OIL SEARCH LIMITED

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

23 February 2010

(ASX: OSH; ADR: OISHY)

Historic decision to proceed with the PNG LNG Project

HIGHLIGHTS

- **The highlight for 2009 was the decision in December by the PNG LNG Project participants, led by Operator ExxonMobil, to proceed with the development of the PNG LNG Project. Construction is underway, with first LNG sales targeted for 2014. PNG LNG is a transformational project for Oil Search. At plateau, it will add approximately 18 million barrels of oil equivalent (mmboe) each year to Oil Search's production, more than doubling present day production and providing a strong cashflow for the Company for over 30 years.**

- **As a result of the PNG LNG Project development decision, Oil Search has booked an additional 505 mmboe as proven and probable reserves, taking total reserves in this category to 567 mmboe. This is over eight times higher than the Company's proven and probable reserves at the end of 2008. This again highlights that the development of this Project is a transformational event for Oil Search.**

- **Oil Search's 2009 net profit after tax (NPAT) including significant items was US$133.7 million, compared to an NPAT in 2008 of US$313.4 million. NPAT excluding significant items was US$99.6 million. The profit decline was primarily due to a 35% fall in the average realised oil price combined with 7% lower oil sales.**

- **2009 total oil and gas production was 8.1 mmboe, 5% lower than in 2008 and in line with market guidance. Lower production reflected natural decline from the mature PNG oil fields, facilities downtime and the sale of Oil Search's Middle East producing assets in May 2008, partially offset by a successful development drilling and well workover programme.**

- **During the second half of 2009, Oil Search successfully raised US$846.6 million (net of fees and other costs) through an institutional share placement and a Share Purchase Plan. In addition, the PNG LNG Project participants negotiated a world class debt financing package to fund 70% of the PNG LNG development costs.**

- **As a result of the capital raising and a strong focus on capital management during the year, at the end of December 2009 Oil Search had cash reserves of US$1,288.1 million (including joint venture balances), compared to**

US$534.9 million at the beginning of the year, and no debt. In addition, the Company also had an undrawn corporate debt facility of US$362.5 million, taking total liquidity to US$1.65 billion. With its strong balance sheet, the PNG LNG debt funding package and undrawn corporate debt facility, Oil Search is very well positioned to support the PNG LNG Project development, as well as fund other growth initiatives.

- **During 2009, US$438.9 million was spent on exploration and new venture evaluation activities, including expenditure on the PNG LNG Project and other gas commercialisation activities, and US$142.3 million was spent on development/production activities.**

- **The Board has approved the payment of a two US cents final dividend for the 2009 financial year. Together with the interim dividend of two US cents per share, paid to shareholders in October 2009, the total dividend for the year is four US cents per share, compared to eight US cents per share in 2008.**

Commenting on the 2009 results, Mr. Peter Botten, Oil Search's Managing Director, said the following:

PNG LNG Project approval – a landmark decision

"2009 was a watershed year for Oil Search, following the decision in December to proceed with the development of the PNG LNG Project. Financial Close for the Project is subject to the completion of the final sale and purchase agreement and the finalisation of financing arrangements with lenders, both of which are scheduled to be achieved in the first quarter of 2010. Reaching project sanction of a world scale LNG development in less than two years from commencing Front End Engineering and Design is a major achievement and is the culmination of much hard work by the Operator, ExxonMobil, the other Project participants, the PNG Government, landowners and a range of other key stakeholders.

Over 2009, the Project signed binding Sale and Purchase Agreements (SPAs) with Sinopec of China and TEPCO and Osaka Gas of Japan. The execution of the final SPA, with CPC of Taiwan, will complete a first class group of offtakers. Securing US$14 billion of project financing, the world's largest ever project financing, from a range of ECAs, commercial banks and from ExxonMobil during the global financial crisis was also extremely pleasing and a testament to the strength of the Project.

In December, ExxonMobil awarded the five key execution, procurement and construction contracts. The successful contractors have now commenced mobilisation and resourcing and detailed design and planning work is underway. Early works construction activities, which commenced in the second half of 2009, are also continuing. With a four year construction schedule, the Project is targeting first LNG sales in 2014.

The PNG LNG Project has a material impact on Oil Search. The most immediate effect is the booking at year end of 505 mmboe of proven and probable reserves, which has increased our proven and probable reserves position from 67 mmboe at the end of 2008 to 567 mmboe at the end of 2009. When the Project reaches plateau production in 2015, it will add approximately 18 mmboe per annum, which is more than double the Company's current production, and provide a strong long term cash flow for many years to come."

LNG expansion – a key focus area

"During 2009, Oil Search continued its review of LNG expansion opportunities. A number of licence acquisitions and divestments were completed in 2009, to strengthen the Company's gas portfolio and its positioning in PNG. In addition, Oil Search had discussions with a range of PNG gas stakeholders, including its joint venture partners and the PNG Government, aimed at fostering alignment on the way forward for LNG expansion. There is a strong recognition by all stakeholders that significant economic gain can be made from additional LNG trains in PNG.

Looking forward, in addition to supporting ExxonMobil in the delivery of the PNG LNG Project, one of Oil Search's primary objectives is to prove up more gas, through exploration and appraisal activities and acquisitions, to underwrite the construction of additional LNG trains beyond the initial PNG LNG Project."

2009 Full Year Results

"Oil Search's 2009 full year net profit was US$133.7 million, which was a satisfactory result in light of global oil markets. While the oil price staged a gradual recovery during 2009 from the lows of late 2008, the average realised oil price in 2009 was 35% lower than in the previous year, at US$65.40 per barrel.

Excluding significant items, which comprised adjustments relating to the PNG Government's back-in to the PNG LNG Project licences and tax benefits triggered by the PNG LNG Project sanction, net profit after tax was US$99.6 million.

Total production for 2009 was 5% lower than in 2008, with an increase in production at Kutubu, due to a very successful development drilling programme, offset by natural decline in the other mature PNG oilfields, facility downtime and the sale of the Company's Middle East producing assets in May 2008. Operating costs fell 12% during the period reflecting lower oil sales as well as strong cost control. This result was achieved despite inflationary pressures within PNG and the adverse impact of a strengthening Australian dollar and PNG Kina during the second half of the year on the Company's US dollar denominated accounts.

Oil Search spent US$438.9 million on exploration and new venture activities in 2009 (US$257.3 million in 2008), of which US$314.9 million was spent on gas commercialisation activities, predominantly PNG LNG Project costs. In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work and other evaluation activities were expensed, resulting in a pre-tax charge of US$75.7 million (US$91.2 million in 2008). This included US$47.7 million relating to the unsuccessful Caliph well in Libya, of which US$4.0 million related to prior year expenditure. Exploration expenses in the Middle East/North Africa are non-deductible for tax purposes and were only partially offset by prior period PNG tax credits, resulting in an increase in the effective tax rate on core profit from 50.5% in 2008 to 56.0%."

Safety record improves for fifth consecutive year

"Oil Search's Total Recordable Injury Frequency Rate in 2009 was 1.16 per million hours worked, compared to 2.04 per million hours worked in 2008. This represented the fifth consecutive year of improvement and puts Oil Search well within the top quartile for safety performance amongst our global energy peers. We are proud of our safety record and committed to continuing to deliver a safe working environment for our staff and contractors."

Shareholder Returns

"Oil Search delivered an annualised Total Shareholder Return (TSR) for the five years to end December 2009 of 29.5%, making Oil Search the top-ranking TSR performer out of the ASX 100 over this period (based on the ASX 100 composition at 01/01/2004). Over a three year period, the Company generated an annualised return of 24.1%, while the TSR over 2009 was 33.5%."

Reserves – A seven-fold increase in proven and probable reserves

"As already highlighted, as a result of the development decision on the PNG LNG Project, Oil Search booked 300.6 mmboe of proven reserves and 505.4 mmboe of proven and probable reserves relating to the PNG LNG Project. The reserves reflect the initial LNG Project equity determination and the PNG Government back-in, both of which took place in December 2009. Recent drilling results and ongoing reservoir studies indicate that additional upside exists in the key gas and oil fields and there is potential for further reserves bookings in the coming years.

In total, at 31 December 2009, the Company had proven reserves of 344.5 mmboe and proven and probable reserves of 566.9 mmboe. Apart from the PNG LNG Project reserves booking, other 2P reserves movements reflected 2009 production of 8.1 mmboe offset by oil reserve additions at Kutubu, Gobe and SE Gobe of 2.8 mmbbl.

In addition, the Company had a contingent resource inventory of 281.2 mmboe of gas and associated liquids, taking total 2P reserves and 2C resources to 848.1 mmboe.

The 2C resource figure was impacted by the transfer of 505 mmboe of contingent resources relating to the PNG LNG Project to reserves, a 79 mmboe adjustment relating to the PNG Government's back-in to the PNG LNG Project and the Project's initial equity determination and a 21 mmboe revision relating to a number of non-Project fields' gas and condensate liquids estimates and the back-in by the PNG Government to the Juha North field."

Exploration

"During 2009, two discoveries were made in Oil Search's Middle East licences, with oil found at the Shakal-1 well in Kurdistan, Iraq and gas and condensate at the Tubb'a well in Block 3 in Yemen. These discoveries were pleasing and support the decision to retain these licences when the Company sold the majority of its Middle East/North African licences in 2008. Analysis of the optimum programme to maximise the value of these assets will take place following the present round of drilling in Yemen and a review of the development options for Tubb'a and Shakal.

In PNG, towards the end of the year, an Agogo development well was deepened to test an exploration target and discovered oil in several intervals in a previously untested footwall forelimb compartment. These intervals will be flow tested during 2010 to determine hydrocarbon content, reservoir productivity and the potential for further development opportunities. Importantly, the discovery of oil in the Agogo footwall forelimb has opened up a new play fairway in the Fold Belt and has significant implications for the development of analogous structures below existing fields and the prospectivity on trend in adjacent licences."

On the outlook for 2010, Mr Botten said:

PNG LNG Project

"The remaining issues to Financial Close, including signing the final SPA, which will result in the PNG LNG plant's initial capacity being fully contracted, are expected to be resolved during the first quarter of 2010 with first draw downs from the Project financing facility expected shortly after Financial Close.

