Search has voluntarily complied with section 300A of the Corporations Act 2001 to ensure it meets current best practice remuneration 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 ASX listed 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.

**3. SHARE TRADING POLICY**

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

- **Restricted Employees** – Executive General Managers and their direct reports, General Managers and their direct reports and other employees notified by the Company Secretary that they are a restricted employee;

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- **Prescribed Employees** – particular employees, contractors or a member of a class of employees or contractors that are notified by the Company Secretary that they are prescribed employees due to the nature of work they are undertaking; and
- **All Other Employees** – any employee or contractor who is not classified as a Restricted or Prescribed Employee.

Under the Oil Search Share Trading Policy, non-executive directors are classified as restricted employees.

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

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

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

The following table details the times at which employees can trade in Oil Search shares:

**Table 1 – Trading permitted under the Oil Search Share Trading Policy**

	<b>Closed Period</b>	<b>Trading Window</b>	<b>All Other Times</b>
<b>Restricted Employees</b>	Not permitted to trade	May trade after first notifying Company Secretary	Must receive pre-approval to trade
<b>Prescribed Employees</b>	Not permitted to trade	Not permitted to trade	Not permitted to trade
<b>All Other Employees</b>	Not permitted to trade	May trade	May trade

Regardless of the trading times specified in the above table, employees are not permitted to trade at any time if they are in receipt of inside information. Employees are also prohibited from hedging or acquiring options over unvested securities, granted under employee share plans, at any time. Regular audits of share trading are conducted by the Company Secretary to ensure compliance.

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**4. 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 the appointment of new non-executive 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 three non-executive directors and the members of the Committee during the year were:

- Dr ZE Switkowski – independent non-executive (*Chair from 12 May 2011*)
- Mr KG Constantinou OBE – independent non-executive
- Mr KW Spence - independent non-executive (from 9 May 2012)
- Mr B Philemon - independent non-executive (from 5 November 2012)
- Mr R Igara CMG – independent non-executive (until 5 June 2012)
- Mr JL Stitt – independent non-executive (until 8 May 2012)

The Chairman of the Board, Mr B Horwood, is normally an ex-officio member of the Committee. 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.

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Under its Charter, the Committee must meet at least four times a year. The Committee met four 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 2012 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 2 – External Consultants Engaged by the Committee in 2012**

<b>Consultant</b>	<b>Committee and Board Engagements</b>	<b>Management Engagements</b>
Ernst & Young	Provision of data in relation to Non-Executive Directors' remuneration. Provision of Total Shareholder Return calculations.	Management of employee relocations. Individual tax advice and tax return preparation for expatriate employees.
Aon Hewitt	Provision of data to support a review of remuneration of Managing Director and the Senior Management Team (to be completed in February 2013)	General remuneration survey data.
Orient Capital	Ad hoc reporting in relation to Total Shareholder Return calculations.	Regular analysis of the Company's shareholder registry.
JWS Consulting	Non-executive director recruitment.	
Egon Zehnder	Non-executive director recruitment.	

**5. 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.

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**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; and development initiatives; and
- Growth metrics which include: discovery of new hydrocarbon resources and progress towards commercialisation of 2C gas reserves.

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 five years the STI program has been in operation, the overall level of STI paid to employees has been:

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**Table 3 – STI Awards to Employees**

<b>STI Potential Range</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
0% to 200% of STI Opportunity	85.9%	84.6%	61.4%	28.5%	106.8 %

**Long-Term Incentive (LTI)**

Provided that they have demonstrated an acceptable level of personal performance, each employee also has the opportunity to participate in the Oil Search Long Term Incentive Plan (LTIP). Following changes to Australian taxation legislation with respect to employee share plans the existing Oil Search LTI programs were reviewed in 2010. As a result of the review, the existing Employee Share Option Plan (ESOP), Performance Rights Plan (PRP) and Restricted Share Plan (RSP) were combined under the Oil Search Long Term Incentive Plan (LTIP).

The Oil Search LTIP allows the Board the flexibility to grant employees:

- Performance Rights;
- Share Appreciation Rights;
- Share Options; and
- Restricted Shares.

Under the LTIP, allocations of Performance Rights and Share Options operate in the same manner as existing allocations, except for the automatic exercise on vesting of grants under the LTIP. This removes the existing two year period employees have to exercise vested options and rights. From 2010, grants of Share Options were replaced with grants of Share Appreciation Rights.

**Share Appreciation Rights**

Share Appreciation Rights (SARs) operate in much the same way as Share Options, with an employee only receiving a benefit if the Oil Search share price increases over the vesting period. However instead of an employee exercising a Share Option equal to the market value at the time they were granted, upon vesting the gain in share price is converted back to a number of shares, which are then granted to the employee.

As an example, the 2012 grant of SARs was 1,900 per participant and the Vesting Price (equivalent to the Exercise price of a Share Option) was \$7.26. Assuming the Oil Search share price increased to \$9.60 at vesting, the employee would be granted 463 shares based on the following formula:

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$$\frac{\text{Number of Rights X (Price on Vesting – Vesting Price)}}{\text{Price on Vesting}}$$

↓

$$\frac{1,900 \text{ X } (\$9.60 - \$7.26)}{\$9.60} = \frac{\$4,446}{\$9.60} = 463 \text{ shares}$$

SARs are automatically exercised on vesting, which is dependent on the Oil Search share price increasing over the 3 year vesting period. Accordingly, if the share price does not increase above the Vesting Price, then the SARs will automatically lapse on the vesting date. As a result, the employee only benefits from a grant of

SARs if the Oil Search share price increases over the three year vesting period, so this form of LTI is directly related to increasing Shareholder Value.

### Employee Share Option Plan

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.

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, with the last allocation in 2009. 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.

Details of awards under the ESOP until 2009 and grants of SARs from 2010 are presented in the table below:

**Table 4 – Details of Awards Under the Employee Share Option Plan (ESOP) and Share Appreciation Rights**

GRANT YEAR	2008	2009	2010	2011	2012
Award Type	Options	Options	SARs	SARs	SARs
Grant Date	4 Aug 08	1 Jun 09	1 Jun 10	23 May 11	<b>21 May 2012</b>
Vesting Date	5 May 11 <sup>(1)</sup>	13 May 12 <sup>(2)</sup>	17 May 13 <sup>(3)</sup>	16 May 14	<b>15 May 15</b>
Options/Rights per employee	2,170	1,600	1,900	1,680	<b>1,900</b>
Total Award	1,788,080	1,340,800	1,554,200	1,498,560	<b>1,744,200</b>
Exercise/Vesting Price	\$4.88	\$5.22	\$5.63	\$6.98	<b>\$7.26</b>

(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.

(3) Although the grant of Share Appreciation Rights was delayed due to the finalisation of the LTIP, the Board approved the retention of the previously planned vesting date.

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### **Performance Rights**

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 (PRs). Until 2009, PRs were granted under the Performance Rights Plan (PRP), however following the review of LTIs, they are now granted under the LTIP. The only difference in operation of Performance Rights issued under the LTIP is that they are automatically exercised on vesting, removing the 2 year exercise period following vesting of previous grants.

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

Vesting of the awards depends on Oil Search's Total Shareholder Return (TSR) performance over a three-year period relative to 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.

For awards made between 2007 and 2011, 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.<sup>(1)</sup>

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

The Committee made the following changes to the comparator group to apply for awards of Performance Rights made in May 2012:

- The ASX comparator group was narrowed to the ASX50 (excluding property trusts and non-standard listings) to better reflect the Company's market capitalisation; and
- The international oil and gas comparator group was broadened to include the constituents of the Standard & Poor's Global Energy Index. This removed the subjectivity of inclusion or exclusion of individual oil and gas companies and the larger peer group reduces the impact of merger and acquisitions within the peer group. TSR outcomes are also normalised against a US dollar base currency to provide consistency of measurement.

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

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

- below median, that is the 50th percentile, no Performance Rights will vest;

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- 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 and grants of SARs, 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 PRP from 2006 to 2009 and the granting of Performance Rights under the LTIP from 2010 to 2011:

**Table 5 – Details of Awards of Performance Rights**

GRANT YEAR	2007	2008	2009	2010 <sup>(2)</sup>	2011	2012
Measurement Period	1 Jan 07 to 31 Dec 09	1 Jan 08 to 31 Dec 10	1 Jan 09 to 31 Dec 11	1 Jan 10 to 31 Dec 12	1 Jan 11 to 31 Dec 13	1 Jan 12 to 31 Dec 14
Total Rights Granted	2,783,746	2,437,300	1,774,895	1,997,400	1,696,500	1,899,900
Oil Search TSR (3 year) <sup>(1)</sup>	91%	53%	44%	23%		
Percentile Rank (ASX peer group)	96.0%	96.5%	68.3%	68.3%		
Vesting	50.0%	50.0%	43.3%	43.25%	May 2014	May 2015
Percentile Rank (International Group)	87.5%	94.1%	53.3%	93.3%		
Vesting	50.0%	50.0%	28.3%	50%	May 2014	May 2015
Total Vesting	100.0%	100.0%	71.6%	93.3%	May 2014	May 2015

(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 2010 Performance Rights will not vest until May 2013, Oil Search relative TSR for the period 1 January 2010 to 31 December 2012 is available.

**Long Term Incentive Plan Rules**

Under the ESOP or PRP the following rules apply to all grants:

- if a participant ceases employment, the participant will be entitled to exercise vested Performance Rights or 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 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 or Share Options lapse unless the Board determines otherwise.
- Any vested Performance Rights or Share Options that remain unexercised lapse on the fifth

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anniversary of the date of grant.

Under the LTIP, all grants are automatically exercised on vesting, so there will never be any vested grants that have not been exercised. Any vested Share Options granted under the ESOP or vested Performance Rights granted under the PRP that remain unexercised lapse on the fifth anniversary of their grant date. In line with the existing ESOP and PRP, if a participant dies or ceases employment, all unvested Performance Rights, Share Appreciation Rights or Share Options lapse unless the Board determines otherwise.

All of the plan rules for the PRP, ESOP and LTIP allow the Company to use newly issued or existing shares (for example, through purchase on market) to satisfy awards.

Grants of PRs, Share Options or SARs do not attract any right to dividends or voting rights.

#### **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. Until 30 May 2010, grants were made under the Restricted Shares Plan (RSP), with all grants from 1 June 2010 being made under the LTIP. Restricted Shares issued under the RSP or LTIP only vest after the employee has completed a specified period of future service with the Company.

Awards 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 are only made where the Board determines that a significant retention risk exists.

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.

Restricted Shares provided as retention awards do not attract any right to voting and do not attract any right to dividends.

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

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**PNG Retention Program**

The PNG LNG project is significantly changing the employment landscape in Papua New Guinea, with the project operator and its contractors hiring 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 is 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 were 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 on PNG LNG.

All permanent PNG Citizen 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.

Further reviews of participation in the PNG Retention Program were conducted in 2010 and 2011. For those employees that had joined Oil Search since the first grant under the Program, their benefit will be realised in July 2014. For existing participants, any increase in benefit will be realised in June 2013, in line with their original award.

Retention of our PNG Citizen employees continues to be reviewed on a regular basis in view of PNG LNG.

**Deferred STI**

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

**6. 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 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.

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**Total Fixed Remuneration (TFR)**

TFR, which includes Company superannuation contributions and other remunerative benefits, is targeted within the range of the median and the 62.5 percentile of the reference group, depending on the international marketability and mobility of the executive concerned. Executives may choose to salary package items such as motor vehicles or superannuation contributions. However any costs arising from Fringe Benefits Tax (FBT) on salary package items are borne by the executive.

**At Risk Remuneration & Relationship to Company Performance**

As noted above in section 5, Oil Search executives are eligible to receive a STI and participate in a LTI program which is “at risk” remuneration, since any payment is dependent on performance. The Board’s objective is that the size of these incentives should reflect Oil Search’s success in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

Accordingly, the size of the STI is directly related to corporate performance against a range of key measures that impact shareholder value, namely operational metrics (safety, production, costs, and development initiatives) and growth metrics (the discovery or acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant 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 provides an incentive opportunity of 80% of TFR for senior executive’s (100% of TFR for the Managing Director), for achieving exceptional corporate and individual performance. The target payout under the STI provides for a payment of 50% of the incentive opportunity. Performance significantly beyond expectations could be rewarded by STI’s up to a maximum of two times the incentive opportunity.

The following table summarises STI as a % of TFR for Senior Executives and Managing Director for a range STI outcomes.

STI outcome	STI outcome as a % of Opportunity	STI outcome as % of TFR	
		Senior Executives	Managing Director
Minimum	0%	0%	0%
Target	50%	40%	50%
‘Opportunity’	100%	80%	100%
Maximum	200%	160%	200%

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The STI is awarded in March each year for performance in the previous calendar year. Awards since the commencement of the scheme in 2007 have averaged 71.9% of opportunity.

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 Restricted Shares under the LTIP. The Restricted Shares 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 Restricted Shares issued as the deferred component of an executive's STI award are paid to the executive.

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

**Table 6 – Senior Executive STI outcomes as a % of TFR**

	STI Range	2007	2008	2009	2010	2011	2012
Managing Director	0 – 200% of TFR	50%	100.0%	84.6%	61.4%	28.5%	<b>106.8%</b>
Senior Executives	0 – 160% of TFR	44.0%	68.7%	71.4%	49.1%	22.8%	<b>85.4%</b>

**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;

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

where X is 90% for the Managing Director and 60% for other senior executives, and "Oil Search Share Price" is 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 grants and vesting level of performance rights over the past five years for current key management personnel is as follows:

**Table 7 – Allocation of Performance Rights to Key Management Personnel**

	2008		2009		2010		2011		2012	
	No.	Vest	No.	Vest	No.	Vest <sup>(1)</sup>	No.	Vest	No.	Vest
<b>Directors</b>										
P Botten	338,600	100.0%	258,900	71.6%	273,400	93.25%	245,800	2014	248,700	2015
G Aopi	48,900	100.0%	46,000	71.6%	54,200	93.25%	51,100	2014	53,600	2015
<b>Executives</b>										
P Caldwell	61,100	100.0%	61,800	71.6%	65,300	93.25%	58,700	2014	59,300	2015

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**Table 7 (cont)**

	2008		2009		2010		2011		2012	
	No.	Vest	No.	Vest	No.	Vest <sup>(1)</sup>	No.	Vest	No.	Vest
P Cholakos					32,400	93.25%	55,200	2014	55,900	2015
S Gardiner	38,700	100.0%	35,000	71.6%	32,400	93.25%	44,200	2014	44,700	2015
R Robinson	32,400	100.0%	29,700	71.6%	55,800	93.25%	49,700	2014	49,800	2015
J Fowles									55,300	2015
<b>Former Executives</b>										
P Bainbridge	93,000	100.0%	66,800	71.6%	70,700	52.5%	62,400	17.9%	-	-
P Crute	65,900	100.0%	47,400	71.6%	52,700	93.25%	46,800	2014	46,900	2015
Z Todorcevski <sup>(2)</sup>	66,485	100.0%	146,285	71.6%	84,400	0.0%	75,800	0.0%	76,700	0.0%

(1) The vesting date of the 2010 Performance Rights is 15 May 2013. Oil Search's TSR for the period 1 January 2010 to 31 December 2012 will result in 93.25% vesting.

(2) Z Todorcevski was granted allocations of Performance Rights in the 2008 allocations as part of his recruitment arrangements

### Corporate Financial Performance

Table 8 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 8 – Oil Search's Five Year Performance**

Year Ended 31 December	2008	2009	2010	2011	2012
Net profit after tax (US\$m)	313.4	133.7	185.6	202.5	<b>175.8</b>
Diluted Earnings per share (US cents)	27.8	11.5	14.1	15.3	<b>13.2</b>
Dividends per share (US cents)	8.0	4.0	4.0	4.0	<b>4.0</b>
Shares Closing price (A\$) <sup>(1)</sup>	\$4.65	\$6.12	\$7.04	\$6.25	<b>\$7.01</b>
Oil Search Three Year TSR <sup>(2)</sup>	39%	91%	53%	44%	<b>23%</b>

(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.

## 7. REMUNERATION DETAILS FOR KEY MANAGEMENT PERSONNEL

For this section of the report, key management personnel excludes non-executive directors, whose remuneration is disclosed in Section 10. The key management personnel for the purposes of this section are the following employees:

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**Mr Peter Botten CBE – Managing Director**

*Incumbent for the full year*

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

**Mr Gereia Aopi CBE – Executive General Manager External Affairs and Sustainability and Executive Director**

*Incumbent for the full year*

Gereia is responsible for External Affairs in PNG. He is also charged with strategy development and enactment of our Community Affairs and social programs within the Company. Gereia plays an important role in the interface between the Company and major shareholders in PNG.

In addition, Gereia has the additional responsibility of leading the company's broad Sustainability strategies within PNG.

**Mr Philip Caldwell – Executive General Manager PNG LNG**

*Incumbent for the full year*

Philip is the person responsible for managing Oil Search's participation in the PNG LNG Project and works closely with the other Joint Venture partners to ensure the success of the project. Philip was appointed to this role on 1 June 2010, prior to which he was the Executive General Manager Oil Operations.

**Mr Paul Cholakos – Executive General Manager Project Development**

*Incumbent for the full year*

Paul has responsibility for the delivery and management of Oil Search projects in PNG, with a specific focus on those associated with the PNG LNG Project. He is also responsible for the management of the corporate project function.

**Mr Julian Fowles – Executive General Manager Exploration & Business Development**

*Incumbent from 23 April 2012*

Julian has responsibility for Oil Search's exploration programs to grow Shareholder value through exposure to quality exploration projects on a risked basis. Julian leads new teams in the technical and commercial evaluation of new ventures and business development opportunities and leads in the negotiations for those assets that meet Oil Search's economic criteria.

**Mr Stephen Gardiner – Chief Financial Officer & Group Secretary**

*Incumbent for the full year*

Stephen's role is to manage corporate finance, treasury and audit functions for the company as well as all Group Secretarial matters. He is also responsible for planning, performance and cash flow management ensuring appropriate processes and reporting to management and the Board. Stephen was formally appointed to this position on 14 November 2012, having acted in the role since the departure of Zlatko Todorcevski on 2 July 2012. Prior to this, Stephen's role was EGM Sustainability, Corporate Services & Group Secretary.

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**Mr Michael Herrett – Executive General Manager Human Resources – Health & Administration**  
*Incumbent from 27 August 2012*

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

**Mr Richard Robinson – Executive General Manager PNG Operations**  
*Incumbent for the full year*

Richard is responsible for Oil Search's operations in PNG including HSES, Oil and Gas production, Drilling, Subsurface and Logistics.

**Former Executives**

**Mr Philip Bainbridge – Executive General Manager Gas Commercialisation and PNG Growth**  
*Departed 29 February 2012*

Prior to his departure, Philip was responsible for managing Oil Search's organic growth via Gas Business Development and Exploration within PNG and optimising our exploration assets in MENA.

**Mr Paul Crute – Executive General Manager Human Resources**  
*Ceased to be Key Management Personnel on 26 August 2012*

Prior to ceasing to be Key Management Personnel, Paul was responsible for the Human Resources, Health & Administration functions for the company.

**Mr Zlatko Todorovski – Executive General Manager Finance and Treasury - Chief Financial Officer**  
*Departed 2 July 2012*

Prior to his departure, Zlatko's role was to manage the corporate finance, treasury and audit functions for the company.

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

**Table 9 – Current Key Management Personnel Remuneration Mix**

<b>Directors</b>	<b>TFR</b>	<b>STI</b>	<b>LTI</b>	<b>At risk</b>
P Botten	34.5%	34.5%	31.0%	65.5%
G Aopi	41.7%	33.3%	25.0%	58.3%
<b>Executives</b>				
P Caldwell	41.7%	33.3%	25.0%	58.3%
P Cholakos	41.7%	33.3%	25.0%	58.3%
J Fowles	41.7%	33.3%	25.0%	58.3%
S Gardiner	41.7%	33.3%	25.0%	58.3%

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**Table 9 (cont)**

<b>Directors</b>	<b>TFR</b>	<b>STI</b>	<b>LTI</b>	<b>At risk</b>
M Herrett	41.7%	33.3%	25.0%	58.3%
R Robinson	41.7%	33.3%	25.0%	58.3%
<b>Former Executives<sup>(1)</sup></b>				
P Bainbridge	41.7%	33.3%	25.0%	58.3%
P Crute	41.7%	33.3%	25.0%	58.3%
Z Todorcevski	41.7%	33.3%	25.0%	58.3%

(1) The remuneration breakdown for the former executives is based on their 2011 remuneration.

The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity (80% of TFR for Senior Executives and 100% of TFR for the Managing Director). Percentages shown in the later section on Executive Remuneration reflect actual incentives paid as a percentage of TFR, which includes movements in leave balances, non monetary benefits and share based payments calculated in accordance with IFRS 2.

The following table is in US Dollars and for all remuneration reporting where stated in US Dollars, the exchange rates used have been:

<b>EXCHANGE RATE</b>	<b>2011</b>	<b>2012</b>
AUD/USD	1.0318	1.0359
PGK/USD	0.4248	0.4955

**Table 10 – Key Management Personnel Remuneration (US\$)**

	Year	Short Term			Post Employment	Long Term	Equity <sup>(6)</sup>		Other	Total
		Salaries fees and allowances <sup>(1)</sup>	Non-Monetary benefits <sup>(2)</sup>	Short Term Incentive <sup>(3)</sup>	Company contribution to super <sup>(4)</sup>	Long Service Leave accrual <sup>(5)</sup>	Perform. Rights	Restricted Shares	Sign on / termination benefits	
<b>Directors</b>										
P Botten Managing Director	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639	-	4,901,891
	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	-	4,377,982
G Aopi EGM External Affairs and Sustainability	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127	-	1,575,425
	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	-	1,234,153
<b>Executives</b>										
P Caldwell EGM PNG LNG	2012	874,640	-	308,449	38,846	(16,099)	265,545	123,356	-	1,594,737
	2011	912,877	-	78,103	51,590	43,571	270,847	195,846	-	1,552,834
P Cholakos EGM Project Development	2012	676,899	-	275,789	18,566	-	178,625	33,552	-	1,183,431
	2011	648,755	-	73,516	25,885	-	91,046	89,170	-	928,372

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**Table 10 (cont)**

	Year	Short Term			Post Employment	Long Term	Equity <sup>(6)</sup>		Other	Total
		Salaries fees and allowances <sup>(1)</sup>	Non-Monetary benefits <sup>(2)</sup>	Short Term Incentive <sup>(3)</sup>	Company contribution to super <sup>(4)</sup>	Long Service Leave accrual <sup>(5)</sup>	Perform. Rights	Restricted Shares	Sign on / termination benefits	
J Fowles EGM Exploration & Business Development	2012	489,181		214,760	11,643	-	53,260	-	-	768,844
	2011	-	-	-	-	-	-	-	-	-
S Gardiner Chief Financial Officer & Group Secretary	2012	609,103	-	282,117	16,701	27,685	172,189	26,646	-	1,134,441
	2011	493,045	-	58,813	15,980	19,058	160,188	-	-	747,084
M Herrett EGM Human Resources, Health & Administration	2012	209,490	-	84,458	5,996	-	-	-	-	299,944
	2011	-	-	-	-	-	-	-	-	-
R Robinson PNG Operations	2012	560,784	-	491,880 <sup>(7)</sup>	49,850	(87,634)	211,369	104,827	-	1,331,076
	2011	544,612	-	66,105	15,845	50,257	163,627	62,150	-	902,596
<b>Former Executives</b>										
P Bainbridge EGM Gas Commercialisation and PNG Growth	2012	109,323	-	-	9,323	(72,060)	83,804	95,637	-	226,027
	2011	673,708	-	166,087	59,306	71,775	307,118	222,700	-	1,500,694
P Crute EGM Human Resources	2012	346,709	-	318,455 <sup>(8)</sup>	16,155	-	211,007	99,224	-	991,550
	2011	524,253	2,031	62,341	24,537	-	223,331	153,355	-	989,848
Z Todorovski EGM Finance and Treasury – Chief Financial Officer	2012	468,772	4,699	-	5,973	-	(147,304)	(94,154)	1,157,355	1,395,341
	2011	875,881	-	100,922	15,980	-	465,770	185,124	-	1,643,677

(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 excludes 50% deferred into Oil Search Shares under the Restricted Share Plan, which is captured in the *Restricted Shares* data in the *Equity* section.

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

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

(6) Equity is the expensed value of all Performance Rights or Restricted Shares

(7) For his 2012 STI, R Robinson received 100% of his STI as cash with no deferral to Restricted Shares

(8) For his 2012 STI, P Crute received 100% of his STI as cash with no deferral to Restricted Shares

Details of the total Short Term Incentives (including the portion which will be deferred and awarded in the form of Restricted Shares) for each Director of Oil Search and the key management personnel are detailed in Table 11.

**Table 11 – Analysis of STI Included in Remuneration**

	Included in remuneration (US\$) <sup>(1)</sup>
P Botten	2,154,046
G Aopi	654,084

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**Table 11 (cont)**

	<b>Included in remuneration (US\$)<sup>(1)</sup></b>
P Caldwell	616,898
P Cholakos	551,578
J Fowles	429,520
S Gardiner	564,234
M Herrett	168,916
R Robinson	491,880
<b>Former Executives</b>	
P Bainbridge	-
P Crute	318,455
Z Todorcevski	-

(1) The value includes 50% of the STI award paid as cash (as reported in Table 10) as well as the 50% to be deferred via the allocation of Restricted Shares, that will vest on 1 January 2015.

**8. KEY TERMS OF EMPLOYMENT CONTRACTS FOR KEY MANAGEMENT PERSONNEL**

Table 12 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; and
- LTI participation in the coming year.

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

**Table 12 – Contractual Provisions for Specified Executives**

	Employing company	Contract duration	Notice period company	Notice period employee	Termination provision
P Botten	POSL	Ongoing	6 months	6 months	18 months Total Fixed Reward
G Aopi	OSPNG	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum 52)
P Caldwell	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
P Cholakos	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
J Fowles	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
S Gardiner	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
M Herrett	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)
R Robinson	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum 52)

## 9. EQUITY INSTRUMENTS

All Rights in the following tables refer to Performance Rights or Restricted Shares issued in accordance with the Performance Rights Plan or Long Term Incentive Plan. The structure of the Rights is detailed in section 5 on Remuneration Structure.

### Rights over Equity Instruments Granted as Remuneration

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

**Table 13 – Details of Performance Rights Granted**

	Number of Rights granted during 2012	Grant Date	Fair value per right (A\$)	Exercise price per right (A\$)	Expiry date	Number of rights vested during 2012
P Botten	248,700	21 May 2012	\$4.52	\$0.00	15 May 2015	185,372

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**Table 13 (cont)**

	Number of Rights granted during 2012	Grant Date	Fair value per right (A\$)	Exercise price per right (A\$)	Expiry date	Number of rights vested during 2012
G Aopi	53,600	21 May 2012	\$4.52	\$0.00	15 May 2015	32,936
P Caldwell	59,300	21 May 2012	\$4.52	\$0.00	15 May 2015	44,248
P Cholakos	55,900	21 May 2012	\$4.52	\$0.00	15 May 2015	Nil
J Fowles	55,300	21 May 2012	\$4.52	\$0.00	15 May 2015	Nil
S Gardiner	44,700	21 May 2012	\$4.52	\$0.00	15 May 2015	25,060
R Robinson	49,800	21 May 2012	\$4.52	\$0.00	15 May 2015	21,265
<b>Former Executives</b>						
P Crute	46,900	21 May 2012	\$4.52	\$0.00	15 May 2015	33,938
Z Todorcevski	76,700	21 May 2012	\$4.52	\$0.00	15 May 2015	104,740

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

All Performance 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 Performance Rights granted in 2012 the earliest exercise date is 15 May 2015.

The deferred component of the 2011 STI was allocated as Restricted Shares under the Long Term Incentive Plan outlined above for certain key management personnel in 2012. The number of Restricted Shares granted or vested in advance of their vesting date during the reporting period is as follows:

**Table 14 – Details of Deferred STI granted as Restricted Shares**

	Number granted during 2012	Grant Date	Fair value (A\$)	Exercise price (A\$)	Vesting date
P Botten <sup>(1)</sup>	37,905	5 March 2012	\$6.97	\$0.00	1 January 2014

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**Table 14 (cont)**

	Number granted during 2012	Grant Date	Fair value (A\$)	Exercise price (A\$)	Vesting date
G Aopi <sup>(2)</sup>	9,454	5 March 2012	\$6.97	\$0.00	1 January 2014
P Caldwell	10,860	5 March 2012	\$6.97	\$0.00	1 January 2014
P Cholakos	10,222	5 March 2012	\$6.97	\$0.00	1 January 2014
S Gardiner	8,178	5 March 2012	\$6.97	\$0.00	1 January 2014
R Robinson	9,192	5 March 2012	\$6.97	\$0.00	1 January 2014
<b>Former Executives</b>					
P Crute	8,669	5 March 2012	\$6.97	\$0.00	1 January 2014
Z Todorcevski	14,033	5 March 2012	\$6.97	\$0.00	1 January 2014

(1) The allocation for P Botten was formally approved at the Annual Meeting on 8 May 2012

(2) The allocation for G Aopi was formally approved at the Annual Meeting on 8 May 2012

**Modification of Terms of Equity Settled Share based Payment Transactions**

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

**Exercise of Rights Granted as Remuneration**

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

**Table 15 – Details of the Exercise of Performance Rights**

Exercised in 2012	Number of shares	Amount paid per share
P Botten	338,600	\$0.00
G Aopi	70,072	\$0.00
P Caldwell	44,248	\$0.00
R Robinson	21,265	\$0.00

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**Table 15 (cont)**

<b>Exercised in 2012</b>	<b>Number of shares</b>	<b>Amount paid per share</b>
<b>Former Executives</b>		
P Bainbridge	96,090	\$0.00
P Crute	33,938	\$0.00
Z Todorcevski	104,740	\$0.00

<b>Exercised in 2011</b>	<b>Number of shares</b>	<b>Amount paid per share (A\$)</b>
P Botten	-	-
G Aopi	-	-
P Caldwell	61,100	\$0.00
P Cholakos	-	-
S Gardiner	29,753	\$0.00
R Robinson	32,400	\$0.00
<b>Former Executives</b>		
P Bainbridge	93,000	\$0.00
P Crute	65,900	\$0.00
Z Todorcevski	66,485	\$0.00

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

Details of vesting profiles of Performance Rights and Restricted Shares granted as remuneration to key management personnel are:

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**Table 16 – Details of Vesting Profile of Performance Rights and Restricted Shares**

	Type	Number	Date	% vested in the year	% forfeited in the year	Financial Year of vesting
P Botten	Performance Rights	258,900	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	132,381	3 March 2010	100%	0%	2012
	Performance Rights	273,400	1 June 2010			2013
	Restricted Shares	74,588	1 March 2011			2013
	Performance Rights	245,800	23 May 2011			2014
	Restricted Shares	37,905	5 March 2012			2014
	Performance Rights	248,700	22 May 2012			2015
G Aopi	Performance Rights	46,000	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	33,240	3 March 2010	100%	0%	2012
	Restricted Shares	100,000	27 April 2010			2014
	Performance Rights	54,200	1 June 2010			2013
	Restricted Shares	18,592	1 March 2011			2013
	Performance Rights	51,100	23 May 2011			2014
	Restricted Shares	9,454	5 March 2012			2014
	Performance Rights	53,600	22 May 2012			2015
P Caldwell	Performance Rights	61,800	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	41,344	3 March 2010	100%	0%	2012
	Performance Rights	65,300	1 June 2010			2013
	Restricted Shares	22,381	1 March 2011			2013
	Performance Rights	58,700	23 May 2011			2014
	Restricted Shares	10,860	5 March 2012			2014
	Performance Rights	59,300	22 May 2012			2015
P Cholakos	Restricted Shares	30,000	3 March 2010	100%	0%	2012
	Performance Rights	32,400	1 June 2010			2013
	Performance Rights	55,200	23 May 2011			2014
	Restricted Shares	10,222	5 March 2012			2014
	Performance Rights	55,900	22 May 2012			2015
J Fowles	Performance Rights	55,300	22 May 2012			2015
S Gardiner	Performance Rights	35,000	1 June 2009	71.6%	28.4%	2012
	Performance Rights	32,400	1 June 2010			2013
	Performance Rights	44,200	23 May 2011			2014
	Restricted Shares	8,178	5 March 2012			2014
	Performance Rights	44,700	22 May 2012			2015
R Robinson	Performance Rights	29,700	1 June 2009	71.6%	28.4%	2012
	Performance Rights	55,800	1 June 2010			2013
	Restricted Shares	19,123	1 March 2011			2013
	Performance Rights	49,700	23 May 2011			2014
	Restricted Shares	9,192	5 March 2012			2014
	Performance Rights	49,800	22 May 2012			2014
						2015

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**Table 16 (cont)**

	Type	Number	Date	% vested in the year	% forfeited in the year	Financial Year of vesting
P Bainbridge <sup>(1)</sup>	Performance Rights	66,800	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	48,283	3 March 2010	100%	0%	2012
	Performance Rights	70,700	1 June 2010	52.5%	47.5%	2012
	Restricted Shares	24,258	1 March 2011	100%	0%	2012
	Performance Rights	62,400	23 May 2011	17.9%	82.1%	2012
P Crute	Performance Rights	47,400	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	31,722	3 March 2010	100%	0%	2012
	Performance Rights	52,700	1 June 2010			2013
	Restricted Shares	18,061	1 March 2011			2013
	Performance Rights	46,800	23 May 2011			2014
	Restricted Shares	8,669	5 March 2012			2014
	Performance Rights	46,900	22 May 2012			2015
Z Todorcevski	Performance Rights	146,285	1 June 2009	71.6%	28.4%	2012
	Restricted Shares	30,439	3 March 2010	100%	0%	2012
	Performance Rights	84,400	1 June 2010	0%	100%	2013
	Restricted Shares	28,932	1 March 2011	0%	100%	2013
	Performance Rights	75,800	23 May 2011	0%	100%	2014
	Restricted Shares	14,033	5 March 2012	0%	100%	2014
	Performance Rights	76,700	22 May 2012	0%	100%	2015

(1) As part of his retirement the Board approved full vesting of all restricted shares for P Bainbridge.