During 2010, the following activities are expected to take place:

- Continued early works construction activities.
- Completion of detailed design work.
- Ordering of long lead items and placement of purchase orders.
- Opening of supply routes.
- Mobilisation of contractors.
- Commencement of construction of the 'Associated Gas' (gas associated with the oil fields) facilities."

Production Outlook

"As highlighted in the fourth quarter report, we anticipate that 2010 full year production will be approximately 10% lower than in 2009, in the range of 7.2 to 7.4 mmboe. Key focus areas for the oil fields in 2010 are on gas conservation and improving facilities and infrastructure reliability and extending facility life, to ensure they can support 30 plus more years of liquids production from the PNG LNG Project. In addition, the Company's programme to improve the oil field cost structure and capital efficiency will continue.

Development activities planned for 2010 include:

- Drilling of 1-2 development wells on the Moran field.
- Appraisal of the Agogo deep play and a review of its implications for other areas.
- A workover campaign in Kutubu, Moran and SE Gobe."

Exploration Outlook

"Oil Search's exploration activities over the next few years are of key importance as any success will be instrumental in driving the Company's long term growth beyond the PNG LNG Project. In PNG, the focus is on finding additional gas to underpin LNG expansion, while the key aim in the Middle East and North Africa (MENA) is to discover material hydrocarbons and/or to maximise the asset value of the remaining licence interests in the region. Key exploration activities in 2010 include the drilling of the Wasuma, Korka and Mananda Attic wells and extensive onshore and offshore seismic in PNG and a continued seismic and drilling programme in MENA. Further licence acquisitions are likely, in order to optimise the Company's position in future gas development opportunities."

Financial Outlook

"The key driver of Oil Search's financial results in 2010 will be the oil price. However, an additional factor in 2010 is the booking of reserves for the PNG LNG Project, which will result in oil field amortisation rates reducing by approximately 50% compared to 2009 levels, due to the spreading of oil field capital costs over a much larger reserves base. This is likely to be partly offset by higher operating costs resulting from increased in-country cost pressures as PNG LNG activity ramps up, an accelerated focus on workovers to maximise oil recovery prior to gas blow down and sustained higher Australian dollar and kina exchange rates."

Summary

"The PNG LNG Project is now in the delivery phase and we have every confidence that the Project Operator, ExxonMobil, will execute this effectively and efficiently, with continued support from Oil Search on in-country issues. Oil Search's focus has now moved to generating growth beyond PNG LNG. 2010 onwards presents a period of enormous opportunity, to capitalise on our existing strong position. With a very healthy balance sheet, we are well placed to pursue and deliver further significant value growth to shareholders."

PETER BOTTEN, CBE
Managing Director
23 February 2010

FINANCIAL PERFORMANCE

Year to 31 December	2007	2008	2009	% change 2009/2008
SALES DATA				
Oil sales (mmbbl)	8.71	7.46	6.95	-7
Gas equivalent sales (mmscf)	4,797	5,415	5,652	+4
Realised oil price (US$/bbl)	77.78	100.10	65.40	-35
FINANCIAL DATA (US$ million)				
Revenue from operations	718.8	814.3	512.2	-37
Operating costs	(121.3)	(116.3)	(102.8)	-12
Other income/ (expense)	0.8	0.0	0.0	-
EBITDAX	598.2	698.1	409.4	-41
Site Restoration	(11.1)	(9.9)	(8.6)	-13
Amortisation/Depreciation	(124.8)	(117.3)	(96.9)	-17
Exploration costs expensed	(163.3)	(91.2)	(75.7)	-17
EBIT	299.0	479.7	228.2	-52
Net financing (costs)/income	22.8	6.1	(3.3)	-154
Profit on sale of investments/ adjustments	1.3	126.1	14.9	-88
Impairment	0.1	(91.5)	-	-
Profit before Tax	323.2	520.3	239.8	-54
Taxation Expense	(186.0)	(206.9)	(106.2)	-49
Profit after tax after significant items	137.2	313.4	133.7	-57
Profit after tax before significant items	**140.8**	**240.0**	**99.6**	-59
PER SHARE DATA				
Basic EPS before significant items (US cents)	12.6	21.4	8.6	-60
Basic EPS after significant items (US cents)	12.2	28.0	11.5	-59
Diluted EPS before significant items (US cents)	12.5	21.3	8.5	-60
Diluted EPS after significant items (US cents)	12.2	27.8	11.5	-59
CFPS (US cents)	29.2	45.3	24.5	-46
Interim dividend (US cents)	4.0	4.0	2.0	-50
Final dividend (US cents)	4.0	4.0	2.0	-50
Special dividend (US cents)	-	-	-	-
Total dividend for the year (US cents)	8.0	8.0	4.0	-50

Notes:

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

FACTORS AFFECTING THE RESULT

Oil and gas production and sales

Total oil and gas production in 2009 net to Oil Search was 8.1 mmboe, 5% below 2008 levels, due to natural decline in the mature PNG oil fields, facility downtime and the sale of the Middle East producing fields in 2008, partially offset by successful development drilling and well workover campaigns.

Oil sales were 7.0 million barrels, 7% lower than in 2008, in line with lower production levels. Gas sales from the Hides field for electricity generation were 5.7 billion cubic feet, an increase of 4% on 2008.

Realised oil prices

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

Operating revenues

Revenue from operations was US$512.2 million, 37% lower than in 2008, driven by lower oil and refined product prices, lower oil sales and reduced tariff income due to lower throughput. Revenue was comprised as follows:

Revenue (US$ million)	**2008**	**2009**	**% change**
Sale of oil	746.8	454.7	-39
Sale of gas and refined products	35.4	27.7	-22
Drilling rig revenue	21.3	21.2	-
Other field revenue*	10.8	8.6	-20
Total	**814.3**	**512.2**	**-37**

* Primarily tariff income

Cash costs

Total cash operating costs were US$102.8 million, 12% lower than in 2008, reflecting lower sales volumes and cost reduction initiatives.

PNG field operating costs (including Hides) were US$79.6 million, compared to US$84.9 million in 2008. Due to the sale of the producing MENA assets, effective 1 May 2008, MENA operating costs were nil, compared to US$4.1 million in 2008. PNG net oilfield costs, excluding tariffs, averaged US$9.92 per barrel compared to US$9.72 per barrel in 2008, with the increase reflecting lower costs but spread over a lower production base.

Operating costs (US$ million)	**2008**	**2009**	**% change**
Field costs	89.0	79.6	-10.6
Other operating costs	18.2	14.8	-18.7
Net corporate costs	8.1	10.7	+32.1
FX losses/(gains)	1.0	(2.5)	na
Operating Costs	**116.3**	**102.8**	**-11.6**

Non-cash costs

Non-cash charges, including depreciation, amortisation and site restoration, fell from US$127.2 million in 2008 to US$105.4 million in 2009. The decrease reflected lower sales volumes combined with a more favourable mix of production towards fields with lower amortisation rates and lower drilling rig depreciation due to reduced rig utilisation during the period.

Exploration expense

During 2009, Oil Search spent US$438.9 million on exploration, evaluation and new venture activities, which included US$314.9 million on gas commercialisation activities, primarily PNG LNG Project costs. In line with the successful efforts accounting policy, all costs associated with unsuccessful drilling, seismic work, new venture activities and other support costs related to exploration activity were expensed. This resulted in a pre-tax charge of US$75.7 million. US$47.7 million of the exploration expense related to the unsuccessful Caliph well in Libya, including US$4.0 million of prior year expenditure. As at 31 December 2009, exploration costs capitalised pending well completion or appraisal (excluding PNG LNG FEED costs) totalled US$42.9 million.

Interest Income/Expense

Interest income fell from US$13.7 million in 2008 to US$5.5 million, due to significantly lower US dollar deposit rates. Financing costs for 2009 were US$8.9 million compared to US$7.7 million in 2008. These costs included the amortisation of the establishment costs for the Company's corporate borrowing facility and a non-cash time-value charge of US$4.2 million for future site restoration commitments (US$5.5 million in 2008).

Taxation expense

Tax expense of US$106.2 million was 49% lower than in 2008 reflecting lower operating earnings. The effective tax rate on core profit was 56%, compared to the 2008 rate of 50.5%. A large proportion of exploration expensed for 2009 was related to activities in the Middle East, the costs of which are non-deductible for tax purposes. These non-deductible cost were only partially offset by PNG tax credits relating to prior periods, resulting in an effective tax rate higher than the statutory rate in PNG of 50%.

Impairment review

Following the Company's annual impairment review, there were no changes to asset carrying values in 2009, compared to a US$91.5 million impairment loss expensed in 2008. The review compares the asset carrying value to the estimated net present value of future cash flows from each asset.

Operating cash flows

Year to 31 December (US$ million)	2008	2009
Net Receipts	766.2	361.5
Net Interest income/(expense)	10.4	2.0
Tax Paid	(269.1)	(79.4)
Operating cashflows	**507.4**	**284.1**
Net Investing cashflows	(234.9)	(382.2)
Net Financing cashflows	(81.2)	851.2
Net Cash Flow	**191.4**	**753.2**
OCFPS (US cents)	**45.3**	**25.8**

Note: 2008 figures include US$210 million received from the sale of assets to Kuwait Energy.
2009 figures include US$900 million in net proceeds from share issues, including the DRP underwriting.

Net operating cash flow fell from US$507.4 million in 2008 to US$284.1 million in 2009. The decline in net operating cash flow was primarily due to the impact of lower realised oil prices.

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

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

The Company distributed US$49.9 million to shareholders by way of the 2008 final and 2009 interim dividends. This distribution was funded by a fully underwritten dividend reinvestment plan.

Balance sheet

As at 31 December (US$ million)	2005	2006	2007	2008	2009
Cash and STDs	212.2	477.9	343.6	534.9	1,288.1
Term Debt	126.0	Nil	Nil	Nil	Nil
Net cash / (debt)	86.2	477.9	343.6	534.9	1,288.1
Gearing (%)	NA	NA	NA	NA	NA

At the end of 2009, Oil Search had no debt and US$1,288.1 million in cash, including joint venture balances. The increased cash balance reflected the Company's focus on capital management as well as the proceeds from the equity capital raising in the second half of the year. In addition, Oil Search had an undrawn corporate debt facility of US$362.5 million, taking total liquidity to US$1.65 billion.

In October 2009, Oil Search raised A$895 million from the issue of 151.7 million shares to institutional investors. Approximately A$40 million was subsequently raised from the issue of 6.9 million shares to eligible shareholders via a Share Purchase Plan. The share issue proceeds, after fees and other costs, were converted into a total of US$846.6 million.

DIVIDENDS

The Board of Directors announced a final dividend for 2009 of two US cents per share, compared to the final dividend for 2008 of four US cents. This takes the total dividend for the 2009 financial year to four US cents per share, compared to eight US cents per share in 2008. The Record Date for the final 2009 dividend payment is 17 March 2010 and the Payment Date is 9 April 2010. The shares will trade ex dividend from 11 March 2010.

2009 PRODUCTION SUMMARY

Year to 31 December	2008		2009		% Difference 2009/2008	
Oil production	**Gross daily production (bopd)**	**Net to Oil Search (mmbbls)**	**Gross daily production (bopd)**	**Net to Oil Search (mmbbls)**	**Gross daily production**	**Net to Oil Search**
Kutubu	14,825	3.258	17,691	3.877	+19	+19
Moran	17,564	3.184	14,032	2.536	-20	-20
Gobe Main	1,969	0.072	1,665	0.061	-15	-15
SE Gobe	5,233	0.489	4,229	0.394	-19	-19
SE Mananda	1,431	0.378	753	0.199	-47	**-47**
Total PNG Oil	**41,022**	**7.381**	**38,371**	**7.068**	**-6**	**-4**
Nabrajah (Yemen)	1,990	0.148	-	**-**	-	**-**
Area A (Egypt)	915	0.015	-	-	-	-
East Ras Qattara (Egypt)	305	0.032	-	-	-	-
Total MENA Oil	**3,209**	**0.195**	**-**	**-**	**-**	**-**
Total Oil	**44,231**	**7.576**	**38,371**	**7.068**	**-13**	**-7**
Hides Liquids	356	0.130	370	0.135	+4	+4
Total Oil & Condensate	**44,588**	**7.707**	**38,741**	**7.203**	**-13**	**-7**
Gas production	**Gross daily production (mmscf/d)**	**Net to Oil Search (mmscf)**	**Gross daily production (mmscf/d)**	**Net to Oil Search (mmscf)**	**Gross daily production**	**Net to Oil Search**
Hides Gas Production	**14.65**	**5,349**	**15.11**	**5,515**	**+3**	**+3**
Total Oil and Gas Production	**Gross daily production (boepd)**	**Net to Oil Search (mmboe)**	**Gross daily production (boepd)**	**Net to Oil Search (mmboe)**	**Gross daily production**	**Net to Oil Search**
	47,153	**8.596**	**41,258**	**8.122**	**-13**	**-5**

Notes:

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

2009 ANNUAL RESERVES STATEMENT

Proven Reserves

Licence/Field	End 2008 Reserves	Production	Discoveries/ Extensions/ Revisions	Acquisitions/ Divestments	End 2009 Reserves
PDL 2 - Kutubu	18.5	3.9	1.7	0.0	16.3
PDL 2 - SE Mananda	0.5	0.2	0.0	0.0	0.3
PDL 2/5/6 - Moran Unit	16.5	2.5	0.0	0.0	14.0
PDL 4 - Gobe Main	0.1	0.1	0.2	0.0	0.2
PDL 3/4 - SE Gobe	0.7	0.4	0.4	0.0	0.7
PDL 1 - Hides	13.4	1.1	0.0	0.0	12.4
PNG LNG Project	0.0	0.0	300.6	0.0	300.6
Total	49.6	8.1	302.9	0.0	344.5

Proven & Probable Reserves

Licence/Field	End 2008 Reserves	Production	Discoveries/ Extensions/ Revisions	Acquisitions/ Divestments	End 2009 Reserves
PDL 2 - Kutubu	24.7	3.9	2.2	0.0	23.0
PDL 2 - SE Mananda	0.9	0.2	0.0	0.0	0.7
PDL 2/5/6 - Moran Unit	26.7	2.5	0.0	0.0	24.1
PDL 4 - Gobe Main	0.1	0.1	0.2	0.0	0.3
PDL 3/4 - SE Gobe	1.2	0.4	0.3	0.0	1.1
PDL 1 - Hides	13.4	1.1	0.0	0.0	12.4
PNG LNG Project	0.0	0.0	505.4	0.0	505.4
Total	66.9	8.1	508.1	0.0	566.9

2009 RESERVES AND RESOURCES SUMMARY

Reserves and Resources as at 31 December 2009[1][2]

Net to Oil Search							
Licence / Field	Oil Search	Liquids [3]	Gas [4][5]	Oil Equivalent [6]	Liquids [3]	Gas [4][5]	Oil Equivalent [6]
	Interest	mmbbl	bscf	mmboe	mmbbl	bscf	mmboe
RESERVES			Proven (1P)			Proven & Probable (2P)	
PDL 2 - Kutubu	60.0%	16.3	-	16.3	23.0	-	23.0
PDL 2 - SE Mananda [7]	72.3%	0.3	-	0.3	0.7	-	0.7
PDL 2/5/6 - Moran Unit	49.5%	14.0	-	14.0	24.1	-	24.1
PDL 4 - Gobe	10.0%	0.2	-	0.2	0.3	-	0.3
PDL 3/4 - SE Gobe	25.6%	0.7	-	0.7	1.1	-	1.1
PDL 1 - Hides [8]	100.0%	1.5	65.2	12.4	1.5	65.2	12.4
Oil Fields and Hides GTE Reserves		33.0	65.2	43.9	50.7	65.2	61.6
PNG LNG Project Reserves [9]	29.0%	38.4	1,572.8	300.6	65.5	2,639.3	505.4
Subtotal Reserves		71.5	1,638.0	344.5	116.2	2,704.5	566.9
CONTINGENT RESOURCES			1C			2C	
Other Gas [10][11]					14.5	1,599.9	281.2
Subtotal Resources		-	-	-	14.5	1,599.9	281.2
TOTAL RESERVES AND RESOURCES		71.5	1,638.0	344.5	130.7	4,304.5	848.1

NOTES

(1) Numbers may not add due to rounding.
(2) Proven Reserves (1P) are as certified by independent auditors Netherland, Sewell Associates, Inc. (NSA). Proven and Probable Reserves (2P) and Contingent Resources (2C) are based on independent audit and internal assessments.
(3) Liquids include crude oil, separator and plant condensates.
(4) Full wellstream (raw) gas reduced for field separator condensates are quoted for Hides GTE and Other Gas resources.
(5) For PNG LNG Project, shrinkage has been applied to raw gas for the plant liquids recovery, fuel and flare.
(6) Oil equivalent barrels incorporate oil, condensate and gas (converted at 6 mcf / bbl).
(7) NSA did not audit SE Mananda in 2009. Estimate of reserves is based on NSA's end 2007 certifaction adjusted for 2008 and 2009 production.
(8) Hides reserves associated with the Gas to Electricity Project only.
(9) PNG LNG Project reserves comprise the Kutubu, Moran, Gobe, SE Hedinia, Hides, Angore and Juha fields. Field condensate from Kutubu, Moran and Gobe are based on licence interests.
(10) Other Gas Resources comprises the Company's other fields including SE Gobe, Juha North, P'nyang, Kimu, Pandora, Uramu, Barikewa, Iehi and Cobra fields.
(11) The Company's share in PRL 1 (Pandora) includes a 12.7% interest purchased from Command Petroleum, subject to approvals and registration.

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

For more information regarding this report, please contact:

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Oil Search will be holding a presentation for analysts and fund managers at 11.00 am AEDT today, 23 February 2010. The presentation will be webcast live over Oil Search's website. To listen to the webcast, please log on to www.oilsearch.com. If you experience any technical difficulties, please call +61 2 9016 3140

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

www.oilsearch.com

OIL SEARCH LIMITED
and its subsidiaries
ABN 055 079 868

Preliminary final report 2009

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 2009

Results for announcement to the market

			Year ended 31 December			
			2009		2008	
		% Change [b]	US$'000	A$'000 [a]	US$'000	A$'000 [a]
Revenue from operations	*down*	*-37.1%*	**512,154**	**571,027**	814,330	938,060
EBITDAX [c]	*down*	*-41.4%*	**409,387**	**456,447**	698,061	804,125
Net profit after tax, excluding significant items	*down*	*-58.5%*	**99,622**	**111,074**	239,966	276,427
Net profit after tax attributable to members	*down*	*-57.3%*	**133,680**	**149,047**	313,362	360,975
Net operating cash flow	*down*	*-44.0%*	**284,099**	**316,757**	507,423	584,521

			Year ended 31 December			
			2009		2008	
			US cents	A cents	US cents	A cents
Final dividend per security [d]			**2.00**	**TBA** [e]	4.00	5.56
Interim dividend paid per security [d]			**2.00**	**2.30**	4.00	4.78
Basic earnings per share (excluding significant items)	*down*	*-59.9%*	**8.60**	**9.58** [a]	21.43	24.68 [a]
Net operating cash flow per share	*down*	*-45.9%*	**24.51**	**27.33** [a]	45.31	52.20 [a]

a. Amounts shown have been converted from US$ to A$ at the average exchange rate of 0.7915 (2008: 0.8681).
b. % Change calculations are based on the US$ figures.
c. Earnings before interest, borrowing costs, tax, depreciation and amortisation, and exploration costs expensed.
d. No franking credits available on dividends, as Oil Search Limited is incorporated in Papua New Guinea.
e. 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 17 March 2010.