**Analysis of Movements in Performance Rights and Restricted Shares**

The movement during the reporting period, by value of Performance Rights or Restricted Shares over ordinary shares in Oil Search held by each key management personnel, is detailed below:

**Table 17 – Movement by Value of Rights**

	Granted in the year (US\$) <sup>1</sup>	Value of Rights exercised in year <sup>2</sup>			Value of Rights lapsed in year (US\$) <sup>3</sup>		
		Number	Average Value (US\$)	Total Value (US\$)	Number	Average Value (US\$)	Total Value (US\$)
P Botten	1,447,979	470,981	7.00	3,294,559	73,528	4.46	328,053
G Aopi	321,678	103,312	6.73	694,885	13,064	4.46	58,286
P Caldwell	358,883	85,592	6.66	570,214	17,552	4.46	78,310
P Cholakos	338,191	91,100	7.01	638,549	-	-	-

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**Table 17 (cont)**

	Granted in the year (US\$) <sup>1</sup>	Value of Rights exercised in year <sup>2</sup>			Value of Rights lapsed in year (US\$) <sup>3</sup>		
		Number	Average Value (US\$)	Total Value (US\$)	Number	Average Value (US\$)	Total Value (US\$)
S Gardiner	270,462	-	-	-	9,940	4.46	44,348
R Robinson	301,926	21,265	6.71	142,646	8,435	4.46	37,634
J Fowles	258,929	-	-	-	-	-	-
<b>Former Executives</b>							
P Bainbridge <sup>4</sup>	-	144,373	6.96	1,005,375	103,810	4.27	442,812
P Crute	64,581	65,660	6.64	435,660	13,462	4.46	60,062
Z Todorcevski	462,249	135,179	6.81	920,513	321,410	4.77	1,531,753

- (1) The value of the rights is the fair value at the time of grant for Performance Rights and the share price on the date of grant for Restricted Shares.  
(2) The value for rights exercised is based on the market price of Oil Search shares on the close of trade on the date of exercise.  
(3) The value for rights lapsed is the fair value at the time of grant for Performance Rights and the value on the date of grant for Restricted Shares.  
(4) The rights vesting in 2012 include early vesting of Performance Rights and Restricted shares as approved by the Board.

**2013 Performance Payment Potential**

The table below provides the minimum and maximum performance payment potential for current key management personnel for the 2013 financial year. Incentive amounts are based on the TFR approved by the Board as part of the 2013 remuneration review process and the executive remuneration philosophy outlined above.

As detailed earlier in this report any STI award at the maximum level of 200% of opportunity would be unusual and awards since the commencement of the scheme have averaged 71.9% of opportunity for executives and the Managing Director. The maximum payment potential in table 18 is based on 200% of STI opportunity.

Figures have been converted to US\$ using the 2012 exchange rates.

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**Table 18 – 2013 Performance Payment Potential**

	Short Term Incentive		Short Term Incentive		Long Term Incentive	
	Paid as Cash <sup>(1)</sup>		Deferred as Shares <sup>(2)</sup>		Performance Rights <sup>(3)</sup>	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
P Botten	\$0	\$2,117,380	\$0	\$2,117,380	\$0	\$1,905,642
G Aopi	\$0	\$553,419	\$0	\$553,419	\$0	\$415,064
P Caldwell	\$0	\$606,499	\$0	\$606,499	\$0	\$454,874
P Cholakos	\$0	\$570,822	\$0	\$570,822	\$0	\$428,117
J Fowles	\$0	\$581,761	\$0	\$581,761	\$0	\$436,321
S Gardiner	\$0	\$554,207	\$0	\$554,207	\$0	\$415,655
M Herrett	\$0	\$478,586	\$0	\$478,586	\$0	\$358,939
R Robinson	\$0	\$484,801	\$0	\$484,801	\$0	\$363,601

(1) The STI Paid as Cash would be paid in 2014 based on performance for the 2013 year.

(2) The STI deferred as shares represents 50% of any STI payment deferred into Restricted Shares under the LTIP for all key management personnel. These shares would vest on 1 January 2016.

(3) The maximum value for LTI is based on the methodology detailed in the section on *Long Term Incentives (LTI) – Performance Rights*.

## 10. 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 19 below sets out the fee structure applied from 1 January 2011. The fees are based on data from independent advisors and were last increased in 2011.

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**Table 19 – Annual Board and Committee Fees Payable to Non-Executive Directors in Australian Dollars**

<b>POSITION</b>	<b>ANNUAL FEE FROM 1 JAN 2011</b>
Chairman of the Board <sup>(1)</sup>	A\$450,000
Non-Executive Directors other than the Chairman	A\$150,000
Chairman Audit Committee (additional fee)	A\$45,000
Chairman Finance and Risk Management Committee (additional fee)	A\$35,000
Chairman Remuneration and Nominations Committee (additional fee)	A\$35,000
Member Audit Committee (additional fee)	A\$23,000
Member Finance and Risk Management Committee (additional fee)	A\$20,000
Member Remuneration and Nominations Committee (additional fee)	A\$20,000

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

Each non-executive director also receives a travel allowance of A\$23,000 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 Board approved a one off payment to the Chairman of A\$26,000 in 2011 for his work in the capacity of Acting Chairman of the Remuneration and Nominations Committee from December 2009 until May 2011.

The total remuneration which was paid to each non-executive director in 2011 and 2012 is set out in Table 20.

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 2011 and 2012 are set out in Table 20 below.

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

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**Table 20 – Remuneration (US\$) of Directors of Oil Search Limited**

Directors	Year	Short Term			Post Emp'ment	Long Term	Equity		Other	Total
		Salaries fees and allowances	Non-Monetary benefits	Short Term Incentive	Company contribution to super	Long Service Leave accrual	Perform. Rights	Restricted Shares	Sign on / termination benefits	
<b>Executive Directors</b>										
P Botten	2012	2,143,166	12,414	1,077,023	16,701	123,605	1,112,343	416,639		4,901,891
	2011	2,102,632	8,573	254,024	15,980	178,728	1,180,905	637,140	-	4,377,982
G Aopi	2012	458,926	210,521	327,042	81,027	18,721	225,061	254,127		1,575,425
	2011	449,981	57,348	67,987	76,593	56,284	217,284	308,676	-	1,234,153
<b>Non-Executive Directors</b>										
BF Horwood	2012	489,981								489,981
	2011	514,868								514,868
KG Constantinou	2012	220,647								220,647
	2011	219,773								219,773
A Kanstler	2012	238,234								238,234
	2011	236,368								236,368
R Lee <sup>(1)</sup>	2012	159,170								159,170
	2011	-	-	-	-	-	-	-	-	-
B Philemon <sup>(2)</sup>	2012	34,658								34,658
	2011	-	-	-	-	-	-	-	-	-
KW Spence <sup>(1)</sup>	2012	144,457								144,457
	2011	-	-	-	-	-	-	-	-	-
ZE Switkowski	2012	236,185								<b>236,185</b>
	2011	229,638								229,638
<b>Former Non-Executive Directors</b>										
R Igara <sup>(3)</sup>	2012	96,509								96,509
	2011	222,869								222,869
M Kriewaldt <sup>(4)</sup>	2012	87,374								87,374
	2011	245,568								245,568
JL Stitt <sup>(5)</sup>	2012	161,894								161,894
	2011	222,869								222,869

- (1) Mr KW Spence and Mr RJ Lee have been independent non-executive directors since 9 May 2012  
(2) Mr B Philemon has been an independent non-executive director since 5 November 2012  
(3) Mr R Igara CMG was an independent non-executive director until 5 June 2012  
(4) Mr M Kriewaldt was an independent non-executive director until 8 May 2012  
(5) Mr JL Stitt was an independent non-executive director until 8 May 2012

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**Directors' Report 31 December 2012**

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**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. These services are outlined in note 28.

Deloitte Touche Tohmatsu's Independence Declaration, which forms part of this report, is attached on page 40.

**LIKELY FUTURE DEVELOPMENTS**

Oil and gas production from each of the PNG fields in which the Company holds an interest is expected to continue in 2013.

The 2013 work programme includes drilling and further development of the Gulf of Papua, drilling of Mananda 6 appraisal well and Taza and Semda drilling.

The construction phase for the PNG LNG Project will continue in 2013 with major work programmes planned for the LNG plant, field and pipeline development and supporting infrastructure.

Recent successful exploration and appraisal drilling within the oil fields is expected to largely offset natural field decline. Present forecasts indicate that production is likely to remain largely flat into 2013, assuming planned development activities are successful.

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.

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**Directors' Report 31 December 2012**

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**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*

.....  
**PR BOTTEN**  
**Managing Director**

Sydney, 25 February 2013

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

25 February 2013

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 2012, 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



Jason Thorne  
Partner  
Chartered Accountants

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**OIL SEARCH LIMITED**  
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**Statements of comprehensive income**  
for the year ended 31 December 2012

	Note	Consolidated		Parent	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>Revenue from operations</b>	2	<b>724,619</b>	732,869	-	-
Operating expenses		(153,670)	(101,902)	(4,823)	(350)
Amortisation - site restoration		(7,596)	(1,563)	-	-
Amortisation - oil and gas assets		(29,286)	(38,354)	-	-
Depreciation - operating assets		(7,241)	(7,232)	-	-
Royalties, development, and mining levies		(12,047)	(12,036)	-	-
<b>Costs of sales</b>		<b>(209,840)</b>	(161,087)	<b>(4,823)</b>	(350)
<b>Gross profit from operating activities</b>		<b>514,779</b>	571,782	<b>(4,823)</b>	(350)
Other expenses	3	(27,594)	(27,206)	(3,779)	(2,677)
<b>Profit/(loss) from operating activities</b>		<b>487,185</b>	544,576	<b>(8,602)</b>	(3,027)
Exploration, development and production costs expensed	13	(143,970)	(60,633)	(74,708)	(2,911)
Business development costs		(12,309)	(10,295)	(279)	(1,567)
Impairment expense	13	(23,793)	(33,227)	(23,793)	-
Profit on sale of other non-current assets	4	45,079	138	698	-
Interest income	5	5,287	6,953	3,523	5,056
Borrowing costs	5	(9,844)	(7,611)	(2,086)	(1,653)
<b>Profit/(loss) from continuing operations before income tax</b>		<b>347,635</b>	439,901	<b>(105,247)</b>	(4,102)
Income tax (expense)/benefit	6	(171,801)	(237,418)	25,584	(4,266)
<b>Net profit/(loss) after tax</b>		<b>175,834</b>	202,483	<b>(79,663)</b>	(8,368)
<b>Other comprehensive income</b>					
Foreign currency translation differences for foreign operations		(1,428)	(1,516)	-	-
<b>Total comprehensive income for the year</b>		<b>174,406</b>	200,967	<b>(79,663)</b>	(8,368)
		<b>US cents</b>	<b>US cents</b>		
Basic earnings per share	7	<b>13.22</b>	15.35		
Diluted earnings per share	7	<b>13.17</b>	15.27		

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

**OIL SEARCH LIMITED**  
and its subsidiaries

**Statements of financial position**  
as at 31 December 2012

	Note	Consolidated		Parent	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>Current assets</b>					
Cash and cash equivalents	23(a)	488,274	1,047,463	373,529	779,259
Receivables	9	173,233	102,253	751,473	423,464
Inventories	10	109,076	59,862	964	-
Other financial assets	11	48,398	-	-	-
Other assets	12	89,424	85,600	1,970	359
<b>Total current assets</b>		<b>908,405</b>	<b>1,295,178</b>	<b>1,127,936</b>	<b>1,203,082</b>
<b>Non-current assets</b>					
Receivables	9	4,271	3,966	-	-
Other non-current assets	12	8,919	329	-	-
Exploration and evaluation assets	13	401,597	337,611	14,884	30,069
Oil and gas assets	14	5,423,610	3,778,161	-	-
Other property, plant and equipment	15	71,906	67,977	-	-
Investments	16	29	29	326,507	326,507
Deferred tax assets	17	283,984	218,783	29,176	6,556
<b>Total non-current assets</b>		<b>6,194,316</b>	<b>4,406,856</b>	<b>370,567</b>	<b>363,132</b>
<b>Total assets</b>		<b>7,102,721</b>	<b>5,702,034</b>	<b>1,498,503</b>	<b>1,566,214</b>
<b>Current liabilities</b>					
Payables	18	392,217	415,946	3,394	9,520
Provisions	19	10,484	5,556	-	80
Current tax payable		75,329	106,908	2,057	791
<b>Total current liabilities</b>		<b>478,030</b>	<b>528,410</b>	<b>5,451</b>	<b>10,391</b>
<b>Non-current liabilities</b>					
Payables	18	4,951	4,899	-	-
Provisions	19	302,024	212,429	-	-
Loans and borrowings	20	2,866,050	1,747,567	-	-
Deferred tax liabilities	21	243,320	191,497	591	359
<b>Total non-current liabilities</b>		<b>3,416,345</b>	<b>2,156,392</b>	<b>591</b>	<b>359</b>
<b>Total liabilities</b>		<b>3,894,375</b>	<b>2,684,802</b>	<b>6,042</b>	<b>10,750</b>
<b>Net assets</b>		<b>3,208,346</b>	<b>3,017,232</b>	<b>1,492,461</b>	<b>1,555,464</b>
<b>Shareholders' equity</b>					
Share capital	22	1,753,192	1,683,492	1,753,192	1,683,492
Reserves	22	11,690	12,956	6,659	6,498
Retained earnings		1,443,464	1,320,784	(267,390)	(134,526)
<b>Total shareholders' equity</b>		<b>3,208,346</b>	<b>3,017,232</b>	<b>1,492,461</b>	<b>1,555,464</b>

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

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**Statements of cash flows**  
for the year ended 31 December 2012

	Note	Consolidated		Parent	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		672,948	724,392	-	-
Payments to suppliers and employees		(199,648)	(103,184)	(9,459)	(4,769)
Interest received		5,895	7,205	4,020	5,377
Borrowing costs paid		(4,638)	(2,927)	(2,086)	(1,653)
Income tax (paid)/refund		(213,949)	(178,494)	4,462	1,151
Payments for exploration and evaluation - seismic, G&A , G&G		(51,205)	(49,838)	(4,726)	-
Payments for site rehabilitation		(868)	(666)	-	-
Payments for business development		(12,309)	(10,295)	(279)	(1,567)
<b>Net cash from/(used in) operating activities</b>	23(b)	<b>196,226</b>	386,193	<b>(8,068)</b>	(1,461)
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment <sup>(1)</sup>		(10,402)	(7,121)	-	-
Payments for exploration and evaluation expenditure		(126,570)	(121,866)	(73,708)	(10,364)
Payments for development asset expenditure		(1,485,384)	(1,059,263)	-	-
Payments for producing asset expenditure		(114,815)	(128,540)	-	-
Net proceeds from sale of investments <sup>(2)</sup>		41,957	-	-	-
Acquisition of subsidiary		(10,000)	-	-	-
Loan to third party in respect of exploration and evaluation		(48,398)	-	-	-
<b>Net cash used in investing activities</b>		<b>(1,753,612)</b>	(1,316,790)	<b>(73,708)</b>	(10,364)
<b>Cash flows from financing activities</b>					
Proceeds from underwriter of dividend reinvestment plan (DRP)		31,746	36,786	31,746	36,786
Dividend payments (net of DRP) <sup>(3)</sup>	8	(31,688)	(36,723)	(31,746)	(36,786)
Cash received from option/right share issues		5,848	6,328	5,848	6,328
Costs relating to dividend reinvestment plan		(55)	(49)	(55)	(49)
Proceeds from borrowings		1,002,411	708,129	-	-
Establishment fee on credit facility <sup>(4)</sup>		(10,065)	-	-	-
Loans (to)/from related entity		-	-	(329,747)	(187,940)
<b>Net cash from financing activities</b>		<b>998,197</b>	714,471	<b>(323,954)</b>	(181,661)
Net decrease in cash and cash equivalents		(559,189)	(216,126)	(405,730)	(193,486)
Cash and cash equivalents at the beginning of the year		1,047,463	1,263,589	779,259	972,745
<b>Cash and cash equivalents at the end of the year</b>	23(a)	<b>488,274</b>	1,047,463	<b>373,529</b>	779,259

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

**OIL SEARCH LIMITED  
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**Statements of cash flows  
for the year ended 31 December 2012**

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<sup>(1)</sup> Net of reimbursed lease incentives relating to relocation of Sydney Corporate office.

<sup>(2)</sup> Net of tax payments related to sale.

<sup>(3)</sup> Total dividend payments including cash and dividend reinvestment was \$53.2 million (2011: \$52.7 million). Total dividend payments net of dividends reinvested under the dividend reinvestment plan were \$31.7 million (2011: \$36.8 million).

<sup>(4)</sup> On US\$500 million five year, non-amortising revolving credit facility signed on 29 October 2012.

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**Statements of changes in equity**  
for the year ended 31 December 2012

<b>Consolidated</b>	<b>Share capital</b>	<b>Foreign currency translation reserve</b>	<b>Reserve for treasury shares</b>	<b>Employee equity compensation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Balance at 1 January 2011</b>	<b>1,610,667</b>	<b>1,942</b>	<b>(6,378)</b>	<b>21,254</b>	<b>1,170,982</b>	<b>2,798,467</b>
Dividends provided for or paid	-	-	-	-	(52,663)	(52,663)
<b>Total comprehensive income for the year</b>						
Net profit after tax for the year	-	-	-	-	202,483	202,483
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(1,516)	-	-	-	(1,516)
Total comprehensive income for the year	-	(1,516)	-	-	202,483	200,967
<b>Transactions with owners, recorded directly in equity</b>						
Issue of shares through dividend reinvestment plan	52,726	-	-	-	-	52,726
Costs associated with share issues	(49)	-	-	-	-	(49)
Transfer of vested shares	13,070	-	-	(13,070)	-	-
Release of treasury shares on vesting	(1,039)	-	2,566	(1,527)	-	-
Issue of shares on exercise of options and rights	6,328	-	-	-	-	6,328
Employee share-based remuneration expense	-	-	-	12,057	-	12,057
Issue of treasury shares	1,789	-	(1,789)	-	-	-
Net exchange differences	-	-	-	(583)	-	(583)
Trust distribution	-	-	-	-	(18)	(18)
Total transactions with owners	72,825	-	777	(3,123)	(18)	70,461
<b>Balance at 31 December 2011</b>	<b>1,683,492</b>	<b>426</b>	<b>(5,601)</b>	<b>18,131</b>	<b>1,320,784</b>	<b>3,017,232</b>
<b>Balance at 1 January 2012</b>	<b>1,683,492</b>	<b>426</b>	<b>(5,601)</b>	<b>18,131</b>	<b>1,320,784</b>	<b>3,017,232</b>
Dividends provided for or paid	-	-	-	-	(53,143)	(53,143)
<b>Total comprehensive income for the year</b>						
Net profit after tax for the year	-	-	-	-	175,834	175,834
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	(1,428)	-	-	-	(1,428)
Total comprehensive income for the year	-	(1,428)	-	-	175,834	174,406
<b>Transactions with owners, recorded directly in equity</b>						
Issue of shares through dividend reinvestment plan	53,201	-	-	-	-	53,201
Costs associated with share issues	(55)	-	-	-	-	(55)
Transfer of vested shares	8,879	-	-	(8,879)	-	-
Release of treasury shares on vesting	-	-	1,844	(1,844)	-	-
Issue of shares on exercise of options and rights	5,848	-	-	-	-	5,848
Employee share-based remuneration expense	-	-	-	10,644	-	10,644
Issue of treasury shares	1,827	-	(1,827)	-	-	-
Net exchange differences	-	-	-	224	-	224
Trust distribution	-	-	-	-	(11)	(11)
Total transactions with owners	69,700	-	17	145	(11)	69,851
<b>Balance at 31 December 2012</b>	<b>1,753,192</b>	<b>(1,002)</b>	<b>(5,584)</b>	<b>18,276</b>	<b>1,443,464</b>	<b>3,208,346</b>

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

**OIL SEARCH LIMITED**  
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**Statements of changes in equity**  
for the year ended 31 December 2012

<b>Parent</b>	<b>Share capital</b>	<b>Foreign currency translation reserve</b>	<b>Amalgamation reserve</b>	<b>Reserve for treasury shares</b>	<b>Employee equity compensation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Balance at 1 January 2011</b>	<b>1,610,667</b>	<b>-</b>	<b>(2,990)</b>	<b>-</b>	<b>12,872</b>	<b>(73,432)</b>	<b>1,547,117</b>
Dividends provided for or paid	-	-	-	-	-	(52,663)	(52,663)
<b>Total comprehensive income for the year</b>							
Net loss after tax for the year	-	-	-	-	-	(8,368)	(8,368)
Total comprehensive income for the year	-	-	-	-	-	(8,368)	(8,368)
<b>Transactions with owners, recorded directly in equity</b>							
Issue of shares through dividend reinvestment plan	52,726	-	-	-	-	-	52,726
Costs associated with share issues	(49)	-	-	-	-	-	(49)
Transfer of vested shares	13,070	-	-	-	(13,070)	-	-
Release of treasury shares on vesting	(1,039)	-	-	-	-	-	(1,039)
Issue of shares on exercise of options and rights	6,328	-	-	-	-	-	6,328
Employee share-based remuneration	-	-	-	-	12,057	-	12,057
Issue of treasury shares	1,789	-	-	-	(1,789)	-	-
Net exchange differences	-	-	-	-	(582)	-	(582)
Dividends received on shares held in trust <sup>(1)</sup>	-	-	-	-	-	(63)	(63)
Total transactions with owners	72,825	-	-	-	(3,384)	(63)	69,378
<b>Balance at 31 December 2011</b>	<b>1,683,492</b>	<b>-</b>	<b>(2,990)</b>	<b>-</b>	<b>9,488</b>	<b>(134,526)</b>	<b>1,555,464</b>
<b>Balance at 1 January 2012</b>	<b>1,683,492</b>	<b>-</b>	<b>(2,990)</b>	<b>-</b>	<b>9,488</b>	<b>(134,526)</b>	<b>1,555,464</b>
Dividends provided for or paid	-	-	-	-	-	(53,143)	(53,143)
<b>Total comprehensive income for the year</b>							
Net loss after tax for the year	-	-	-	-	-	(79,663)	(79,663)
Total comprehensive income for the year	-	-	-	-	-	(79,663)	(79,663)
<b>Transactions with owners, recorded directly in equity</b>							
Issue of shares through dividend reinvestment plan	53,201	-	-	-	-	-	53,201
Costs associated with share issues	(55)	-	-	-	-	-	(55)
Transfer of vested shares	8,879	-	-	-	(8,879)	-	-
Release of treasury shares on vesting	-	-	-	-	-	-	-
Issue of shares on exercise of options and rights	5,848	-	-	-	-	-	5,848
Employee share-based remuneration	-	-	-	-	10,644	-	10,644
Issue of treasury shares	1,827	-	-	-	(1,827)	-	-
Settlement of equity based employee share payments	-	-	-	-	-	-	-
Net exchange differences	-	-	-	-	223	-	223
Dividends received on shares held in trust <sup>(1)</sup>	-	-	-	-	-	(58)	(58)
Total transactions with owners	69,700	-	-	-	161	(58)	69,803
<b>Balance at 31 December 2012</b>	<b>1,753,192</b>	<b>-</b>	<b>(2,990)</b>	<b>-</b>	<b>9,649</b>	<b>(267,390)</b>	<b>1,492,461</b>

(1) Dividends received on shares held in Retention Share Plan Trust are eliminated on a Group basis.

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

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies**

Oil Search Limited, the parent entity, is incorporated in Papua New Guinea (PNG). The consolidated financial report for the year ended 31 December 2012 comprises the parent and its controlled entities (consolidated entity).

The financial statements were authorised for issue by the directors on 26 February 2013.

**(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**

- Amended IFRS 7 "Financial Instruments: Disclosures";
- Amended IAS 12 "Income Taxes";
- Various Standards "Improvements to IFRS's 2010" - dealt with on a standard-by-standard basis;
- Various Standards "Improvements to IFRS's 2011" - dealt with on a standard-by-standard basis;

**(ii) Issued standards not early adopted**

At 31 December 2012, 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. Oil Search is still in the process of assessing the impact of these changed accounting requirements, although the expected impact of these changes should not materially alter Oil Search's financial result. The consolidated entity will adopt the following standards during the applicable mandatory annual reporting periods:

Standards applicable for annual reporting periods beginning on or after 1 July 2012

- Amended IAS 1 "Presentation of Items of Other Comprehensive Income".

Standards applicable for annual reporting periods beginning on or after 1 January 2013

- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements";
- IFRS 12 "Disclosures of Interests in Other Entities";
- IFRS 13 "Fair Value Measurement";
- IAS 19 "Employee Benefits";
- IAS 27 "Separate Financial Statements";
- IAS 28 "Investments in Associates and Joint Ventures";
- Amended IAS 32 "Financial Instruments: Presentation"; and

Standards applicable for annual reporting periods beginning on or after 1 January 2015

- IFRS 9 "Financial Instruments", (this standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement"); and
- IFRS 9 "Financial Instruments - Amendments to Other IFRSs", (to be adopted upon application of IFRS 9).

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(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.

**(i) Business combinations**

A business combination is a transaction in which an acquirer obtains control of one or more businesses. The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired.

The acquisition method is only applied to a business combination when control over the business is obtained. Subsequent changes in interests in a business where control already exists are accounted for as transactions between owners.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the statement of comprehensive income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the statement of comprehensive income.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. 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. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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.

**(iii) Joint arrangements**

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

The Group's investment in Papua New Guinea Liquefied Natural Gas Global Company LDC is treated as a joint venture established for financing purposes and is equity accounted (refer to note 20 for further details).

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(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, excluding 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 sales 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 either the estimated economic life of the project or a fixed term from the completion date. Where only part of a project is commissioned, interest capitalisation occurs on a pro-rata basis. All other borrowing costs are recognised in the statement of comprehensive income 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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
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**1 Summary of significant accounting policies (continued)**

**(g) Share-based remuneration**

The Group currently operates equity-settled, share-based compensation plans of share options, share appreciation rights, 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. 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 statement of comprehensive income, 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 the statement of comprehensive income 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The 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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(h) Income tax (continued)**

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 profit and loss 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.

**(i) Inventories**

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

- materials, which include drilling and maintenance stocks, are valued at the cost of acquisition; and
- petroleum products, comprising extracted crude oil and condensate 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 are initially capitalised. 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; or
- the expenditure is expected to be recouped by future exploitation or sale.

Where an ownership interest in an exploration and evaluation asset is exchanged for another, the transaction is recognised by reference to the carrying value of the original interest. Any cash consideration paid, including transaction costs, is accounted for as an acquisition of exploration and evaluation assets. Any cash consideration received, net of transaction costs, is treated as a recoupment of costs previously capitalised with any excess accounted for as a gain on disposal of non-current assets.

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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(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.

Commencing from 2010, past expenditure and accumulated amortisation relating to oil operations now included within the LNG Project will be transferred from producing assets to assets in development with amortisation suspended. Upon completion of the LNG Project, all LNG assets in development will be transferred to producing assets and amortised.

**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, previously capitalised 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 gas sales contract term 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, technologies, and industry practice. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the statement of comprehensive income through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

**(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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(l) Other property, plant and equipment (continued)**

**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. Expected future cash flows are the basis for impairment assessment, however, market values are also referenced where appropriate.

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

**Financial assets**

Financial assets, other than those at fair value through the statement of comprehensive income, 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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**Notes to the Financial Statements**  
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**1 Summary of significant accounting policies (continued)**

**(m) Impairment of assets (continued)**

**Financial assets (continued)**

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of comprehensive income in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**(n) Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety (eg: when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under the continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the statement of comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

**(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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**1 Summary of significant accounting policies (continued)**

**(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.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the effect of discounting is immaterial.

**Loans and borrowings**

Interest-bearing 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 statement of comprehensive income 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 statement of comprehensive income for the period.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
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**1 Summary of significant accounting policies (continued)**

**(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 review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Market values are also referenced where appropriate. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment are discussed in notes 13 to 15.

**Restoration obligations**

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs are made considering relevant legislation and industry practice and require management to make judgments regarding the removal date, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(k). The carrying amount of the provision for restoration is disclosed in note 19.

**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 material producing field every three years, as well as other assumptions, interpretations and assessments. These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries.

Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the 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(j). 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 profit and loss statement.

**(r) Rounding**

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

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**Notes to the Financial Statements**  
for the year ended 31 December 2012

	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>2 Revenue from operations</b>				
Oil sales (gross)	593,241	654,266	-	-
Gas and refined product sales	95,629	49,017	-	-
Other field revenue	35,749	29,586	-	-
<b>Total revenue</b>	<b>724,619</b>	<b>732,869</b>	<b>-</b>	<b>-</b>
<b>3 Other expenses</b>				
Salaries and short-term employee benefits	(55,601)	(49,307)	-	-
Post-employment benefits	(2,624)	(2,366)	-	-
Employee share-based remuneration	(10,644)	(12,057)	-	-
Premises - operating leases	(7,863)	(4,749)	-	-
Donations	(4,953)	(3,700)	-	-
Other expenses	(29,452)	(24,220)	(4,556)	(4,419)
Corporate cost recoveries	90,322	74,524	-	-
Net corporate expenses	(20,815)	(21,875)	(4,556)	(4,419)
Depreciation	(5,334)	(4,158)	-	-
Foreign currency (losses)/gains	(1,445)	(1,173)	777	1,742
<b>Total other expenses</b>	<b>(27,594)</b>	<b>(27,206)</b>	<b>(3,779)</b>	<b>(2,677)</b>
<b>4 Profit on sale of other non-current assets</b>				
Proceeds on sale of non-current assets in MENA	44,000	-	-	-
Assets and liabilities disposed	(11,636)	-	-	-
Profit on sale before income tax	32,364	-	-	-
Applicable income tax expense	(3,090)	-	-	-
Profit on sale after income tax expense <sup>(1)</sup>	29,274	-	-	-
Proceeds on sale of non-current assets in PNG	27,607	-	-	-
Assets and liabilities disposed	(10,598)	-	-	-
Reduction to current year exploration & evaluation expense	(4,294)	-	-	-
Profit on sale before income tax	12,715	-	-	-
Applicable income tax expense	-	-	-	-
Profit on sale after income tax expense <sup>(2)</sup>	12,715	-	-	-
<b>Profit on sale of other non-current assets</b>	<b>-</b>	<b>138</b>	<b>698</b>	<b>-</b>

(1) In December 2012 Oil Search sold its 40% interest in Block 3 (Gardan) in Yemen to TOTAL S.A. of France.

(2) Oil Search has entered into agreements to farm down Gulf of Papua licences (offshore PPLs 234 and 244 and PRL10, and onshore PPLs 338 and 339) to TOTAL S.A of France, and PPL260 to ExxonMobil.

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**Notes to the Financial Statements**  
for the year ended 31 December 2012

	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>5 Net financing costs</b>				
Interest received or receivable from others	5,287	6,953	3,523	5,056
Interest paid or payable to subsidiaries	-	-	(2,086)	(1,653)
Finance costs	(4,464)	(3,368)	-	-
Unwinding of discount on site restoration	(5,380)	(4,243)	-	-
Total borrowing costs expensed	(9,844)	(7,611)	(2,086)	(1,653)
<b>Net finance (costs)/income</b>	<b>(4,557)</b>	<b>(658)</b>	<b>1,437</b>	<b>3,403</b>
<b>6 Income tax</b>				
The major components of tax expenses are:				
Current tax expense	194,607	219,713	-	-
Adjustments for current tax of prior periods	(2,167)	(3,971)	(66)	3,869
Deferred tax expense/(income)	(20,639)	21,676	(25,518)	397
<b>Income tax expense/(benefit)</b>	<b>171,801</b>	<b>237,418</b>	<b>(25,584)</b>	<b>4,266</b>
<b>Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:</b>				
Pre-tax profit/(loss)	347,635	439,901	(105,247)	(4,102)
Tax at PNG rate for petroleum (50%)	173,818	219,951	(52,624)	(2,051)
Restatement of deferred tax for gas and non-oil (30%)	(10,377)	(132)	-	-
Effect of differing tax rates across tax regimes	6,780	(3,530)	21,050	2,445
	<b>170,221</b>	<b>216,289</b>	<b>(31,574)</b>	<b>394</b>
<b>Tax effect of items not tax deductible or assessable:</b>				
(Over)/under provisions in prior periods	1,041	(3,971)	1,672	3,869
Non-deductible expenditure	22,794	25,100	4,527	3
Profit on disposal of assets	(22,255)	-	(209)	-
<b>Income tax expense/(benefit)</b>	<b>171,801</b>	<b>237,418</b>	<b>(25,584)</b>	<b>4,266</b>

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	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>6 Income tax (continued)</b>				
<b>The amount of the deferred tax (income)/expense recognised in the net profit in respect of each type of temporary difference:</b>				
Exploration and development	(8,155)	41,108	(31,009)	(974)
Other assets	1,056	504	-	(3)
Provisions	(27,827)	(25,201)	(331)	(28)
Other items	2,094	(981)	(487)	1,625
Tax losses	12,193	6,246	6,309	(223)
<b>Deferred tax (income)/expense</b>	<b>(20,639)</b>	21,676	<b>(25,518)</b>	397

	Consolidated	
	2012	2011
	US cents	US cents
<b>7 Earnings per share</b>		
Basic earnings per share	13.22	15.35
Diluted earnings per share	13.17	15.27

	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	1,330,266,657	1,319,327,747
Employee share options/SAR's	233,780	659,314
Employee performance rights	5,086,286	5,800,560
Diluted earnings per share	1,335,586,723	1,325,787,621

Basic earnings and diluted earnings per share have been calculated on a net profit after tax of US\$175.834 million (2011: US\$202.483 million).