OIL SEARCH LIMITED
and its subsidiaries

ABN 055 079 868

Financial Report
for the year ended 31 December 2009

OIL SEARCH LIMITED
and its subsidiaries

Financial Report
for the year ended 31 December 2009

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

DIRECTORS

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

Mr BF Horwood, B.Comm., F.A.I.C.D., F.C.P.A. (Chairman), Non-Executive, *68 years*
Mr Horwood was appointed a director on 28 May 2004 and Chairman of Oil Search on 1 June 2004. Prior to joining Oil Search, Mr Horwood had 35 years experience with the Rio Tinto Group, having held executive positions in Australia, the United Kingdom and Papua New Guinea. Most recently, Mr Horwood was Managing Director, Rio Tinto-Australia. Mr Horwood was previously the Chairman of Energy Resources of Australia Limited and Coal and Allied Industries Limited. He has been a member of the Business Council of Australia and a director of the Minerals Council of Australia.
Ordinary shares, fully paid: 12,500; Options: nil

Mr PR Botten, CBE, B.Sc. ARSM, (Managing Director), Executive, *55 years*
Mr Botten was appointed Managing Director on 28 October 1994, having previously filled both exploration and general manager roles in the company since joining in 1992. He has extensive worldwide experience in the oil and gas business, previously holding various senior technical and managerial positions in a number of listed and government owned organisations. Mr Botten is immediate past President of the Papua New Guinea Chamber of Mines and Petroleum and is on the Executive Committee of the Australia PNG Business Council. He is also a Director of Business for 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:1,403,590; Options: nil; Performance Rights: 995,591; Restricted shares: 453,918

Mr EF Ainsworth, AM, B.Comm., F.A.I.C.D., F.C.P.A., Non-Executive, *64 years*
Mr Ainsworth joined the Board in October 2002. Mr Ainsworth has extensive energy and resources industry experience. He spent 26 years with CSR Limited ("CSR"), mainly in CSR's resources businesses, including 7 years in CSR's Oil and Gas Division, and 5 years as Managing Director of Delhi Petroleum Pty Ltd ("Delhi"). When CSR sold Delhi he became Managing Director and CEO of Sagasco Holdings Limited, then the 4th largest oil and gas company listed on the ASX. Mr Ainsworth is Chairman of Horizon Oil Ltd and a non-executive Director of Envestra Ltd (both ASX listed companies) and, from 1 January 2006, Chairman of the unlisted Tarac Australia Ltd. He was formerly Chairman of SA Generation Corporation (the South Australian Government owned coal mining and electricity generating Corporation).
Ordinary shares, fully paid: nil; Options: nil

Mr G Aopi, CBE, Executive, *55 years*
Mr Aopi was appointed an Executive Director in May 2006 and presently fills the position of General Manager PNG (Papua New Guinea), a post he took up in August 1998. Mr. Aopi has substantial public service and business experience in Papua New Guinea, having had a long and distinguished career in government, filling a number of important positions, including Secretary for Finance and Planning and Managing Director of Telikom PNG Ltd. He is presently Chairman of Independent Public Business Corporation (IPBC) and Telikom PNG Ltd. Mr Aopi is a Director of Steamships Trading, Bank of South Pacific and a number of other private sector and charitable organisations in Papua New Guinea.
Ordinary shares, fully paid: 124,066; Options: nil; Performance Rights: 164,972; Restricted shares: 102,920

Mr KG Constantinou, OBE, Non-Executive, *52 years*
Mr Constantinou joined the Board in April 2002. Mr Constantinou is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. He is a director of various companies, including Airways Hotel & Apartments Limited, Lamana Hotel Limited, Heritage Park Hotel and Gazelle International Hotel. Mr Constantinou joined the board of Bank of South Pacific in April 2009. He is also Deputy President of the Employers Federation of Papua New Guinea, a director of Airlines of PNG, Chairman of the National Physical Planning Board, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.
Ordinary shares, fully paid: nil; Options: nil

Mr R Igara, CMG, M.B.A, B.E., Grad.Dip.(International Law), Non-Executive, *57 years*
Mr Igara joined the Board in April 2002. At that time he was one of Papua New Guinea's most highly placed civil servants and he has extensive experience in the public sector, in international relations and multilateral development and financial matters. He served as a diplomat in Suva and Canberra and as the Secretary to the Department of Trade & Industry. He was formerly Chief Secretary to Government in PNG Acting Secretary for Treasury and Chairman of Mineral Resources Development Company Limited. Mr Igara was an independent director of Orogen Minerals. He has also held Chairmanships of other Boards of statutory bodies, including the PNG Investment Promotion Authority. He was a member of the Board of the Bank of Papua New Guinea from 2001 to 2005. He was the founding Chief Executive Officer of PNG Sustainable Development Program Ltd from 2002 to 2008, a company which has a 52% interest in Ok Tedi Mining Ltd, and since March 2008 to June 2009 the Executive Director (Strategic Investments Group) within PNGSDP Ltd. He currently manages their family business. He was appointed a director of a new corporate advisory and investment services firm National Capital Ltd (NCL) of Papua New Guinea in August 2009. He also serves on the boards of several community and not-for-profit organisations in PNG and the Pacific.
Ordinary shares, fully paid: 10,000; Options: nil

Mr MDE Kriewaldt, B.A., LLB. (Hons), F.A.I.C.D., Non-Executive, *60 years*
Mr Kriewaldt joined the Board in April 2002. Mr Kriewaldt is a director of Suncorp Metway Limited, Campbell Brothers Limited, Macarthur Coal Limited, BrisConnections and ImpediMed Limited. He is Chairman of Opera Queensland. He has previously served as a director of GWA International Limited, Peptech Limited and Orogen Minerals Limited and as Chairman of Suncorp Insurance and Finance, Infratil Australia Limited, Hooker Corporation Limited and Airtrain Citylink Ltd.
Ordinary shares, fully paid: 14,590; Options: nil

Mr JL Stitt, M.A. (Hons), F.A.I.C.D., Non-Executive, *66 years*
Mr Stitt joined the Board in April 1998. He has extensive experience in the international oil and gas business, having worked for 33 years with the Royal Dutch/Shell Group of companies including inter alia being responsible for Shell's world wide procurement, Director of Finance for Shell Australia, and President and CEO of Shell Japan. Mr Stitt is a former director of Woodside Petroleum Limited, Mitsubishi Chemicals K.K. and Showa Shell Sekiyu K.K.
Ordinary shares, fully paid: 42,190; Options: nil

Mr TN Warren, B.Sc. (Hons), Non-Executive, *61 years*
Mr Warren joined the Board in May 2006. Mr. Warren has had a long and distinguished career with the Shell Group of Companies, spanning many different areas of its business. He retired as Chairman of the Shell companies in Australia and the Pacific Islands on 1 May 2006, after more than 35 years with the Group. Prior to 2002, Mr Warren served as Business Director for Asia-Pacific and Australasia (2001-2002), Director of Exploration and Production Research and Technical Services (1995-2001), General Manager Western Division of the Shell Petroleum Development Company in Nigeria (1993-1995), and General Manager Operations for the Shell Petroleum Development Company in Nigeria (1992-1993). Mr Warren also held various other senior positions within the Group and was a member of Shell's Global Executive Committee for the Exploration and Production Business (1995-2002). Mr Warren was previously a director of Woodside Energy Ltd and was a member of the Business Council of Australia (2002-2006). He is a Director of the Save The Children International Alliance and Chairman of World Energy Council Australia Ltd.
Ordinary shares, fully paid: nil; Options: nil

GROUP SECRETARY

Mr MG Sullivan, B.A., Ll.B., Ll.M., FCIS, *52 years* (Resigned 18 May 2009)
Mr Sullivan joined Oil Search in 1997 as General Counsel.
Ordinary shares, fully paid: 94,017; Options: nil; Performance Rights: nil; restricted shares: nil
(Number of ordinary shares held are at the date of ceasing employment with the Group)

Mr SW Gardiner, B.Ec. (Hons), ASA *51 years* (Appointed 18 May 2009)
Mr Gardiner joined Oil Search Limited in 2003, after a 20 year career in finance at two of Australia's largest multinational construction materials companies (CSR Limited and Pioneer International Limited) and at Hutchison Telecomms. Mr Gardiner's roles at Oil Search have covered senior corporate finance responsibilities, including twelve months as Acting Chief Financial Officer. In addition to his current role of General Manager Corporate Finance, he was appointed Group Secretary in May 2009.
Ordinary shares, fully paid: 81,672; Options: nil; Performance Rights: 103,453; restricted shares: 38,200

RESULTS AND REVIEW OF OPERATIONS

Financial

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

Operations

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

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

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

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

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

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

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

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activity of the Oil Search Group is the exploration for oil and gas fields and the development and production of such fields. This is carried out as both the operator of producing and exploration joint ventures and as a non-operator participant in exploration and production joint ventures.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

COMMITTEES OF THE BOARD

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

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

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

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

ATTENDANCES AT DIRECTORS' AND COMMITTEE MEETINGS

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

		Meetings of committees		
Directors	**Directors' Meetings**	**Audit [a]**	**Remuneration and Nominations**	**Finance and Risk [a]**
Number of meetings held	7	4	6	4
Number of meetings attended				
BF Horwood [b]	7	4	6	4
PR Botten	7	-	-	-
EF Ainsworth	7	4	-	4
G Aopi	7	-	-	4
KG Constantinou	7	-	6	4
R Igara	7	3	6	-
MDE Kriewaldt	7	4	-	4
JL Stitt	7	4	6	-
TN Warren [d]	5	-	3	3

a. The Managing Director and Chief Financial Officer attend meetings at the request of the Committee.

b. Mr Horwood is ex-officio attendee at all the Committees.

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

d. Mr Warren was unable to attend meetings in late 2009 due to illness and has taken leave of absence from the Board with effect from 1 January 2010.

ENVIRONMENTAL DISCLOSURE

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

CORPORATE INFORMATION

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

SHARE BASED PAYMENT TRANSACTIONS

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

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

DIRECTORS’ AND OTHER OFFICERS’ REMUNERATION

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

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

REMUNERATION REPORT

1. Remuneration Report

This report has been prepared in accordance with section 300A of the Corporations Act 2001 and summarises the arrangements in place for the remuneration of directors, key management personnel and other employees of Oil Search for the period from 1 January 2009 to 31 December 2009. During the year Oil Search have voluntarily complied with section 300A of the Corporations Act 2001 to ensure they meet current best practice reporting for ASX listed companies.

2. Remuneration Policy

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

The objectives of the Oil Search remuneration policy are to:

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

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

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

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

Employees are also prohibited from hedging or acquiring options over unvested securities, granted under employee share plans, at any time. Regular audits of share trading are conducted by the Group Secretary to ensure compliance.

3. Role of the Remuneration and Nominations Committee

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

- Review of the ongoing appropriateness, coherence, and competitiveness of remuneration policies and practices, and recommendation of changes to the Board as appropriate;
- Oversight of the implementation of remuneration policies;

- Recommendation to the Board on the specific remuneration of executive directors, key management personnel and any other direct reports to the Managing Director;
- Recommendation to the Board of budgets for annual remuneration awards to all other employees;
- Recommendation to the Board on performance measures underpinning all Incentive Plans;
- Proposal to the Board of outcomes for any performance measures underlying Incentive Plans;
- Proposal to the Board of terms and conditions and contracts for any new Directors;
- Approval of terms and conditions and contracts for any new Key Management Personnel and other direct reports of the Managing Director.

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

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

All members of the committee were in place for the full year. The Chairman of the Board, Mr B Horwood, is an ex-officio member of the Committee and attended six meetings of the Committee in 2009. At the Committee's invitation, the Managing Director, Executive General Manager Human Resources, and Rewards Manager attend meetings in an advisory capacity and co-ordinate the work of external, independent advisors as requested. All executives are excluded from any discussions impacting their own remuneration.

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

To ensure it remains up to date with market practice, the Committee engages independent external advisors. The table below summarises work undertaken by external consultants at the Committee's request in 2009 and also notes additional work undertaken by the same consultants on behalf of management. Where a consultant was engaged by the Committee or the Board their findings were reported directly to the Committee or the Board.

Table 1 – External Consultants Engaged by the Committee in 2009

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

4. Remuneration Structure

Oil Search's remuneration structure comprises four elements:

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

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

Total Fixed Remuneration (TFR)

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

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

Short-Term Incentive (STI)

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

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

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

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

At the end of the year, the Board approves an overall STI pool based on the level of achievement against the hurdles that were determined at the start of the year. The STI pool is then distributed to employees, taking into account:

- The contribution of the employee's Division to the achievement of the organisational objectives, and
- The individual performance of the employee.

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

Table 2 – STI Awards to Employees

STI Potential Range	2007 Actual	2008 Actual	2009 Actual
0% to 200% of STI Opportunity	65.6%	85.9%	84.6%

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

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

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

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

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

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

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

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

(1) Although the grant of awards under the ESOP in 2008 was delayed due to organisational restructuring following the sale of assets in the Middle East, the Board approved the retention of the previously planned vesting date.
(2) The impact of tax changes on employee share plans in Australia was not clarified until late May 2009 and while the grant was delayed until 1 June 2009, the Board approved the retention of the previously planned vesting date.

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

For key management personnel, and other key/critical managers and staff approved by the Board, the LTI program takes the form of a grant of Performance Rights. Awards under the Performance Rights Plan (PRP) are rights to acquire ordinary shares in the Company for nil consideration, conditional on pre-determined corporate performance hurdles being met within defined time restrictions.

Vesting of the awards depends on Oil Search's Total Shareholder Return (TSR) performance over a three-year period relative to peer groups of companies. For awards prior to 2007, a single peer group of the first 150 companies included in the ASX 200 Index was used. From 2007 onwards, Oil Search's performance has been measured against two peer groups, with an equal weighting ascribed to each of:

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

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

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

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

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

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

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

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

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

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

(1) As per the PRP Rules, the TSR has been calculated by an independent external consultant and is based on share price increases and dividends paid on the shares over the measurement period. In calculating the TSR it is assumed dividends are reinvested to purchase additional shares of the Company at the closing price applicable on the ex-dividend date.
(2) While the 2007 performance rights will not vest until 7 May 2010, Oil Search relative TSR for the period 1 January 2007 to 31 December 2009 is available.

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

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

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

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

Retention Awards of Restricted Shares

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

Awards under the RSP are structured as grants of restricted shares for nil consideration. Restricted Shares are held on behalf of participants in trust, subject to disposal restrictions and forfeiture conditions, until released under the terms of the Plan.

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

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

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

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

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

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

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

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

PNG Retention Program

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

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

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

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

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

PNG LNG Project Bonus

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

5. Remuneration of Key Management Personnel

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

Total Fixed Remuneration

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

At Risk Remuneration & Relationship to Company Performance
As noted above in section 4, Oil Search executives are eligible to receive a STI and participate in a LTI program which is considered "at risk" remuneration, since any payment is dependent on performance. As explained in section 4 above, the Board's objective is that the size of these incentives should be related to how successful Oil Search is in creating Shareholder Value, whilst also being competitively positioned against benchmarks based on the reference groups of companies mentioned above.

Accordingly, the size of the STI is directly related to corporate performance against a range of key measures that impact shareholder value, namely operational metrics on safety, production, costs, Increases in hydrocarbon reserves under development, and transformational metrics on acquisition of new hydrocarbon resources and achievement of tangible value adding milestones towards commercialisation of significant gas volumes.

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

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

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

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

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

Table 5 –Senior Executive STI

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

Long Term Incentive (LTI) – Performance Rights

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

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

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

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

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

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

(1) The vesting date of 2007 Performance Rights is 7 May 2010. Oil Search's TSR for the period 1 January 2007 to 31 December 2009 will result in 100% vesting.
(2) Due to the timing of the appointment of G Aopi as an Executive Director in 2006, the allocation of 57,528 Performance Rights was made on a cash equivalent basis.
(3) Due to the timing of the commencement the employment of R Marcellus in 2007, the allocation of 91,831 Performance Rights was made on a cash equivalent basis.
(4) Z Todorcevski was granted allocations of Performance Rights in the 2007 and 2008 allocations as part of his recruitment arrangements.
(5) M Sullivan resigned from Oil Search effective 31 July 2009.
(6) The grant in 2008 to M Sullivan was made under the Employee Share Option Plan.

Corporate Financial Performance

Table 7 illustrates Oil Search's financial performance over the past five years, which may be compared with the levels of STI and LTI awards granted to key management personnel and detailed above.

Table 7 – Oil Search's Five Year Performance

Year ended 31 December	**2005**	**2006**	**2007**	**2008**	**2009**
Net profit after tax (US$m)	200.2	412.0	137.2	313.4	133.7
Diluted Earnings per share (US cents)	17.8	36.6	12.15	27.76	11.10
Dividends per share (US cents)	7.0	8.0	8.0	8.0	4.0
Shares closing price (A$)(1)	$3.65	$3.35	$4.85	$4.65	$6.12
Oil Search 3 Year TSR(2)	454%	254%	186%	39%	91%

(1) The closing price of Oil Search shares is taken on the last day of the financial year.
(2) The TSR has been calculated by an independent external consultant and is based on share price increases and dividends paid on the shares over the 3 year period up to and including 31 December of the year they are reported against.

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

Retention Awards of Restricted Shares

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

6. Remuneration Details for Key Management Personnel

The Key Management Personnel for the purposes of this report are the following employees:

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

Mr Gerea Aopi CBE – Executive General Manager Government and Public Affairs and Executive Director
Incumbent for the full year
Gerea is responsible for Government and Public Affairs process in PNG and elsewhere. He is also charged with strategy development and enactment of our Community Affairs and social programs within the Company. Gerea also plays an important role in the interface between the Company, politicians and bureaucrats in PNG.

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

Mr Philip Caldwell – Executive General Manager Oil Operations
Incumbent for the full year
Philip leads Oil Search's operations in PNG and Middle East/North Africa as well as HSES, Procurement, Projects and Subsurface functions.

Mr Paul Crute – Executive General Manager Human Resources
Incumbent for the full year
Paul is responsible for establishing and aligning people management strategies, processes and systems to ensure that Oil Search attracts, develops, retains and rewards the right people with the right skills at the right time in order to achieve the strategic objectives of the organisation.

Mr Nigel Hartley – Executive General Manager LNG Financing
Incumbent for the full year
Nigel is the executive responsible for arranging the significant financing required for Oil Search to participate fully in the PNG LNG project.

Mr Robert Marcellus – Executive General Manager Gas New Business
Incumbent for the full year
Robert has the responsibility for developing new markets for Oil Search gas.

Mr Austin Miller – Executive General Manager Investment and Strategy
Incumbent for the full year
Austin's role is to lead all commercial aspects of Oil Search's business including initiating corporate and asset related strategic planning, general commercial matters and the Company's mergers and acquisitions function.

Mr Zlatko Todorcevski – Chief Financial Officer
Incumbent from 1 June 2009
Zlatko's role is to ensure a sound financial base for the Oil Search group of companies to operate and to provide regular reports incorporating the necessary information to monitor and manage the performance of the group.

Mr Stephen Gardiner – GM Corporate Finance/Group Secretary
Incumbent for the full year
Stephen was acting in the Chief Financial Officer role until the commencement of Zlatko Todorcevksi on 1 June 2009. Stephen also became the Group Secretary on 18 May 2009. In his role, Stephen is responsible for all Group secretarial matters.

Mr Michael Sullivan – General Counsel
Resigned 31 July 2009
In his role as General Counsel, Michael held the responsibility for all Company legal matters. Michael also held the office of Group Secretary until he resigned, effective 18 May 2009.

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

Table 8 – Current Key Management Personnel Remuneration Mix

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

The remuneration mix outlined above is determined by the application of the Oil Search Remuneration Strategy, assuming STI awards at 100% of opportunity. Percentages shown in the later section on Executive Remuneration reflect actual incentives paid as a percentage of TFR, which includes movements in leave balances, non monetary benefits and share based payments calculated in accordance with AASB 2. The following table is in US Dollars and for all remuneration reporting where stated in US Dollars, the following exchange rates have been used:

Exchange Rate	**2008**	**2009**
AUD/USD	0.8681	0.7915
PGK/USD	0.3902	0.3806

Table 9 – Key Management Personnel Remuneration (US$)

Name	Year	Short Term			Post Employment	Long Term	Equity (6)		Other	Total
		Salaries, Fees and Allowances (1)	Non Monetary Benefits (2)	Short-term Incentive (3)	Company Contribution to Super (4)	Long Service Leave Accrual (5)	Perform Rights	Restrict-ed Shares	Sign On Benefits	
Directors										
P Botten	2009	1,337,166	0	1,106,194	79,150	55,996	985,754	719,357	0	4,283,617
	2008	1,528,724	0	1,405,946	86,810	108,691	937,505	297,576	0	4,365,252
G Aopi	2009	562,806(7)	32,351	396,486	48,660	4,377	134,239	78,458	0	1,257,377
	2008	310,347	52,677	291,685	19,732	6,125	100,121	87,142	0	867,829
Executives										
P Bainbridge	2009	497,166	0	403,462	38,841	0	279,459	374,670	0	1,593,598
	2008	572,868	0	391,865	44,056	0	219,985	256,860	0	1,485,634
P Caldwell*	2009	663,516	0	345,474	0	58,006	184,598	105,312	0	1,356,906
	2008	421,856	0	83,518	0	24,527	176,891	59,737	0	766,529
P Crute*	2009	340,012	5,367	265,077	41,683	0	118,024	401,996	71,235	1,243,394
	2008	272,581	0	214,806	7,866	0	37,228	262,233	296,601	1,091,315
N Hartley	2009	352,349	8,669	338,274	55,405	12,591	230,611	207,598	0	1,205,497
	2008	398,488	18,696	325,789	142,991	12,874	240,757	105,733	0	1,245,328
R Marcellus	2009	420,438	0	285,556	11,163	9,483	139,944	168,510	0	1,035,094
	2008	492,926	0	280,045	50,623	11,982	44,178	66,070	0	945,824