There are 1,491,810 options/SAR's (2011: 3,109,252), and 5,344,915 rights (2011: 5,735,932) 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.

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and rights was based on quoted market prices for the period 1 January 2012 to 31 December 2012.

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>8 Dividends paid or proposed</b>				
Unfranked <sup>(1)</sup> dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends <sup>(2)</sup>	26,695	26,503	26,695	26,503
Unfranked <sup>(1)</sup> dividends paid during the year:				
Ordinary – previous year final	26,511	26,253	26,511	26,253
Ordinary – current year interim <sup>(3)</sup>	26,632	26,410	26,632	26,410
	<b>53,143</b>	<b>52,663</b>	<b>53,143</b>	<b>52,663</b>

- (1) As Oil Search Limited is a Papua New Guinea incorporated company, there are no franking credits available on dividends.
- (2) On 25 February 2013, the Directors declared a final unfranked dividend in respect of the current year, of US 2 cents per ordinary share (2011: US 2 cents final dividend), to be paid to the holders of ordinary shares on 9 April 2013. The proposed final dividend for 2012 is payable to all holders of ordinary shares on the Register of Members on 14 March 2013 (record date). The estimated dividends to be paid are US\$26,695,135 and have not been included as a liability in these financial statements.
- (3) On 20 August 2012, the Directors declared an interim unfranked dividend in respect of the current half-year, of US 2 cents per ordinary share (2011: US 2 cents interim dividend), paid to the holders of ordinary shares on 13 September 2012.

A Dividend Reinvestment Plan is currently in operation. It provides shareholders with the option of reinvesting all or part of their dividends in additional Oil Search shares. It is intended that the reinvestment shortfall on the 2012 final dividend will be fully underwritten.

<b>9 Receivables</b>				
<b>Current</b>				
Trade debtors <sup>(1)</sup>	103,292	49,336	-	-
Other debtors <sup>(1)</sup>	69,941	52,917	5,653	6,683
Amounts due from subsidiary entities	-	-	745,820	416,781
	<b>173,233</b>	<b>102,253</b>	<b>751,473</b>	<b>423,464</b>
<b>Non-current</b>				
Amounts due by:				
other entities	4,271	3,966	-	-
	<b>4,271</b>	<b>3,966</b>	<b>-</b>	<b>-</b>

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



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	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>14 Oil and gas assets (non-current)</b>				
<b>Assets in development</b>				
At cost	5,103,463	3,467,975	-	-
Accumulated amortisation	-	-	-	-
	<b>5,103,463</b>	<b>3,467,975</b>	-	-
Balance at start of year	3,467,975	2,063,629	-	-
Transferred from producing assets	74,501	98,509	-	-
Additions	1,375,820	1,176,824	-	-
Borrowing costs capitalised (LNG project)	116,709	109,718	-	-
Changes in restoration obligations	68,458	19,295	-	-
Balance at end of year	<b>5,103,463</b>	<b>3,467,975</b>	-	-
<b>Producing assets</b>				
At cost	1,515,818	1,468,712	-	-
Accumulated amortisation and impairment	<b>(1,195,671)</b>	<b>(1,158,526)</b>	-	-
	<b>320,147</b>	<b>310,186</b>	-	-
Balance at start of year	310,186	247,565	-	2
Transferred to development	<b>(74,501)</b>	<b>(98,509)</b>	-	-
Additions	111,498	129,396	-	-
Disposals	-	-	-	(2)
Changes in restoration obligations	10,109	71,183	-	-
Amortisation of site restoration	<b>(7,713)</b>	<b>(1,284)</b>	-	-
Amortisation	<b>(29,432)</b>	<b>(38,165)</b>	-	-
Balance at end of year	<b>320,147</b>	<b>310,186</b>	-	-
<b>Total oil and gas assets</b>	<b>5,423,610</b>	<b>3,778,161</b>	-	-

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>15 Other property, plant and equipment (non-current)</b>				
At cost	179,076	162,572	-	-
Accumulated depreciation and impairment	(107,170)	(94,595)	-	-
	<b>71,906</b>	<b>67,977</b>	-	-
<b>Rigs</b>				
Balance at start of year	56,341	63,426	-	-
Reclassification to other plant and equipment	-	(5)	-	-
Additions	98	152	-	-
Depreciation	(7,241)	(7,232)	-	-
Balance at end of year	<b>49,198</b>	<b>56,341</b>	-	-
<b>Other property, plant and equipment</b>				
Balance at start of year	11,636	8,682	-	11
Reclassification from rigs	-	5	-	-
Additions	16,430	7,024	-	-
Disposals	-	-	-	(11)
Depreciation	(5,334)	(4,158)	-	-
Net exchange differences	(24)	83	-	-
Balance at end of year	<b>22,708</b>	<b>11,636</b>	-	-
<b>16 Non-current investments</b>				
Shares not quoted on securities exchange <sup>(1)</sup>	962	962	-	-
Accumulated impairment losses	(962)	(962)	-	-
	-	-	-	-
Shares in subsidiaries (at cost)	-	-	326,507	326,507
Accumulated impairment losses	-	-	-	-
	-	-	<b>326,507</b>	<b>326,507</b>
Investment in joint venture <sup>(2)</sup>	29	29	-	-
	<b>29</b>	<b>29</b>	<b>326,507</b>	<b>326,507</b>

(1) Shares in Misima Mines Limited: 3,772,843 (2011: 3,772,843) ordinary shares at acquisition cost.

(2) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas ("the Borrower") was organised to conduct certain activities of the LNG Project outside of PNG, including the borrowing and on-lending to the Project participants of senior debt, and the purchase and re-sale of LNG Project liquids and LNG. The Borrower is owned by each participant in a percentage equal to its Project interest (the Oil Search Limited Group interest at 31 December 2012 is 29.0% (refer to note 20 for further details).

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**Notes to the Financial Statements**  
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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>17 Deferred tax assets</b>				
Temporary differences				
Exploration and development	178,599	132,227	27,642	4,128
Other assets	1,473	1,236	643	74
Provisions	99,759	71,389	-	24
Tax losses recognised	4,153	13,931	891	2,330
	<b>283,984</b>	218,783	<b>29,176</b>	6,556
<b>18 Payables</b>				
<b>Current</b>				
Trade creditors and accruals	392,217	415,946	3,394	9,348
Other payables	-	-	-	172
	<b>392,217</b>	415,946	<b>3,394</b>	9,520
<b>Non-current</b>				
Other payables	4,951	4,899	-	-
	<b>4,951</b>	4,899	-	-
<b>19 Provisions</b>				
<b>Current</b>				
Employee entitlements	6,052	5,476	-	-
Directors retirement allowances	-	80	-	80
Site restoration	2,432	-	-	-
Contingent consideration	2,000	-	-	-
	<b>10,484</b>	5,556	-	80
<b>Non-current</b>				
Employee entitlements	9,262	11,353	-	-
Site restoration	281,897	200,326	-	-
Leases	10,865	-	-	-
Other	-	750	-	-
	<b>302,024</b>	212,429	-	-
<b>Movement in directors' retirement allowances</b>				
Balance at start of year	80	80	80	80
Use of provision	(80)	-	(80)	-
Balance at end of year	-	80	-	80

Directors' retirement allowances were cash settled in 2012.

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>19 Provisions (continued)</b>				
<b>Movement in site restoration provision</b>				
Balance at start of year	200,326	101,318	-	-
Revision of provision	79,491	95,431	-	-
Use of provision	(868)	(666)	-	-
Unwinding of discount	5,380	4,243	-	-
Balance at end of year	284,329	200,326	-	-

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.

**Movement in contingent consideration**

Balance at start of year	-	-	-	-
Revision of provision	2,000	-	-	-
Use of provision	-	-	-	-
Balance at end of year	2,000	-	-	-

The Group has included US\$2.0 million as contingent consideration in relation to the acquisition of ML Energy Investment Fund Upstream (PNG) Pty Ltd. Refer to note 33 for details.

**Movement in lease provision**

Balance at start of year	-	-	-	-
Revision of provision	10,865	-	-	-
Balance at end of year	10,865	-	-	-

This deferred liability is related to the Bligh Street Sydney office lease, and will be amortised over 12 years.

**Movement in other provisions**

Balance at start of year	750	750	-	-
Reclassification of provision	(750)	-	-	-
Balance at end of year	-	750	-	-

This provision has been reclassified to current payables and will be paid to third parties on commencement of commercial production from the Ramu Nickel Project which is anticipated to reach full production capacity in 2013.

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	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>20 Loans and borrowings</b>				
<b>Non-current</b>				
Secured loan from joint venture <sup>(1)</sup>	<b>2,866,050</b>	1,747,567	-	-

(1) Papua New Guinea Liquefied Natural Gas Global Company LDC, a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") was organised to conduct certain activities of the LNG Project outside of PNG, including the borrowing and on-lending to the Project participants of senior debt, and the purchase and re-sale of LNG Project liquids and LNG. The Borrower is owned by each participant in a percentage equal to its project interest (the Oil Search Limited Group interest at 31 December 2012 is 29.0%).

The terms of the borrowings are reflected in the on-loan agreements between the Borrower and the Oil Search participants in the LNG Project, being Oil Search (Tumbudu) Limited and Oil Search (LNG) Limited (the "OSL Participants").

After its initial limited term of 30 years, shareholders may pass a resolution to alter the constitution to provide for duration in excess of 30 years.

**Terms and debt repayment schedule**

The PNG LNG Project ("LNG Project") achieved financial investment decision on 8 December 2009 and financial close on 12 March 2010. The maximum committed debt facility available to the LNG Project at the date of signing was US\$14 billion under nine loan facility agreements.

As at 31 December 2012, the weighted average rate of the drawn loans was 3.25% (2011: 3.28%), consisting of both fixed or floating rate portions. The source of funding was from:

- Export Credit Agencies (ECA)
- ExxonMobil Finance Company Limited
- Australian and international commercial banks.

The loan facility is made up of the following:

- Direct loan facilities - direct loans from each respective ECA.
- Covered loan facilities - facilities comprising loans from several commercial bank lenders that benefit from a guarantee by the relevant ECA.
- Uncovered bank loan facility - a syndicated loan facility comprising several commercial bank lenders which is not guaranteed by or affiliated with any ECA.
- Funding from ExxonMobil Finance Company Limited extended pro rata across all other borrowings and assuming the same pricing as other lenders.

Each ECA facility is either tied (to the source of the purchase of goods and services by the LNG Project) or untied (not tied to any particular developments or procurement of goods).

Each participant to the LNG Project severally provides participant equity funding pro rata with each disbursement of ECA/bank loans so that participant equity funding is provided for at least 30% of LNG Project capital costs at such time.

At financial close, Oil Search established an escrow account, secured to the lenders, wherein 60% of future base equity commitments were deposited. Oil Search will maintain the escrow account balance at 60% of future equity costs, or 6 months' interest, whichever is greater, until the completion date is reached.

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**20 Loans and borrowings (continued)**

**Terms and debt repayment schedule (continued)**

Drawdowns under the ECA/bank loans may be made once a month and will end on the completion date of the LNG Project or June 2016, whichever is earlier. Interest and finance fees are capitalised during this period.

Interest and principal on the ECA/bank loans are payable on specified semi-annual dates, and commenced, in the case of interest, on the first payment date falling at least six months after financial close, and in the case of principal, will commence on the earlier of six months after the completion date or June, 2016.

Post completion, principal is repayable over 11.5 years based on a customised repayment profile.

Following completion, the LNG sales proceeds are received into a sales escrow account from which a portion of agreed expenditure obligations are firstly made, and subject to meeting certain debt service cover ratio tests, are distributed to the project participants.

The Borrower grants to the security trustee:

- a first-ranking security interest in all of the Borrower's assets (Oil Search's share US\$2,449.8 million at 31 December 2012 (2011: \$1,447.4 million)), with a few limited exceptions;
- a fixed and floating charge in existing and future funds in the offshore accounts;
- a deed of charge (and assignment) in the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as "Borrower Material Agreements"; and
- a mortgage of contractual rights over Borrower Material Agreements.

The loan facility is subject to various covenants and a negative pledge restricting future secured borrowings, subject to a number of permitted lien exceptions. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.

Oil Search Limited, as completion guarantor, has guaranteed payment by the Borrower of the OSL Participants' share (29.0%) of the senior debt obligations up until practical completion is achieved. Oil Search Limited, as completion guarantor, is subject to certain covenants and undertakings. Neither the covenants nor the undertakings have been breached at any time during the reporting period or have unduly restricted Oil Search's planned activities.

Oil Search has also granted security over:

- the shares in each of its project participants; and
- the participants' project interests and gas field licences.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>21 Deferred tax liabilities</b>				
Temporary differences				
Exploration and development	<b>229,937</b>	181,480	-	-
Prepayments and receivables	<b>1,485</b>	794	<b>591</b>	359
Other assets	<b>11,898</b>	9,223	-	-
	<b>243,320</b>	191,497	<b>591</b>	359

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>22 Share capital and reserves</b>				
Issued 1,334,756,742 (2011: 1,325,155,171)				
Ordinary shares, fully paid (no par value)	<b>1,753,192</b>	1,683,492	<b>1,753,192</b>	1,683,492
	2012	2011	2012	2011
<b>Movements in issued and fully paid shares</b>	Shares	Shares	US\$'000	US\$'000
Balance at the beginning of the period	<b>1,325,155,171</b>	1,312,888,303	<b>1,683,492</b>	1,610,667
Transfer of vested shares from employee equity compensation reserve	-	-	<b>8,878</b>	13,070
Release of treasury shares on vesting	-	-	-	(1,039)
Ordinary shares issued on exercise of options and rights, and grant of restricted shares	<b>2,510,333</b>	3,975,651	<b>7,676</b>	8,117
DRP underwriting agreement <sup>(1)</sup>				
Ordinary shares issued at US\$6.98 (2010 final dividend)	-	2,715,366	-	18,965
Ordinary shares issued at US\$5.91 (2011 interim dividend)	-	3,017,882	-	17,821
Ordinary shares issued at US\$7.26 (2011 final dividend)	<b>2,017,775</b>	-	<b>14,643</b>	-
Ordinary shares issued at US\$7.90 (2012 interim dividend)	<b>2,157,896</b>	-	<b>17,045</b>	-
DRP <sup>(2)</sup>				
Ordinary shares issued at US\$6.85 (2010 final dividend)	-	1,069,058	-	7,319
Ordinary shares issued at US\$5.79 (2011 interim dividend)	-	1,488,911	-	8,621
Ordinary shares issued at US\$7.11 (2011 final dividend)	<b>1,672,768</b>	-	<b>11,894</b>	-
Ordinary shares issued at US\$7.74 (2012 interim dividend)	<b>1,242,799</b>	-	<b>9,619</b>	-
Share issue costs	-	-	<b>(55)</b>	(49)
	<b>1,334,756,742</b>	1,325,155,171	<b>1,753,192</b>	1,683,492

(1) A fully underwritten DRP has been utilised for all dividends paid during the period covered by the Financial Statements.

(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 ten trading days following the Record Date for the dividend, less a discount of 2.00%.

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**Notes to the Financial Statements**  
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**22 Share capital and reserves (continued)**

**Employee Share Option Plan, Share Appreciation Rights Plan, Performance Rights Plan, and Restricted Share Plan**

At balance date, there were 469,930 options (2011: 1,659,552), 4,291,120 share appreciation rights (2011: 2,918,020), 5,344,915 performance rights (2011: 5,735,932), and 1,295,197 restricted shares (2011: 1,657,365) 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 26 for further details).

During the year, a total of 1,134,130 share options (2011: 1,264,452) and 1,426,764 performance rights (2011: 1,750,411) were exercised and 64,362 share options (2011: 108,300), 371,100 share appreciation rights (2011: 123,340) and 864,153 performance rights (2011: 394,148) were forfeited. Restricted shares totalling 371,667 were exercised (2011: 619,693) and 99,014 (2011: 103,318) restricted shares were forfeited during the year.

During the year 1,744,200 share appreciation rights (2011: 1,498,560) were granted under the Employee Share Appreciation Rights Plan. There were 1,899,900 performance rights (2011: 1,696,500) granted under the Performance Rights Plan, and 108,513 restricted shares (2011: 443,289) granted under the Restricted Share Plan during the year.

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	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>22 Share capital and reserves (continued)</b>				
<b>a) Reserves at the end of the financial year</b>				
Foreign currency translation reserve	(1,002)	426	-	-
Amalgamation reserve	-	-	(2,990)	(2,990)
Reserve for treasury shares	(5,584)	(5,601)	-	-
Employee equity compensation reserve	18,276	18,131	9,649	9,488
Balance at end of year	<b>11,690</b>	<b>12,956</b>	<b>6,659</b>	<b>6,498</b>
<b>b) Movements in reserves</b>				
<b>Foreign currency translation reserve</b>				
Balance at start of year	426	1,942	-	-
Translation of financial statements of foreign subsidiaries	(1,428)	(1,516)	-	-
Balance at end of year	<b>(1,002)</b>	<b>426</b>	<b>-</b>	<b>-</b>
The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.				
<b>Amalgamation reserve</b>				
Balance at start of year	-	-	(2,990)	(2,990)
Balance at end of year	-	-	<b>(2,990)</b>	<b>(2,990)</b>
The amalgamation reserve was used to record the retained earnings of entities amalgamated into the parent entity in 2006.				
<b>Reserve for treasury shares</b>				
Balance at start of year	(5,601)	(6,378)	-	-
Issue of shares during financial year	(1,827)	(1,789)	-	-
Release of treasury shares on vesting	1,844	2,566	-	-
Balance at end of year	<b>(5,584)</b>	<b>(5,601)</b>	<b>-</b>	<b>-</b>
The reserve for treasury shares is used to record the cost of purchasing Oil Search Limited shares by the Restricted Share Plan Trust.				

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>22 Share capital and reserves (continued)</b>				
<b>Employee equity compensation reserve</b>				
Balance at start of year	18,131	21,254	9,488	12,872
Expense recognised in subsidiaries				
during financial year	10,644	12,057	10,644	12,057
Transfer of vested shares to share capital	(8,879)	(13,070)	(8,879)	(13,070)
Issue of treasury shares	-	-	(1,827)	(1,789)
Release of treasury shares on vesting	(1,844)	(1,527)	-	-
Net exchange differences	224	(583)	223	(582)
Balance at end of year	<b>18,276</b>	<b>18,131</b>	<b>9,649</b>	<b>9,488</b>

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

**23 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, and deposits at call**

Cash at bank and on hand <sup>(1)</sup>	213,388	164,439	136,748	84,866
Share of cash in joint ventures	8,094	9,789	101	13
Interest-bearing short-term deposits <sup>(2) (3) (4)</sup>	266,792	873,235	236,680	694,380
	<b>488,274</b>	<b>1,047,463</b>	<b>373,529</b>	<b>779,259</b>

(1) Includes US\$42.4 million (2011: \$39.1 million) held in escrow to meet future LNG Project base equity commitments (refer to note 20 for further details).

(2) In 2012, includes US\$10.1 million in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US\$500 million revolving facility agreement. In 2011, included US\$22.5 million in a debt service reserve account held with Australia & New Zealand Banking Group Limited, as required by the US\$435 million revolving facility agreement.

(3) Includes US\$1.7 million (2011: US\$7.2 million) held as security for letters of credit on issue.

(4) Includes US\$235.0 million (2011: \$475.0 million) held in escrow to meet future LNG Project base equity commitments (refer to note 20 for further details).

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	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>23 Statement of cash flows (continued)</b>				
<b>(b) Reconciliation of cash flows from operating activities</b>				
Net profit/(loss) after tax	175,834	202,483	(79,663)	(8,368)
Add/(deduct):				
Exploration costs expensed <sup>(1)</sup>	92,765	10,795	69,982	2,911
Impairment expense	23,793	33,227	23,793	-
Profit on sale of non-current assets	(45,079)	(138)	(698)	-
Amortisation - site restoration	7,596	1,563	-	-
Unwinding of site restoration discount	5,380	4,243	-	-
Amortisation - oil and gas assets	29,286	38,354	-	-
Cost of share options	10,644	12,057	-	-
Depreciation	12,575	11,390	-	-
Exchange (gains)/ losses - unrealised	(1,204)	(2,099)	(777)	(1,742)
Movement in tax provisions	(44,957)	58,924	(21,122)	5,417
Net (decrease)/increase in provisions	(2,463)	1,363	(80)	-
Decrease/(increase) in inventories	(5,708)	49	(964)	-
Decrease/(increase) in other current assets	(1,095)	230	(3,178)	(408)
(Decrease)/increase in payables	(3,061)	20,151	8,205	408
Decrease/(increase) in receivables	(58,080)	(6,399)	(3,566)	321
	<b>20,392</b>	<b>183,710</b>	<b>71,595</b>	<b>6,907</b>
<b>Net cash from operating activities</b>	<b>196,226</b>	<b>386,193</b>	<b>(8,068)</b>	<b>(1,461)</b>

<sup>(1)</sup> Exploration costs expensed totalled \$144.0 million (2011: \$60.6 million). \$92.8 million (2011: \$10.8 million) represents the write off of costs for unsuccessful wells which are not included in operating cash flows.

**(c) Non-cash transactions**

	Consolidated	
	2012	2011
	US\$'000	US\$'000
Borrowing costs capitalised into developing assets	<b>(116,709)</b>	<b>(109,718)</b>

During the year, the Oil Search Group continued to draw down on the loan financed via the Papua New Guinea Liquefied Natural Gas Global Company LDC (the "Borrower"). This entity was created to conduct certain activities of the LNG Project outside of PNG including the borrowing and on-lending to the participants of senior debt, and the purchase and re-sale of LNG Project liquids and LNG.

The movement in capitalised interest is not a cash movement by the Oil Search Group. This cost, in accordance with the loan agreements is accrued into the loan balance prior to the completion of the construction phase of the PNG LNG Project.

This movement is therefore not included in the net cash flow used in investing activities in the Oil Search consolidated cash flow statement.

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	Note	Consolidated		Parent	
		2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>24 Interests in jointly controlled operations</b>					
<b>(a) Net assets employed in joint ventures</b>					
<b>Current assets</b>					
Cash	23(a)	<b>8,094</b>	9,789	<b>101</b>	13
Receivables		<b>96,692</b>	88,870	<b>2,084</b>	185
Inventories		<b>95,461</b>	50,764	-	-
<b>Non-current assets</b>					
Exploration and evaluation assets		<b>401,597</b>	337,611	-	30,069
Oil and gas assets		<b>5,423,610</b>	3,778,161	-	-
<b>Current liabilities</b>					
		<b>323,705</b>	(338,134)	<b>2,623</b>	(1,136)
		<b>6,349,159</b>	3,927,061	<b>4,808</b>	29,131

**(b) Share of contingent liabilities and expenditure commitments of jointly controlled operations**

	Consolidated	
	2012 US\$'000	2011 US\$'000
Contingent liabilities	-	-
Capital expenditure commitments	<b>1,653,245</b>	2,073,493
Other expenditure commitments	<b>291,711</b>	309,314

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**(c) 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 commitments for expenditure in respect of these jointly controlled operations are disclosed in notes 30 and 31, respectively.

(i) Production licences	Country	% Interest		
		2012	2011	
PDL 1 <sup>(1)(4)</sup>	Hides gas to electricity project	PNG	100.00	100.00
PDL 2 <sup>(2, 3)</sup>	Kutubu & Moran oil fields	PNG	60.05	60.05
PDL 2 <sup>(2, 3)</sup>	South East Mananda oil fields	PNG	72.27	72.27
PDL 3	South East Gobe oil field	PNG	36.36	36.36
PDL 4 <sup>(2)</sup>	Gobe Main and South East Gobe oil fields	PNG	10.00	10.00
PDL 5 <sup>(3)</sup>	Moran oil field	PNG	40.69	40.69
PDL 6 <sup>(2, 3)</sup>	Moran oil field	PNG	71.07	71.07
PL 1 <sup>(2)(4)</sup>	Hides gas pipeline	PNG	100.00	100.00
PL 2 <sup>(2)</sup>	Kutubu oil pipeline	PNG	60.05	60.05
PL 3 <sup>(2)</sup>	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.

(4) Licence 100% owned by the Oil Search Group. Disclosed for information purposes.

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24 Interests in jointly controlled operations (continued)		% Interest	
(ii) Exploration licences	Country	2012	2011
PPL 219 <sup>(1)</sup>	PNG	71.25	71.25
PPL 233	PNG	52.50	52.50
PPL 234 <sup>(1)(2)</sup>	PNG	80.00	80.00
PPL 239	PNG	-	20.00
PPL 240 <sup>(1)(3)</sup>	PNG	100.00	100.00
PPL 244 <sup>(1)(2)</sup>	PNG	40.00	80.00
PPL 260 <sup>(1)(2)</sup>	PNG	40.00	50.00
PPL 276	PNG	30.00	30.00
PPL 277 <sup>(2)</sup>	PNG	50.00	-
PPL 312 <sup>(1)</sup>	PNG	30.00	30.00
PPL 338 <sup>(2)</sup>	PNG	30.00	30.00
PPL 339 <sup>(2)</sup>	PNG	30.00	30.00
PPL 385 <sup>(3)</sup>	PNG	100.00	-
Taza (K42) <sup>(1)</sup>	Iraq	60.00 <sup>(4)</sup>	60.00 <sup>(4)</sup>
Shakal	Iraq	-	15.00
Le Kef	Tunisia	-	50.00
Tajerouine <sup>(1)</sup>	Tunisia	50.00 <sup>(5)</sup>	50.00 <sup>(5)</sup>
Block 3 <sup>(1)</sup>	Yemen	-	40.00 <sup>(6)</sup>
Block 7 <sup>(1)</sup>	Yemen	34.00 <sup>(7)</sup>	34.00 <sup>(7)</sup>

(1) Joint venture operated by the economic entity.

(2) Subject to farm down agreement.

(3) Licence 100% owned by the Oil Search Group. Disclosed for information purposes.

(4) Participating interest is 60%. Paying interest is 75%.

(5) Participating interest is 50%. Paying interest is 100%.

(6) Participating interest was 40%. Paying interest was 42.6%.

(7) Participating interest is 34%. Paying interest is 40%.

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<b>24 Interests in jointly controlled operations (continued)</b>			<b>% Interest</b>	
<b>(iii) Gas licences</b>		<b>Country</b>	<b>2012</b>	<b>2011</b>
PDL 1	Hides gas field	PNG	16.66	16.66
PDL 7	South Hides gas field	PNG	40.69	40.69
PDL 8	Angore gas field	PNG	40.69	40.69
PDL 9	Juha gas field	PNG	24.42	24.42
PRL 1 <sup>(1)</sup>	Pandora gas field	PNG	24.09	24.09
PRL 2	Juha gas field	PNG	31.51	31.51
PRL 3	P'nyang gas field	PNG	38.51	38.51
PRL 8 <sup>(2)</sup>	Kimu gas field	PNG	60.71	60.71
PRL 9 <sup>(2)</sup>	Barikewa gas field	PNG	45.11	45.11
PRL 10 <sup>(2)(3)(4)</sup>	Uramu gas field	PNG	100.00	59.55
PRL 11	Angore gas field	PNG	52.50	52.50
PRL 14	Cobra, lehi, Bilip gas fields	PNG	62.56	62.56
PNG LNG	PNG LNG project	PNG	29.00	29.00
PPFL 2	PNG LNG project	PNG	29.00	29.00
PL 4	PNG LNG project	PNG	29.00	29.00
PL 5	PNG LNG project	PNG	29.00	29.00
PL 6	PNG LNG project	PNG	29.00	29.00
PL 7	PNG LNG project	PNG	29.00	29.00
PL 8	PNG LNG project	PNG	29.00	29.00

(1) Licence expired in February 2013, having reached its maximum 15 year term.

(2) Joint venture operated by the economic entity.

(3) Subject to farm down agreement.

(4) Licence owned 100% by Oil Search Group at 31 December 2012 following acquisition of ML Energy Investment Fund Upstream (PNG) Pty Ltd. Refer to note 33.

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**25 Segment reporting**

**Information about reportable segments**

The Group's segments are arranged primarily by location of operation (e.g. PNG and MENA (Middle East and North Africa)) followed by the commodity (e.g. oil and 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.

US\$'000	PNG				MENA		Corporate		Total	
	Oil and gas		LNG		Oil and gas		31 December		31 December	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>External revenues</b>	<b>724,619</b>	732,869	-	-	-	-	-	-	<b>724,619</b>	732,869
Amortisation - site restoration	(7,596)	(1,563)	-	-	-	-	-	-	(7,596)	(1,563)
Amortisation - oil and gas assets	(29,286)	(38,354)	-	-	-	-	-	-	(29,286)	(38,354)
Depreciation - operating assets	(7,241)	(7,232)	-	-	(171)	(83)	(5,163)	(4,075)	(12,575)	(11,390)
Foreign currency (losses)/gains	(1,265)	(2,685)	-	-	6	(2)	(186)	1,514	(1,445)	(1,173)
Exploration, development and production costs expensed	(129,486)	(51,619)	-	-	(14,484)	(9,014)	-	-	(143,970)	(60,633)
Business development costs	(7,295)	(6,397)	-	-	(5,014)	(3,898)	-	-	(12,309)	(10,295)
Employee share based remuneration	-	-	-	-	-	-	(10,644)	(12,057)	(10,644)	(12,057)
Operating costs	(168,231)	(113,938)	-	-	(427)	(333)	(7,230)	(9,485)	(175,888)	(123,756)
<b>EBIT</b>	<b>374,219</b>	511,081	-	-	(20,090)	(13,330)	(23,223)	(24,103)	<b>330,906</b>	473,648
Profit on sale of other non-current assets									45,079	138
Unwinding of discount on site restoration									(5,380)	(4,243)
Impairment expense									(23,793)	(33,227)
Interest income									5,287	6,953
Interest expense									(4,464)	(3,368)
<b>Reportable segment profit before income tax</b>									<b>347,635</b>	439,901
<b>Income tax expense</b>									<b>(171,801)</b>	(237,418)
<b>Net profit after tax</b>									<b>175,834</b>	202,483
<b>Investment expenditure</b>										
Exploration and evaluation assets	(185,568)	(89,544)	-	-	(55,047)	(55,062)	-	-	(240,615)	(144,606)
Oil and gas assets - development and production	(110,703)	(130,191)	(1,493,324)	(1,285,747)	-	-	-	-	(1,604,027)	(1,415,938)
Property, plant and equipment	(67)	(151)	-	-	(349)	(234)	(16,112)	(6,791)	(16,528)	(7,176)
Total capital expenditure	(296,338)	(219,886)	(1,493,324)	(1,285,747)	(55,396)	(55,296)	(16,112)	(6,791)	(1,861,170)	(1,567,720)

**Geographical segments**

The Oil Search Group operates primarily in Papua New Guinea but also has activities in Yemen, 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.

US\$'000	Revenues		Non-current assets	
	2012	2011	2012	2011
PNG	724,619	732,869	6,035,695	4,294,018
Australia	-	-	35,528	21,340
MENA	-	-	123,093	91,498
Total	724,619	732,869	6,194,316	4,406,856

**Major customers**

There are two customers with revenue exceeding 10% of the Group's total oil and gas sales revenue.

Revenue from one customer represents approximately \$593.2 million or 88% of the Group's total oil and gas sales revenues (2011: \$604.1 million, 88%) and 82% of the Group's total revenue of \$724.6 million (2011: 82% of \$732.9 million).

Revenue from one other customer represents approximately \$79.9 million or 12% of the Group's total oil and gas sales revenues (2011: \$34.1 million, 5%) and 11% of the Group's total revenue of \$724.6 million (2011: 5% of \$732.9 million).

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

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	Consolidated		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>26 Employee entitlements and superannuation commitments</b>				
The aggregate employee entitlement liability is comprised of:				
Annual leave entitlements	6,052	5,476	-	-
Directors' retirement allowances	-	80	-	80
Long service leave entitlements	9,262	11,353	-	-
	<b>15,314</b>	<b>16,909</b>	<b>-</b>	<b>80</b>
Balance at start of year	16,909	14,880	-	-
Additional provision	3,706	8,214	-	-
Provision utilised	(5,301)	(6,185)	-	-
Balance at end of year	<b>15,314</b>	<b>16,909</b>	<b>-</b>	<b>-</b>

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 and Share Appreciation Rights 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.

Commencing with the 2010 grant, options are no longer awarded and all grants are for share appreciation rights (SAR's). SAR's are similar to traditional employee share options, except that they are net settled. Net-settled refers to the fact that the employee does not have the option to take delivery of the full underlying number of shares, but merely receives the net gain on the option on maturity. The gain is calculated as the difference between the exercise price, being the share price at the time the SAR's were issued, and the Oil Search Limited share price at maturity. The option is assumed to be exercised on maturity if it is in the money, and the net gain is settled by delivering shares in Oil Search Limited to the value of the gain.

There are currently 892 (2011: 899) employees participating in the Employee Share Option Plan and Share Appreciation Rights plan.