A Miller	2009	528,761	0	384,517	30,094	11,173	291,929	394,639	0	1,641,113
	2008	599,778	0	463,169	40,312	105,534	303,432	267,717	0	1,779,942
Z Todorcevski*	2009	373,992	7,397	254,352	6,630	0	374,425	607,264	36,952	1,661,012
	2008									
Officers of the Company										
S Gardiner*	2009	323,275	0	139,601	11,163	8,086	101,054	34,034	0	617,213
	2008	208,420	0	87,012	13,209	0	75,072	37,430	0	421,143
Former Executives										
M Sullivan*	2009	362,392	17,796	0	40,947	-9,889	38,597	0	0	449,843
	2008	355,325	29,835	0	92,868	7,153	176,153	0	0	661,334

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

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

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

Table 10 – Analysis of Bonuses Included in Remuneration

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

7. Key Terms of Employment Contracts for Key Management Personnel

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

Remuneration for all employees is reviewed via an annual process across the organisation. Remuneration for the Managing Director and the key management personnel is reviewed by the Remuneration and Nominations Committee, which then recommends to the Board:

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

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

Table 11 – Contractual Provisions for Specified Executives

Name and Job Title	Employing Company	Contract Duration	Notice Period Company	Notice Period Employee	Termination Provision
Directors					
P Botten Managing Director	OSL	Ongoing	6 months	6 months	18 months TFR
G Aopi Executive General Manager Government and Public Affairs	OSL	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Executives					
P Bainbridge Executive General Manager, LNG	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Caldwell Executive General Manager, Oil Operations	OSPNG	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
P Crute Executive General Manager, Human Resources	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
N Hartley EGM LNG Financing	POSL	Ongoing	6 months	3 months	6 months + 1 month per yr of service (a maximum of 12 months in total) of TFR
R Marcellus EGM Gas New Business	POSL	Ongoing	6 months	6 months	1 month per yr of service (to a maximum of 12 months) of TFR
A Miller Executive General Manager, Commercial	POSL	Ongoing	6 months	6 months	1 month per yr of service of TFR

Z Todorcevski Chief Financial Officer	POSL	Ongoing	6 months	6 months	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR
Officers of the Company					
S Gardiner GM Corporate Finance/Group Secretary	POSL	Ongoing	1 month	1 month	4 weeks per year of service (minimum 8, maximum of 52 weeks) of TFR

8. Equity Instruments

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

Rights Over Equity Instruments Granted as Remuneration

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

Table 12 – Details of Rights Granted

	Number of Rights Granted During 2009	Grant Date	Fair Value Per Right (A$)	Exercise Price per Right (A$)	Expiry Date	Number of Rights Vested During 2009
Directors						
P Botten	258,900	1 June 2009	$4.70	$0	1 June 2014	361,000
G Aopi	46,000	1 June 2009	$4.70	$0	1 June 2014	57,528(2)
Executives						
P Bainbridge	66,800	1 June 2009	$4.70	$0	1 June 2014	128,205
P Caldwell	61,800	1 June 2009	$4.70	$0	1 June 2014	83,846
P Crute	47,400	1 June 2009	$4.70	$0	1 June 2014	
N Hartley	54,900	1 June 2009	$4.70	$0	1 June 2014	106,838
R Marcellus	56,100	1 June 2009	$4.70	$0	1 June 2014	
A Miller	69,600	1 June 2009	$4.70	$0	1 June 2014	135,526
Z Todorcevski(1)	66,485 66,485 146,285	1 January 2009 1 January 2009 1 June 2009	$4.43 $4.19 $4.70	$0 $0 $0	25 July 2012 4 August 2013 1 June 2014	
Officers of the Company						
S Gardiner	35,000	1 June 2009	$4.70	$0	1 June 2014	24,462
Former Executives						
M Sullivan	Nil			$0	1 June 2014	94,017

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

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

	Number of Rights Granted During 2008	Grant Date	Fair Value Per Right (A$)	Exercise Price per Right (A$)	Expiry Date	Number of Rights Vested During 2008
Directors						
P Botten	338,600	4 August 2008	$4.39	$0	4 August 2013	624,000
G Aopi	48,900	4 August 2008	$4.39	$0	4 August 2013	85,000
Executives						
P Bainbridge	93,000	4 August 2008	$4.39	$0	4 August 2013	
P Caldwell	61,100	4 August 2008	$4.39	$0	4 August 2013	116,500
P Crute	65,900	4 August 2008	$4.39	$0	4 August 2013	
N Hartley	76,600	4 August 2008	$4.39	$0	4 August 2013	166,292
R Marcellus	78,200	4 August 2008	$4.39	$0	4 August 2013	
A Miller	96,900	4 August 2008	$4.39	$0	4 August 2013	206,767
Z Todorcevski						
Officers of the Company						
S Gardiner	38,700	4 August 2008	$4.39	$0	4 August 2013	45,000
Former Executives						
M Sullivan(1)	2,170	4 August 2008	$2.16	$4.88	4 August 2013	153,058

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

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

All Rights expire on the earlier of their expiry date or termination of the individual's employment. They are exercisable on the vesting date detailed in tables 3 and 4 above and the ability to exercise performance rights is conditional on Oil Search achieving certain performance hurdles. Details of the performance criteria are included in the section on Long Term Incentives above. For Rights granted in the current year the earliest exercise date is 13 May 2012.

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

Table 13 – Details of Deferred STI and Restricted Shares

	Number Granted During 2009	Grant Date	Fair Value (A$)	Exercise Price (A$)	Vesting Date
Directors					
P Botten[(1)]	165,873	3 March 2009	$4.88	$0	1 January 2011
G Aopi[(2)]	26,732	3 March 2009	$4.88	$0	1 January 2011
Executives					
P Bainbridge	46,232	3 March 2009	$4.88	$0	1 January 2011
P Caldwell	29,150	3 March 2009	$4.88	$0	1 January 2011
P Crute	25,343	3 March 2009	$4.88	$0	1 January 2011
N Hartley	35,364	3 March 2009	$4.88	$0	1 January 2011
R Marcellus	33,040	3 March 2009	$4.88	$0	1 January 2011
A Miller	50,548	3 March 2009	$4.88	$0	1 January 2011
Z Todorcevski[(3)]	124,986 99,728	1 January 2009 1 January 2009	$4.40 $4.40	$0 $0	1 January 2010 1 January 2011
Officers of the Company					
S Gardiner					
Former Executives					
M Sullivan					

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

	Number Granted During 2008	Grant Date	Fair Value (A$)	Exercise Price (A$)	Vesting Date
Directors					
P Botten[(1)]	87,760	7 March 2008	$4.16	$0	1 January 2010
G Aopi[(2)]	17,537	7 March 2008	$4.16	$0	1 January 2010
Executives					
P Bainbridge	33,331	7 March 2008	$4.16	$0	1 January 2010
P Caldwell					
P Crute [(3)]	131,356 33,898	1 May 2008 1 May 2008	$4.95 $4.95	$0	1 January 2010 1 January 2011
N Hartley	27,441	7 March 2008	$4.16	$0	1 January 2010
R Marcellus	28,018	7 March 2008	$4.16	$0	1 January 2010
A Miller	34,740	7 March 2008	$4.16	$0	1 January 2010
Officers of the Company					
S Gardiner					
Former Executives					
M Sullivan[(4)]	24,148	7 March 2008	$4.16	$0	1 January 2010

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

Modification of Terms of Equity Settled Share Based Payment Transactions

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

Exercise of Rights Granted as Remuneration

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

Table 14 – Details of the Exercise of Rights

2009

	Number of Shares	Amount Paid per Share
Directors		
P Botten	361,000	$0
G Aopi(1)	57,528	$0
Executives		
P Bainbridge	128,205	$0
P Caldwell	83,846	$0
P Crute		
N Hartley	106,838	$0
R Marcellus		
A Miller	135,256	$0
Z Todorcevski		
Officers of the Company		
S Gardiner	81,462	$0
Former Executives		
M Sullivan	94,017	$0

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

2008

	Number of Shares	Amount Paid per Share
Directors		
P Botten	1,040,000	$0
G Aopi	129,000	$0
Executives		
P Bainbridge		
P Caldwell	116,500	$0
P Crute		
N Hartley	166,292	$0
R Marcellus		
A Miller	206,767	$0
Z Todorcevski		
Officers of the Company		
S Gardiner		
Former Executives		
M Sullivan	153,058	$0

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

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

Table 15 – Details of Vesting Profile of Rights

	Rights Granted				
	Number	**Date**	**% Vested in Year**	**% Forfeited in Year**	**Financial Year of Vesting**
Directors					
P Botten	361,000	28 July 2006	100%	0%	1 January 2009
	398,091	7 May 2007			1 January 2010
	200,285	13 December 2007			1 January 2010
	87,760	7 March 2008			1 January 2010
	338,600	4 August 2008			1 January 2011
	165,873	3 March 2009			1 January 2011
	258,900	1 June 2009			1 January 2012
G Aopi	57,528(1)	28 July 2006	100%	0%	1 January 2009
	70,072	7 May 2007			1 January 2010
	58,651	13 December 2007			1 January 2010
	17,537	7 March 2008			1 January 2010
	48,900	4 August 2008			1 January 2011
	26,732	3 March 2009			1 January 2011
	46,000	1 June 2009			1 January 2012
Executives					
P Bainbridge	128,205	28 July 2006	100%	0%	1 January 2009
	109,258	7 May 2007			1 January 2010
	172,881	13 December 2007			1 January 2010
	33,331	7 March 2008			1 January 2010
	93,000	4 August 2008			1 January 2011
	46,232	3 March 2009			1 January 2011
	66,800	1 June 2009			1 January 2012
P Caldwell	83,846	28 July 2006	100%	0%	1 January 2009
	58,000	7 May 2007			1 January 2010
	60,966	13 December 2007			1 January 2010
	61,100	4 August 2008			1 January 2011
	29,150	3 March 2009			1 January 2011
	61,800	1 June 2009			1 January 2012
P Crute	131,356	1 May 2008			1 January 2010
	33,898	1 May 2008			1 January 2011
	65,900	4 August 2008			1 January 2011
	25,343	3 March 2009			1 January 2011
	47,400	1 June 2009			1 January 2012