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**26 Employee entitlements and superannuation commitments (continued)**  
**Employee Share Option Plan and Share Appreciation Rights Plan (continued)**

	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant <sup>(1)</sup>	May 2007 grant	July 2006 grant
Grant date	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006
Share price at grant date	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13
Fair value	A\$1.29	A\$1.73	A\$1.52	A\$2.02	A\$2.16	A\$1.01	A\$1.28
Exercise date	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009
Exercise price	A\$7.26	A\$6.98	A\$5.63	A\$5.22	A\$4.88	A\$3.57	A\$4.15
<b>Number of options/SAR's</b>							
Balance at 1 January 2012	-	1,468,320	1,449,700	1,166,400	377,122	116,030	-
Granted during period	1,744,200	-	-	-	-	-	-
Forfeited during period	(127,300)	(126,000)	(117,800)	(48,000)	(9,852)	(6,510)	-
Exercised during period <sup>(2)</sup>	-	-	-	(817,250)	(209,530)	(107,350)	-
Balance at 31 December 2012	<b>1,616,900</b>	<b>1,342,320</b>	<b>1,331,900</b>	<b>301,150</b>	<b>157,740</b>	<b>2,170</b>	-
Exercisable at 31 December 2012	-	-	-	301,150	157,740	2,170	-
Average share price at date of exercise				A\$7.01	A\$7.16	A\$6.98	
Balance at 1 January 2011	-	-	1,542,800	1,209,600	1,501,640	217,000	104,064
Granted during period	-	1,498,560	-	-	-	-	-
Forfeited during period	-	(30,240)	(93,100)	(43,200)	(65,100)	-	-
Exercised during period <sup>(2)</sup>	-	-	-	-	(1,059,418)	(100,970)	(104,064)
Balance at 31 December 2011	-	1,468,320	1,449,700	1,166,400	377,122	116,030	-
Exercisable at 31 December 2011	-	-	-	-	377,122	116,030	-
Average share price at date of exercise					A\$6.90	A\$6.71	A\$6.58

(1) 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.

(2) Settled by cashing out and cancelling the options or by issuing new shares.

Options and SAR's were priced using a binomial option pricing model with the following inputs:

	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant
Volatility	30%	30%	35%	40%	38%	32%	35%
Dividend yield	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%
Risk-free interest rate	2.43%	4.88%	4.64%	4.55%	5.96%	5.93%	5.90%

An expense of US\$2,227,546 (2011: US\$2,535,939) has been recognised in the profit and loss statement in respect of these options and SAR's. All options expire two years after their vesting date or on termination of employment. SAR's are exercised on maturity if they are in the money.

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**26 Employee entitlements and superannuation commitments (continued)**

**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.

The Committee made the following changes to the comparator group to apply for awards of Performance Rights made in May 2012:

- The ASX comparator group was narrowed to the ASX50 (excluding property trusts and non-standard listings) to better reflect the Company's market capitalisation; and
- The international oil and gas comparator group was broadened to include the constituents of the Standard & Poor's Global Energy Index. This removed the subjectivity of inclusion or exclusion of individual oil and gas companies and the larger peer group reduces the impact of merger and acquisitions within the peer group. TSR outcomes are also normalised against a US dollar base currency to provide consistency of measurement.

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

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

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

The rights are granted for nil consideration and are granted in accordance with guidelines approved by shareholders at the Annual Meeting in 2004. The rights cannot be transferred and are not quoted on the Australian Securities Exchange. There are currently 130 (2011: 112) employees participating in the Performance Rights Plan.

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**26 Employee entitlements and superannuation commitments (continued)**  
**Performance Rights Plan (continued)**

	May 2012 grant <sup>(1)</sup>	May 2011 grant <sup>(2)</sup>	June 2010 grant <sup>(3)</sup>	June 2009 grant <sup>(4)</sup>	August 2008 grant <sup>(5)</sup>	May 2007 grant <sup>(6)</sup>	July 2006 grant <sup>(7)</sup>
Grant date	21 May 2012	23 May 2011	1 June 2010	1 June 2009	4 Aug 2008	7 May 2007	28 July 2006
Share price at grant date	A\$6.72	A\$6.92	A\$5.61	A\$5.73	A\$5.65	A\$3.66	A\$4.13
Fair value	A\$4.52	A\$4.40	A\$3.54	A\$4.70	A\$4.39	A\$2.10	A\$2.72
Exercise date	15 May 2015	23 May 2014	17 May 2013	13 May 2012	5 May 2011	7 May 2010	28 July 2009
Exercise price	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil	A\$ nil
<b>Number of rights</b>							
Balance at 1 January 2012	-	1,650,900	1,658,000	1,422,085	822,500	182,447	-
Granted during period	1,899,900	-	-	-	-	-	-
Forfeited during period	(126,400)	(175,872)	(157,989)	(403,892)	-	-	-
Exercised during period <sup>(8,9)</sup>	-	(14,228)	(45,411)	(561,178)	(623,500)	(182,447)	-
Balance at 31 December 2012	<b>1,773,500</b>	<b>1,460,800</b>	<b>1,454,600</b>	<b>457,015</b>	<b>199,000</b>	-	-
Exercisable at 31 December 2012	-	-	-	457,015	199,000	-	-
Average share price at date of exercise				A\$6.82	A\$6.97	A\$6.74	
Balance at 1 January 2011	-	-	1,828,200	1,655,185	2,202,985	384,522	113,099
Granted during period	-	1,696,500	-	-	-	-	-
Forfeited during period	-	(44,163)	(141,132)	(179,553)	(29,300)	-	-
Exercised during period <sup>(8,9)</sup>	-	(1,437)	(29,068)	(53,547)	(1,351,185)	(202,075)	(113,099)
Balance at 31 December 2011	-	1,650,900	1,658,000	1,422,085	822,500	182,447	-
Exercisable at 31 December 2011	-	-	-	-	822,500	182,447	-
Average share price at date of exercise		A\$6.26	A\$6.83	A\$6.85	A\$6.76	A\$6.51	A\$6.60

(1) Performance period 1 January 2012 - 31 December 2014.

(2) Performance period 1 January 2011 - 31 December 2013.

(3) Performance period 1 January 2010 - 31 December 2012.

(4) Performance period 1 January 2009 - 31 December 2011.

(5) Performance period 1 January 2008 - 31 December 2010.

(6) Performance period 1 January 2007 - 31 December 2009. All rights vested on 7 May 2010.

(7) Performance period 1 January 2006 - 31 December 2008. All rights vested on 28 July 2009.

(8) Settled by cashing out or cancelling the rights or by issuing new shares.

(9) Board discretion exercised in relation to death, resignation or termination of employment.

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

	May 2012 grant	May 2011 grant	June 2010 grant	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant
Volatility	30%	30%	35%	40%	38%	32%	35%
Dividend yield	0.60%	0.60%	0.90%	2.00%	1.50%	2.90%	1.80%
Risk-free interest rate	2.43%	4.88%	4.64%	4.16%	6.00%	5.98%	5.93%

An expense of US\$5,917,637 (2011: US\$5,779,112) has been recognised in the profit and loss statement in respect of these rights. All rights that have vested expire two years after their exercise date or on termination of employment.

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**26 Employee entitlements and superannuation commitments (continued)**

**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 566 (2011: 615) employees participating in the Restricted Share Plan.

Executives	March 2012 grant	March 2011 grant	April 2010 grant	March 2010 grant	March 2009 grant	January 2009 grant	May 2008 grant
Grant date	5 March 2012	1 March 2011	27 April 2010	3 March 2010	3 March 2009	1 January 2009	1 May 2008
Share price at grant date	A\$7.21	A\$6.96	A\$5.79	A\$5.28	A\$4.80	A\$4.65	A\$4.95
Exercise date	1 January 2014	1 January 2013	27 April 2014	1 January 2012	1 January 2011	1 January 2011	1 January 2011
Exercise price	A\$ nil	A\$ nil	A\$ nil				
<b>Number of shares</b>							
Balance at 1 January 2012	-	205,935	100,000	347,409	-	-	-
Granted during period	108,513	-	-	-	-	-	-
Forfeited during period	(14,033)	(28,932)	-	-	-	-	-
Exercised during period	-	-	-	(347,409)	-	-	-
Balance at 31 December 2012	<b>94,480</b>	<b>152,745</b>	<b>100,000</b>	-	-	-	-
Exercisable at 31 December 2012	-	-	-	-	-	-	-
Balance at 1 January 2011	-	-	100,000	433,907	379,242	99,728	33,898
Granted during period	-	226,262	-	-	-	-	-
Forfeited during period	-	-	-	-	-	-	-
Exercised during period	-	(20,327)	-	(86,498)	(379,242)	(99,728)	(33,898)
Balance at 31 December 2011	-	205,935	100,000	347,409	-	-	-
<b>Oil Search (PNG) Limited</b>							
	<b>July 2011 grant</b>	<b>July 2011 grant</b>	<b>July 2010 grant</b>	<b>July 2010 grant</b>	<b>March 2009 grant</b>		
Grant date	15 July 2011	15 July 2011	26 July 2010	26 July 2010	15 June 2009		
Share price at grant date	A\$6.58	A\$6.58	A\$5.80	A\$5.80	A\$5.85		
Exercise date	15 July 2014	17 June 2013	15 July 2014	17 June 2013	17 June 2013		
Exercise price	A\$ nil						
<b>Number of shares</b>							
Balance at 1 January 2012	49,139	158,288	39,336	130,998	626,260		
Granted during period	-	-	-	-	-		
Forfeited during period	(10,419)	(3,266)	(2,835)	(9,896)	(29,633)		
Balance at 31 December 2012	<b>38,720</b>	<b>155,022</b>	<b>36,501</b>	<b>121,102</b>	<b>596,627</b>		
Exercisable at 31 December 2012	-	-	-	-	-		
Balance at 1 January 2011	-	-	57,625	147,853	684,834		
Granted during period	51,685	165,342	-	-	-		
Forfeited during period	(2,546)	(7,054)	(18,289)	(16,855)	(58,574)		
Balance at 31 December 2011	49,139	158,288	39,336	130,998	626,260		

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

An expense of US\$2,498,951 (2011: US\$3,741,943) has been recognised in the financial statements in respect of these restricted shares.

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	<b>2012</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>
<b>27 Key management personnel remuneration</b>		
<b>(a) Directors' remuneration</b>		
Remuneration paid or payable, or otherwise made available, in respect of the financial year, to all Directors of Oil Search Limited, directly or indirectly, by the entity or any related party:		
Short-term benefits	<b>6,098,201</b>	4,832,498
Long-term benefits	<b>142,326</b>	235,012
Post-employment benefits	<b>97,728</b>	92,573
Share-based payments	<b>2,008,170</b>	2,344,005
	<b>8,346,425</b>	7,504,088

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

	<b>No.</b>	<b>No.</b>
US\$30,000 – US\$39,999	<b>1</b>	-
US\$80,000 – US\$89,999	<b>1</b>	-
US\$90,000 – US\$99,999	<b>1</b>	-
US\$140,000 – US\$149,999	<b>1</b>	-
US\$150,000 – US\$159,999	<b>1</b>	-
US\$160,000 – US\$169,999	<b>1</b>	-
US\$210,000 – US\$219,999	-	1
US\$220,000 – US\$229,999	<b>1</b>	3
US\$230,000 – US\$239,999	<b>2</b>	1
US\$240,000 – US\$249,999	-	1
US\$480,000 – US\$489,999	<b>1</b>	-
US\$510,000 – US\$519,999	-	1
US\$1,230,000 – US\$1,239,999	-	1
US\$1,570,000 – US\$1,579,999	<b>1</b>	-
US\$4,370,000 – US\$4,379,999	-	1
US\$4,900,000 – US\$4,909,999	<b>1</b>	-

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.

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
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	<b>2012</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>
<b>27 Key management personnel remuneration (continued)</b>		
<b>(b) Executives' remuneration (excluding directors)</b>		
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:		
Short-term benefits	7,482,863	7,061,596
Long-term benefits <sup>(1)</sup>	(148,108)	(158,507)
Post-employment benefits	173,053	239,373
Share-based payments	1,417,583	3,267,398
	<b>8,925,391</b>	<b>10,409,860</b>

(1) This is a negative balance as a result of a large long service leave entitlement paid out to a departing executive which was previously accrued.

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

	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>
US\$220,000 – US\$229,999	1	-
US\$290,000 – US\$299,999	1	-
US\$740,000 – US\$749,999	-	1
US\$760,000 – US\$769,999	1	-
US\$900,000 – US\$909,999	-	2
US\$920,000 – US\$929,999	-	1
US\$980,000 – US\$989,999	-	1
US\$990,000 – US\$999,999	1	-
US\$1,130,000 – US\$1,139,999	1	-
US\$1,180,000 – US\$1,189,999	1	-
US\$1,230,000 – US\$1,239,999	-	1
US\$1,330,000 – US\$1,339,999	1	-
US\$1,390,000 – US\$1,399,999	1	-
US\$1,500,000 – US\$1,509,999	-	1
US\$1,550,000 – US\$1,559,999	-	1
US\$1,590,000 – US\$1,599,999	1	-
US\$1,640,000 – US\$1,649,999	-	1

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>28 Auditor's remuneration</b>				
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	348,626	319,892	131,164	123,118
Other services	25,895	34,620	-	-
	<b>374,521</b>	<b>354,512</b>	<b>131,164</b>	<b>123,118</b>

The audit fees are in Australian dollars and are translated at 1.0359 (2011: 1.0318).

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**29 Related party transactions**

**(a) Key management personnel**

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2012, and their interests in the shares of Oil Search Limited at that date were:

Directors	No. of ordinary shares		No. of performance rights <sup>(1)</sup>		No. of restricted shares <sup>(1)</sup>	
	2012	2011	2012	2011	2012	2011
BF Horwood	25,000	12,500	-	-	-	-
PR Botten	2,139,122	1,801,599	953,272	1,116,700	112,493	206,969
G Aopi	243,526	183,692	240,736	270,272	128,046	151,832
KG Constantinou	-	-	-	-	-	-
R Igara <sup>(2)</sup>	10,000	10,000	-	-	-	-
AJ Kantsler	17,090	7,025	-	-	-	-
MDE Kriewaldt <sup>(2)</sup>	14,590	14,590	-	-	-	-
RJ Lee	20,000	-	-	-	-	-
B Philemon	7,165	7,125	-	-	-	-
KW Spence	-	-	-	-	-	-
JL Stitt <sup>(2)</sup>	42,190	42,190	-	-	-	-
ZE Switkowski	175,000	100,000	-	-	-	-
<b>Executives</b>						
P Bainbridge <sup>(2)</sup>	563,333	572,907	-	199,900	-	72,541
P Caldwell	70,000	80,000	183,300	185,800	33,241	63,725
P Cholakos	46,000	16,000	143,500	87,600	10,222	30,000
P Crute	50,406	66,270	146,400	146,900	26,730	49,783
J Fowles	-	-	55,300	-	-	-
S Gardiner	151,812	150,995	185,060	150,300	8,178	-
M Herrett	-	-	-	-	-	-
N Hartley <sup>(2)</sup>	-	133,628	-	76,600	-	-
A Miller <sup>(2)</sup>	-	342,023	-	240,000	-	46,016
R Robinson	202,372	184,124	155,300	135,200	28,315	19,123
Z Todorcevski <sup>(2)</sup>	104,740	307,684	-	306,485	-	59,371

(1) Refer to note 26.

(2) Number of ordinary shares held by the Director or Executive at date of ceasing employment with the Group.

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**Notes to the Financial Statements**  
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**29 Related party transactions (continued)**

**(a) Key management personnel (continued)**

Some Directors and key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

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

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

<b>Consolidated</b>	<b>Transactions value year</b>	
	<b>ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Airways Hotel and Apartments Limited <sup>(1)</sup>	<b>136</b>	49
Lamana Hotel Port Moresby <sup>(1)</sup>	<b>331</b>	-

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

(1) The Group acquired hotel, conference facility and accommodation services in PNG from Airways Hotel and Apartments Limited, and Lamana Hotel Port Moresby, companies of which Mr KG Constantinou is a Director.

**(b) Other transactions**

(1) Interests in subsidiaries are disclosed in note 32.

(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 24.

(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, which were made under normal commercial terms and conditions, there were no other related party transactions during the year to 31 December 2012.

(6) Loans from joint venture entities are disclosed in note 20.

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	Consolidated		Parent	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
<b>30 Leases</b>				
<b>Operating leases not capitalised in the accounts</b>				
Rental of premises and motor vehicles				
Payable within 12 months	10,470	5,747	-	-
Payable 1 to 2 years	6,874	2,980	-	-
Payable 2 to 5 years	18,255	958	-	-
Payable greater than 5 years	41,097	-	-	-

**31 Contingent liabilities**

**(a) Guarantees**

As part of the terms and conditions of a Loan Agreement between Oil Search (Finance) Limited as borrower and the Commonwealth Bank of Australia lending syndicate for the provision of a US\$500 million term revolving facility, Oil Search (PNG) Limited, as guarantor, provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

Oil Search Limited, as Completion Guarantor, has guaranteed payment by the Borrower of its share (29%) of the LNG Project's senior debt obligations (refer to note 20).

Oil Search Limited has executed a bank guarantee for US\$22.5 million, to guarantee payment of its Sydney office lease on behalf of its subsidiary Papuan Oil Search Limited.

**(b) Contingent claims**

Various claims for damages, occurring through the ordinary course of business, existed at balance 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.