N Hartley	106,838	28 July 2006	100%	0%	1 January 2009
	90,012	7 May 2007			1 January 2010
	71,164	13 December 2007			1 January 2010
	27,441	7 March 2008			1 January 2010
	76,600	4 August 2008			1 January 2011
	35,364	3 March 2009			1 January 2011
	54,900	1 June 2009			1 January 2012
R Marcellus	91,831(2)	7 May 2007			1 January 2010
	67,429	13 December 2007			1 January 2010
	28,018	7 March 2008			1 January 2010
	78,200	4 August 2008			1 January 2011
	33,040	3 March 2009			1 January 2011
	56,100	1 June 2009			1 January 2012
A Miller	135,256	28 July 2006	100%	0%	1 January 2009
	113,956	7 May 2007			1 January 2010
	180,188	13 December 2007			1 January 2010
	34,740	7 March 2008			1 January 2010
	96,900	4 August 2008			1 January 2011
	50,548	3 March 2009			1 January 2011
	69,600	1 June 2009			1 January 2012
Z Todorcevski	124,986	1 January 2009			1 January 2010
	66,485	1 January 2009			1 January 2010
	99,728	1 January 2009			1 January 2011
	66,485	1 January 2009			1 January 2011
	146,285	1 June 2009			1 January 2012
Officers of the Company					
S Gardiner	24,462	28 July 2006	100%	0%	1 January 2009
	29,753	7 May 2007			1 January 2010
	38,200	13 December 2007			1 January 2010
	38,700	4 August 2008			1 January 2011
	35,000	1 June 2009			1 January 2012
Former Executives					
M Sullivan	94,017	28 July 2006	100%	0%	1 January 2009
	79,211	7 May 2007	0%	100%	1 January 2010
	24,148	7 March 2008	0%	100%	1 January 2010
	2,170	4 August 2008	0%	100%	1 January 2011

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

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

Analysis of movements in Options

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

Table 16 – Movement by Value of Rights

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

(1) The value of the Rights is the fair value at the time of grant for options and performance rights and the share price on the date of grant of the shares issued under the Restricted Shares Plan.
(2) The value of Rights exercised is the based on the market price of Oil Search shares on the close of trade on the date of exercise.
(3) The value of the Rights lapsed is the fair value at the time of grant for options and performance rights and the value on the date of grant of the shares issued under the Restricted Shares Plan.

9. Non-Executive Director Remuneration

Remuneration policy

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

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

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

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

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

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

Board fees are paid to non-executive directors only.

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

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

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

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

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

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

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

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

Name	Year	Short Term			Post Employment	Long Term	Equity (6)		Other	Total
		Salaries, Fees and Allowances	Non Monetary Benefits	Short-term Incentive	Company Contribution to Super	Long Service Leave Accrual	Perform Rights	Restrict-ed Shares	Sign On Benefits	
Executive Directors										
P Botten	2009	1,337,166	0	1,106,194	79,150	55,996	985,754	719,357	0	4,283,617
	2008	1,528,724	0	1,405,946	86,810	108,691	937,505	297,576	0	4,365,252
G Aopi	2009	562,806(1)	32,351	396,486	48,660	4,377	134,239	78,458	0	1,257,377
	2008	310,347	52,677	291,685	19,732	6,125	100,121	87,142	0	867,829
Non-Executive Directors										
BF Horwood	2009	324,515								324,515
	2008	332,772								332,772
F Ainsworth	2009	151,177								151,177
	2008	152,496								152,496
KG Constantinou	2009	143,262								143,262
	2008	143,526								143,526
R Igara	2009	148,011								148,011
	2008	147,866								147,866
MDE Kriewaldt	2009	153,551								153,551
	2008	154,811								154,811
JL Stitt	2009	148,011								148,011
	2008	147,866								147,866
TN Warren	2009	149,989								149,989
	2008	150,760								150,760

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS, EMPLOYEES AND AUDITORS

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

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

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Deloitte Touche Tohmatsu's Independence Declaration which forms part of this report is attached on page 34.

LIKELY FUTURE DEVELOPMENTS

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

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

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

ROUNDING

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

Signed in accordance with a resolution of the Directors.

B. F. Horwood
....
BF HORWOOD
Chairman

....
PR BOTTEN
Managing Director

Sydney, 22 February 2010

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

22 February 2010

Dear Directors,

Oil Search Limited

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

As lead audit partner for the audit of the financial statements of Oil Search Limited for the year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

John A Leotta
Partner
Chartered Accountants

OIL SEARCH LIMITED
and its subsidiaries

Statements of comprehensive income
for the financial year ended 31 December 2009

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

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

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

OIL SEARCH LIMITED
and its subsidiaries

Statements of financial position
as at 31 December 2009

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

The balance sheets should be read in conjunction with the accompanying notes.

OIL SEARCH LIMITED
and its subsidiaries

Statements of cash flows
for the financial year ended 31 December 2009

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

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

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

Statements of changes in equity for the financial year ended 31 December 2009

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

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

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

1 Summary of significant accounting policies

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

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

(a) Basis of preparation

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

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

(i) Issued standards adopted during year

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

(ii) Issued standards not early adopted

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

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

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. Subsidiaries are consolidated from the date the parent obtains control and until such time as control ceases.

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

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

(c) Currency translation

Translation of transactions denominated in currencies other than US dollars

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

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

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

Translation of financial reports of overseas operations

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

(d) Income recognition

Oil, gas and other liquid sales

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

Dividend income

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

(e) Capitalisation of borrowing costs

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

(f) Leases

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

1 Summary of significant accounting policies (continued)

(g) Share-based remuneration

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

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

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

(h) Income tax

The current tax payable or receivable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The economic entity’s liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax benefits transferred between group companies are transferred under normal commercial arrangements, with consideration paid equal to the tax benefit of the transfer.

(i) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined as follows:
(i) materials, which include drilling and maintenance stocks, are valued at the cost of acquisition; and
(ii) petroleum products, comprising extracted crude oil and condensate stored in tanks and pipeline systems, are valued using the full absorption cost method.
Inventories are accounted for on a FIFO basis.

(j) Exploration and evaluation assets

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

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

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

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

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to Oil and gas assets - Assets in development.

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.

Amortisation of oil and gas assets

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

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

Restoration costs

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the balance sheet at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

1 Summary of significant accounting policies (continued)

(l) Other property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment. Any gain or loss on the disposal of assets is determined as the difference between the carrying value of the asset at the time of disposal and the proceeds from disposal, and is included in the results of the economic entity in the year of disposal.

Depreciation

Depreciation on corporate plant and equipment is calculated on a straight-line basis so as to generally write off the cost of each fixed asset over its estimated useful life on the following basis:

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

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

(m) Impairment of assets

The carrying amounts of all assets, other than inventory, certain financial assets and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. Where such an indication exists, an estimate of the recoverable amount is made. For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

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

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

(n) Jointly controlled operations

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

(o) Employee benefits

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. Vested benefits are classified as current liabilities.

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

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.

Borrowings

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

Cash and cash equivalents

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

Investments

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

Hedging contracts

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

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

(q) Critical accounting estimates and assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and asusmptions 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 asusmptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

1 Summary of significant accounting policies (continued)

(q) Critical accounting estimates and assumptions (continued)

Impairment of assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment are discussed in notes 12 to 14.

Restoration obligations

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, environmental legislation, the extent of restoration activities required and future removal technologies. For more detail regarding the policy in respect of provision for restoration refer to note 1(k).

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

Reserve estimates

The estimated reserves are management assessments and take into consideration reviews by an independent third party, Netherland Sewell and Associates under the reserve audit program requiring an external audit of each producing field every three years, as well as other assumptions, interpretations and assessments. These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries.

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

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

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(h). the application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

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

(r) Rounding

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

		Consolidated		Chief Entity	
		2009	**2008**	**2009**	**2008**
		US$'000	**US$'000**	**US$'000**	**US$'000**
2	**Revenue from operations**				
	Oil sales (gross)	**454,678**	746,779	**945**	4,057
	Gas and refined product sales	**27,721**	35,375	**-**	910
	Other field revenue	**29,755**	32,176	**-**	-
		512,154	814,330	**945**	4,967
3	**Other expenses**				
	Salaries and short term employee benefits	**(34,074)**	(39,524)	**-**	-
	Post-employment benefits	**(2,141)**	(2,697)	**-**	-
	Employee share-based remuneration	**(12,351)**	(9,690)	**-**	-
	Premises and equipment - operating leases	**(3,623)**	(4,083)	**-**	-
	Other expenses	**(19,984)**	(28,646)	**(3,602)**	(3,241)
	Corporate cost recoveries	**61,445**	76,588	**-**	-
	Net corporate expenses	**(10,728)**	(8,052)	**(3,602)**	(3,241)
	Depreciation	**(4,715)**	(5,661)	**-**	-
	Foreign currency (losses)/gains	**2,455**	(992)	**434**	518
		(12,988)	(14,705)	**(3,168)**	(2,723)
4	**Significant items**				
	Excess of proceeds over writen down book value in relation to State Back-In LNG	**15,414**	-	**-**	-
	Applicable income tax benefit	**6,378**	-	**-**	-
		21,792	-	**-**	**-**
	Reinstatement of tax benefits, following LNG Project development approval	**12,766**	-	**-**	-
	Contractual adjustment to profit on sale of JV interest	**(500)**	(1,000)	**-**	-
	Proceeds on sale of MENA assets	**-**	225,321	**-**	-
	Assets and liabilities disposed	**-**	(97,682)	**-**	-
	Net profit on sale of MENA assets	**-**	127,639	**-**	-
	Impairment losses	**-**	(91,530)	**-**	-
	Applicable income tax benefit	**-**	38,287	**-**	-
	Net impairment losses	**-**	(53,243)	**-**	**-**
	Total significant items	**34,058**	73,396	**-**	-