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	Ownership interest % 2012	Ownership interest % 2011	Country of Incorporation
<b>32 Group entities</b>			
<b>Parent entity</b>			
Oil Search Limited			PNG
<b>Consolidated entities</b>			
Oil Search (Middle Eastern) Limited	<b>100</b>	100	British Virgin Is.
Oil Search (Iraq) Limited	<b>100</b>	100	British Virgin Is.
Oil Search (Libya) Limited	<b>100</b>	100	British Virgin Is.
Oil Search (Tunisia) Limited	<b>100</b>	100	British Virgin Is.
Oil Search (Newco) Limited <sup>(1)</sup>	<b>100</b>	-	British Virgin Is.
Oil Search (ROY) Limited	<b>100</b>	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	<b>100</b>	100	PNG
Oil Search (Tumbudu) Limited	<b>100</b>	100	PNG
Oil Search (P'nyang) Holdings Limited <sup>(2)</sup>	<b>100</b>	-	PNG
Oil Search (P'nyang) Limited <sup>(3)</sup>	<b>100</b>	-	PNG
Oil Search (PNG) Limited	<b>100</b>	100	PNG
Oil Search (Drilling) Limited	<b>100</b>	100	PNG
Oil Search (Exploration) Inc.	<b>100</b>	100	Cayman Is.
Oil Search (LNG) Limited	<b>100</b>	100	PNG
Oil Search Finance Limited <sup>(4)</sup>	<b>100</b>	-	British Virgin Is.
New Guinea Investments Limited	<b>100</b>	100	PNG
New Guinea (Petroleum) Limited	<b>100</b>	100	PNG
Oil Search Health Foundation Limited <sup>(5)</sup>	<b>100</b>	100	PNG
Papuan Oil Search Limited	<b>100</b>	100	Australia
Oil Search (Uramu) Pty Limited <sup>(6)</sup>	<b>100</b>	-	Australia
Oil Search Limited Retention Share Plan Trust	<b>100</b>	100	Australia

(1) Oil Search (Newco) Limited was incorporated on 10 July 2012.

(2) Oil Search (P'nyang) Holdings Limited was incorporated on 21 December 2012.

(3) Oil Search (P'nyang) Limited was incorporated on 21 December 2012.

(4) Oil Search Finance Limited was incorporated on 10 July 2012.

(5) Oil Search Health Foundation Limited is Trustee of the Oil Search Health Foundation Trust, a not-for-profit organisation established for charitable purposes in PNG. This Trust is not controlled by Oil Search and is not consolidated within the Group.

(6) On 31 July 2012 Papuan Oil Search Limited acquired the shares in ML Energy Investment Fund Upstream (PNG) Pty Ltd. The acquired entity's name was subsequently changed to Oil Search (Uramu) Pty Limited.

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**33 Acquisition of subsidiaries**

During the financial year the following controlled entity was acquired and the operating results have been included in the statement of comprehensive income from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest %	Purchase consideration US\$'000	Contribution to consolidated profit since acquisition
ML Energy Investment Fund Upstream (PNG) Pty Ltd <sup>(1)</sup>	31 July 2012	100	12,000	-

(1) ML Energy Investment Fund Upstream (PNG) Pty Ltd's name was subsequently changed to Oil Search (Uramu) Pty Limited, and is included at note 32.

On 31 July 2012, Papuan Oil Search Limited obtained control of ML Energy Fund Upstream (PNG) Pty Ltd through the acquisition of 100% of its ordinary share capital. This entity was subsequently renamed Oil Search (Uramu) Pty Limited ("OSU"). The principal activity of OSU is the exploration, evaluation and development of hydrocarbon resources in PNG. This is carried out as a non-operator participant in the joint venture of the PRL10 licence related to the Uramu field. At the time of acquisition, OSU held a 40.45% interest in PRL10, with the Oil Search Group holding the remaining 59.55%.

This acquisition has been accounted for as an asset acquisition.

In the five months to 31 December 2012, OSU has contributed no revenue or profit to the Group's results. If the acquisition had occurred on 1 January 2012, management estimates there would have been no impact on the Group's consolidated revenue and the net profit attributable to equity holders of Oil Search Limited.

**Consideration transferred**

The following summarises the consideration transferred:

	US\$'000
Cash paid	10,000
Contingent consideration	2,000
Total consideration transferred	<u>12,000</u>

**Contingent consideration**

Papuan Oil Search Limited has agreed to pay the selling shareholders an additional consideration of US\$2.0 million if:

- at least 6 months prior to the expiration of PRL10 an extension to the licence is granted; or
- within 6 months of expiry of PRL10, the existing licensees or any OSL entity are granted a licence in an area on terms accepted by the buyer.

The Group has included US\$2.0 million as contingent consideration related to the additional consideration.

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**34 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:

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
<b>(i) Financial assets</b>			
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 29(b).
Loan receivable	11	Loans receivable are carried at amortised cost less any allowance for impairment.	Loans receivable are payable based on contractual arrangements.
Short-term deposits	23(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 six months or less.
<b>(ii) Financial liabilities</b>			
Trade creditors and accruals	18	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	18	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.

**OIL SEARCH LIMITED**  
and its subsidiaries

**Notes to the Financial Statements**  
for the year ended 31 December 2012

**34 Financial instruments (continued)**

**(a) Terms, conditions and accounting policies (continued)**

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
<b>(ii) Financial liabilities (continued)</b>			
Secured loans	-	<p>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:</p> <ul style="list-style-type: none"> <li>- the estimated life of the project (oil facility); or</li> <li>- a fixed term from the completion date (LNG Project).</li> </ul> <p>All other interest on borrowings is expensed at the effective interest rate.</p>	<p>Secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields (oil facility) or semi-annually from LNG proceeds (LNG Project). Interest is either fixed or floating (LIBOR plus a margin). Details of the security over the secured loans are set out in notes 20 and 31(a).</p>
<b>(iii) Equity</b>			
Ordinary shares	22	<p>Ordinary share capital is recognised at the historical US\$ equivalent of capital raised, net of capital raising costs.</p>	<p>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.</p> <p>Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 22 and 26.</p>
Hedges		<p>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.</p>	<p>There are no outstanding forward sales contracts at balance date (2011: nil).</p> <p>As at 31 December 2012, there are no outstanding barrels hedged (2011: nil).</p>

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**34 Financial instruments (continued)**

**(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 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 2012, there were no foreign exchange hedge contracts outstanding (2011: nil).

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(i) Market risk (continued)**

***Foreign exchange risk management (continued)***

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.

**(ii) 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 2012, there was no interest rate hedging in place (2011: nil). Surplus cash was invested in short-term instruments with an average maturity of 1 to 6 months.

***Interest rate sensitivity***

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

At the reporting date, if interest rates had been 25 basis points (2011: 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 \$1.4 million (2011: \$1.7 million).

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

- net profit after tax would increase/decrease by \$1.0 million (2011: \$1.1 million).

**OIL SEARCH LIMITED**  
and its subsidiaries

**Notes to the Financial Statements**  
for the year ended 31 December 2012

**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(ii) Interest rate risk (continued)**  
**Consolidated**

Financial Instruments	Floating Interest Rate US\$'000	Fixed interest rate maturing in:				Non interest bearing US\$'000	Total carrying amount as per the balance sheet US\$'000	Weighted average effective interest rate %
		1 year or less US\$'000	1-5 years US\$'000	More than 5 years US\$'000				
<b>2012</b>								
<b>Financial assets</b>								
Cash and cash equivalents	221,482	266,792	-	-	-	488,274	0.7%	
Receivables – trade	-	-	-	-	103,292	103,292		
Other debtors	-	-	-	-	69,941	69,941		
Loan receivable	-	-	-	-	48,398	48,398		
Non-current receivables	-	-	-	-	4,271	4,271		
<b>Total financial assets</b>	<b>221,482</b>	<b>266,792</b>	<b>-</b>	<b>-</b>	<b>225,902</b>	<b>714,176</b>		
<b>Financial liabilities</b>								
Trade creditors and accruals	-	-	-	-	392,217	392,217		
Other payables	-	-	-	-	4,951	4,951		
Loans and borrowings	2,391,432	-	-	474,618	-	2,866,050	3.3%	
<b>Total financial liabilities</b>	<b>2,391,432</b>	<b>-</b>	<b>-</b>	<b>474,618</b>	<b>397,168</b>	<b>3,263,218</b>		
<b>2011</b>								
<b>Financial assets</b>								
Cash and cash equivalents	174,228	873,235	-	-	-	1,047,463	0.6%	
Receivables – trade	-	-	-	-	49,336	49,336		
Other debtors	-	-	-	-	52,917	52,917		
Loan receivable	-	-	-	-	-	-		
Non-current receivables	-	-	-	-	3,966	3,966		
<b>Total financial assets</b>	<b>174,228</b>	<b>873,235</b>	<b>-</b>	<b>-</b>	<b>106,219</b>	<b>1,153,682</b>		
<b>Financial liabilities</b>								
Trade creditors and accruals	-	-	-	-	415,946	415,946		
Other payables	-	-	-	-	4,899	4,899		
Loans and borrowings	1,398,578	-	-	348,989	-	1,747,567	3.3%	
<b>Total financial liabilities</b>	<b>1,398,578</b>	<b>-</b>	<b>-</b>	<b>348,989</b>	<b>420,845</b>	<b>2,168,412</b>		

There exists no unrecognised financial instruments at balance date.

**OIL SEARCH LIMITED**  
and its subsidiaries

**Notes to the Financial Statements**  
for the year ended 31 December 2012

**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(ii) Interest rate risk (continued)**

**Parent**

	Fixed interest rate maturing in:					Total carrying amount as per the balance sheet US\$'000	Weighted average effective interest rate %
	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		
<b>2012</b>							
<b>Financial assets</b>							
Cash and cash equivalents	136,849	236,680	-	-	-	373,529	0.6%
Receivables – trade	-	-	-	-	-	-	
Other debtors	-	-	-	-	5,653	5,653	
Loan receivable	-	-	-	-	-	-	
<b>Total financial assets</b>	<b>136,849</b>	<b>236,680</b>	<b>-</b>	<b>-</b>	<b>5,653</b>	<b>379,182</b>	
<b>Financial liabilities</b>							
Trade creditors and accruals	-	-	-	-	3,394	3,394	
Other payables	-	-	-	-	-	-	
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,394</b>	<b>3,394</b>	
<b>2011</b>							
<b>Financial assets</b>							
Cash and cash equivalents	84,879	694,380	-	-	-	779,259	0.6%
Receivables – trade	-	-	-	-	-	-	
Other debtors	-	-	-	-	6,683	6,683	
Loan receivable	-	-	-	-	-	-	
<b>Total financial assets</b>	<b>84,879</b>	<b>694,380</b>	<b>-</b>	<b>-</b>	<b>6,683</b>	<b>785,942</b>	
<b>Financial liabilities</b>							
Trade creditors and accruals	-	-	-	-	9,348	9,348	
Other payables	-	-	-	-	172	172	
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,520</b>	<b>9,520</b>	

There exists no unrecognised financial instruments at balance date.

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Notes to the Financial Statements**  
**for the year ended 31 December 2012**

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**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(iii) 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.

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

As at 31 December 2012, there was no oil price hedging in place (2011: nil).

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

**(iv) 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
- Loan receivable
- Granting financial guarantees on the PNG LNG Project

***Credit risk management***

Global credit limits have been established across all categories of financial transactions. The limits are based on the credit ratings issued 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. In accordance with the Group's debt facility Oil Search uses its best endeavours to have these counterparties sign a Buyers Consent Deed. Sales to non-investment grade counterparties must be secured by letters of credit from an investment grade bank.

An option agreement and a share pledge agreement are held over the third party loan receivable balance, permitting Oil Search to acquire an equity interest in the issued share capital of the Borrower.

At 31 December 2012 there was no significant concentration of credit risk exposure to any counterparty (2011: nil).

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

**OIL SEARCH LIMITED**  
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**Notes to the Financial Statements**  
for the year ended 31 December 2012

**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(iv) Credit risk (continued)**

	Note	Consolidated		Parent	
		2012	2011	2012	2011
		US\$'000	US\$'000	US\$'000	US\$'000
<b>Current</b>					
Cash at bank and on hand	23(a)	213,388	164,439	136,748	84,866
Share of cash in joint ventures	23(a)	8,094	9,789	101	13
Interest-bearing short-term deposits	23(a)	266,792	873,235	236,680	694,380
Receivables	9	173,233	102,253	751,473	423,464
Loan receivable	11	48,398	-	-	-
		<b>709,905</b>	1,149,716	<b>1,125,002</b>	1,202,723
<b>Non-current</b>					
Receivables	9	4,271	3,966	-	-
Loans and borrowings	20	2,866,050	1,747,567	-	-
		<b>2,870,321</b>	1,751,533	-	-

**(v) 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 (Finance) Limited ("OSFL") signed a five year non-amortising financing facility effective 29 October 2012 for US\$500 million. A facility limit of US\$500 million was available at 31 December 2012. There was a nil drawn balance as at 31 December 2012 (2011: nil). As part of the terms and conditions of this facility, Oil Search (PNG) Limited ("OSP") as guarantor, has provided a charge over its credit account in Melbourne with Australia & New Zealand Banking Group Limited.

The new corporate facility replaces the previous US\$435 million amortising facility that was due to expire in September 2013.

Each participant in the PNG LNG Project severally provides participant equity funding pro rata with each disbursement of ECA/Bank loans so that participant equity funding is provided for at least 30% of project capital costs at such time. 60% of OSL's future base equity commitments are held in escrow. Oil Search plans to meet its remaining share of its currently estimated equity funding out of existing cash, corporate debt, cash flows or if necessary additional funding. In the event of material cost overruns, delays or protracted low oil prices, further capital management, equity raisings, oil price hedging or further sale of assets may be considered.

As at 31 December 2012, the Group has surplus cash of US\$480 million (2011: US\$1,038 million), of which US\$267 million was invested in short-term instruments (2011: US\$873 million).

**OIL SEARCH LIMITED**  
and its subsidiaries

**Notes to the Financial Statements**  
for the year ended 31 December 2012

**34 Financial instruments (continued)**  
**(b) Financial risk management (continued)**  
**(vi) 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.

**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		Parent	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Financial assets</b>				
Cash	488,274	1,047,463	373,529	779,259
Receivables – trade	103,292	49,336	-	-
Other debtors	69,941	52,917	5,653	6,683
Loan receivable	48,398	-	-	-
Investments	29	29	-	-
Non current receivables	4,271	3,966	-	-
<b>Total financial assets</b>	<b>714,205</b>	<b>1,153,711</b>	<b>379,182</b>	<b>785,942</b>
<b>Financial liabilities</b>				
Trade creditors and accruals	392,217	415,946	3,394	9,348
Other payables - current	-	-	-	172
Other payables - non current	4,951	4,899	-	-
Loans and borrowings	2,866,050	1,747,567	-	-
<b>Total financial liabilities</b>	<b>3,263,218</b>	<b>2,168,412</b>	<b>3,394</b>	<b>9,520</b>

All financial assets and financial liabilities are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost. The financial assets and liabilities are presented by class in the table above at their carrying values, which generally approximate to the fair values.

The Group uses various methods in estimating the fair value of financial assets and financial liabilities.

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. In summary, the methods comprise:

- Level 1 - the fair value is calculated using quoted prices in active markets;
- Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair values of receivables, payables and other financial assets and liabilities which are not measured at fair value approximate their carrying amounts.

**OIL SEARCH LIMITED**  
**and its subsidiaries**

**Directors' Declaration 31 December 2012**

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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 2012 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.

This declaration has been made after receiving unqualified declarations from the Managing Director and the Chief Financial Officer, that are consistent with requirements under section 295A of the Australian Corporations Act 2001, for the year ended 31 December 2012.

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors

*B. F. Horwood*

.....  
**BF HORWOOD**  
**Chairman**

*PR Botten*

.....  
**PR BOTTEN**  
**Managing Director**

Sydney, 25 February 2013

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

### Report on the Financial Report

We have audited the accompanying financial statements of Oil Search Limited (the Company), which comprises the statement of financial position as at 31 December 2012, 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 41 to 99.

#### *Directors' Responsibility for the Financial Statements*

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that is free from material misstatement, whether due to fraud or error.

#### *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 of Auditing. Those 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 of the financial report that gives a true and fair view, 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 statements.

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

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*Opinion*

In our opinion,

- (i) the financial statements of Oil Search Limited give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the *PNG Companies Act 1997*; and
- (ii) proper accounting records have been kept by the Company.

*Other Information*

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

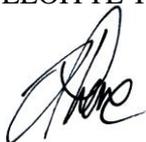
**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 37 of the directors' report for the year ended 31 December 2012. 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 *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.

*Opinion*

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Jason Thorne  
Partner  
Chartered Accountants  
Registered under the Accountants Act, 1996  
Sydney, 25 February 2013

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Paul Barber  
Partner  
Chartered Accountants  
Registered Company Auditor in Australia  
Port Moresby, 25 February 2013