		Consolidated		Chief Entity	
		2009	**2008**	**2009**	**2008**
		US$'000	**US$'000**	**US$'000**	**US$'000**
5	**Net financing costs**				
	Interest received or receivable from others	**5,543**	13,768	**2,115**	8,219
	Interest paid or payable to:				
	others	**(12)**	(857)	**-**	-
	subsidiaries	**-**	-	**(859)**	(961)
		(12)	(857)	**(859)**	(961)
	Borrowing costs	**(4,638)**	(1,336)	**(2)**	(1,140)
		(4,650)	(2,193)	**(861)**	(2,101)
	Unwinding of discount on site restoration	**(4,219)**	(5,482)	**(4)**	(15)
	Total borrowing costs expensed	**(8,869)**	(7,675)	**(865)**	(2,116)
	Net financing costs	**(3,326)**	6,093	**1,250**	6,103
6	**Income tax**				
	The major components of tax expenses are:				
	Current tax expense	**109,413**	245,229	**-**	3,509
	Deferred tax expense/(income)	**11,686**	(34,235)	**2,824**	(3,623)
	Adjustments for current tax of prior periods	**(14,949)**	(4,051)	**3,716**	1,057
	Income tax expense	**106,150**	206,943	**6,540**	943
	Reconciliation between tax expense and the pre-tax profit multiplied by the applicable tax rate is set out below:				
	Pre-tax profit/(loss)	**239,830**	520,305	**(1,722)**	(2,747)
	Tax at PNG rate for petroleum (50%)	**119,917**	260,154	**(861)**	(1,374)
	Effect of differing tax rates across tax regimes	**(9,979)**	2,291	**460**	1,255
		109,938	262,445	**(401)**	(119)
	Tax effect of items not tax deductible or assessable:				
	Profit on sale of MENA assets	**-**	(63,819)	**-**	-
	Under/(over) provisions in prior periods	**(14,949)**	(4,051)	**3,716**	1,057
	Non-deductible expenditure	**32,700**	15,241	**3,225**	5
	Non-assessable income	**(6,378)**	**-**	**-**	-
	Write-back of deferred tax liabilities	**(12,766)**	**-**	**-**	-
	Other	**(2,395)**	(2,873)	**-**	-
	Income tax expense	**106,150**	206,943	**6,540**	943

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
6 Income tax (continued)				
The amount of the deferred tax expense/(benefit) recognised in the net profit in respect of each type of temporary difference:				
Exploration and development	**23,019**	(29,810)	**1,251**	(3,046)
Other assets	**(501)**	(5,287)	**1,844**	-
Provisions	**(12,603)**	(2,114)	**91**	(577)
Other items	**(745)**	3,225	**(760)**	
Tax losses	**2,516**	(249)	**398**	-
	11,686	(34,235)	**2,824**	(3,623)

	Consolidated	
	2009	**2008**
	US cents	**US cents**
7 Earnings per share		
Basic earnings per share (excluding significant items)	**8.60**	21.43
Basic earnings per share (including significant items)	**11.53**	27.98
Diluted earnings per share (excluding significant items)	**8.54**	21.26
Diluted earnings per share (including significant items)	**11.46**	27.76

	No.	**No.**
Weighted average number of ordinary shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
Basic earnings per share	**1,159,038,387**	1,119,841,193
Employee share options	**947,483**	1,252,663
Employee performance rights	**6,738,826**	7,834,413
Diluted earnings per share	**1,166,724,696**	1,128,928,269

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

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

Diluted earnings per share have been calculated on a net profit after tax of US$133.680 million (2008: US$313.362 million). There are 3,190,125 options (2008: 4,549,767), and 6,511,498 rights (2008: 6,795,186) which are dilutive potential ordinary shares and are therefore included in the weighted average number of shares for the calculation of diluted earnings per share.

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
8 Dividends paid or proposed				
Unfranked [a] dividends in respect of the year, proposed subsequent to the year end:				
Ordinary dividends [b]	**25,991**	44,794	**25,991**	44,794
Unfranked [a] dividends paid during the year:				
Ordinary – previous year final	**44,682**	44,767	**44,682**	44,767
Ordinary – current year interim [c]	**22,677**	44,648	**22,677**	44,648
	67,359	89,415	**67,359**	89,415

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

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

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

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
9 Receivables				
Current				
Trade debtors	**81,347**	41,222	**-**	189
Other debtors [a]	**27,436**	54,910	**788**	8,549
Amounts due from subsidiary entities	**-**	-	**145,611**	28,738
	108,783	96,132	**146,399**	37,476
Non-current				
Amounts due by:				
subsidiaries	**-**	-	**-**	-
other entities	**416**	42,848	**-**	-
	416	42,848	**-**	-

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

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
10 Inventories				
Current				
At cost				
Materials and supplies	**53,316**	47,693	**-**	113
Petroleum products	**6,202**	5,161	**-**	13
	59,518	52,854	**-**	126
11 Other assets				
Current				
Prepayments	**4,424**	3,748	**124**	122
Non current				
Prepayments	**1,206**	1,651	**-**	-
12 Exploration and evaluation assets				
At cost	**823,818**	567,699	**63,202**	95,208
Less impairment	**(15,500)**	(51,443)	**-**	-
	808,318	516,256	**63,202**	95,208
Balance at start of year	**516,256**	376,894	**95,208**	62,578
Transfer to another subsidiary	**-**	-	**(149,857)**	-
Expenditure incurred during the year	**438,922**	257,286	**122,791**	42,426
Exploration costs expensed during the year	**(75,729)**	(91,234)	**(4,870)**	(9,796)
Impairment losses	**-**	(17,153)	**-**	-
Disposals	**(70,985)**	(9,669)	**-**	-
Net exchange differences	**(146)**	132	**-**	-
Transferred to producing assets	**-**	-	**(70)**	-
Balance at end of year	**808,318**	516,256	**63,202**	95,208

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

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
14 Other property, plant and equipment				
At cost	**149,071**	142,415	**247**	247
Less accumulated depreciation and impairment	**(72,851)**	(62,409)	**-**	-
	76,220	80,006	**247**	247
Rigs				
Balance at start of year	**71,632**	75,057	**-**	-
Reclassification to other plant and equipment	**(316)**	-	**-**	-
Additions	**1,853**	28,865	**-**	-
Disposals	**-**	(485)	**-**	-
Depreciation	**(5,727)**	(12,086)	**-**	-
Impairment losses	**-**	(19,707)	**-**	-
Net exchange differences	**-**	(12)	**-**	-
Balance at end of year	**67,442**	71,632	**-**	-
Other property, plant and equipment				
Balance at start of year	**8,374**	12,758	**247**	224
Reclassification from rigs	**316**	-	**-**	-
Additions	**3,232**	3,151	**-**	23
Depreciation	**(4,715)**	(5,661)	**-**	-
Net exchange differences	**1,571**	(1,874)	**-**	-
Balance at end of year	**8,778**	8,374	**247**	247
15 Non-current investments				
Available-for-sale assets:				
Shares not quoted on stock exchange [a]	**962**	962	**-**	-
Accumulated impairment losses	**(962)**	(962)	**-**	-
	-	-	**-**	-
Shares in subsidiaries (at cost)	**-**	-	**326,507**	326,507
	-	-	**326,507**	326,507

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

16 Deferred tax assets				
Temporary differences				
Other assets	**1,512**	5,453	**-**	-
Provisions	**69,135**	61,993	**24**	134
Exploration and development	**-**	-	**-**	9,608
Other	**921**	2,933	**-**	110
Tax losses recognised	**20,834**	18,522	**1,552**	-
	92,402	88,901	**1,576**	9,852

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
17 Payables				
Current				
Trade creditors and accruals	**204,119**	166,127	**18,869**	14,018
Other payables	**-**	3,453	**2,043**	1,422
	204,119	169,580	**20,912**	15,440
18 Provisions				
Current				
Employee entitlements	**11,883**	12,196	**-**	-
Directors retirement allowances	**80**	80	**80**	80
	11,963	12,276	**80**	80
Non-current				
Site restoration [a]	**121,402**	114,121	**-**	288
Other	**750**	500	**-**	-
	122,152	114,621	**-**	288
Movement in site restoration provision				
Balance at start of year	**114,121**	99,493	**288**	114
Revision of provision	**3,062**	9,146	**-**	9
Unwinding of discount	**4,219**	5,482	**4**	15
Reclassification	**-**	-	**-**	150
Transfer to another subsidiary	**-**	-	**(292)**	-
Balance at end of year	**121,402**	114,121	**-**	288

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

	Consolidated		Chief Entity	
19 Deferred tax liabilities				
Temporary differences				
Exploration and development	**86,708**	95,141	**1,037**	-
Prepayments and receivables	**206**	219	**138**	158
Other assets	**9,830**	5,250	**-**	-
Other differences	**-**	15	**-**	-
	96,744	100,625	**1,175**	158

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
20 Share capital and reserves				
Issued 1,299,562,220 (2008: 1,119,841,193)				
Ordinary shares, fully paid (no par value)	**1,550,213**	620,491	**1,550,213**	620,491

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

a. The DRP was fully underwritten for the 2008 final dividend and the 2009 interim dividend.

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

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

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

	Consolidated		Chief Entity	
	2009	2008	2009	2008
	US$'000	US$'000	US$'000	US$'000
20 Share capital and reserves (continued)				
a) Reserves at the end of the financial year				
Foreign currency translation reserve	**2,737**	(3,677)	**-**	-
Amalgamation reserve	**-**	-	**(2,990)**	(2,990)
Reserve for treasury shares	**(16,821)**	(7,666)	**-**	-
Employee equity compensation reserve	**19,531**	12,857	**13,465**	12,857
Balance at end of year	**5,447**	1,514	**10,475**	9,867
b) Movements in reserves				
Foreign currency translation reserve				
Balance at start of year	**(3,677)**	3,280	**-**	-
Translation of financial statements of foreign subsidiaries	**6,414**	(6,957)	**-**	-
Balance at end of year	**2,737**	(3,677)	**-**	-

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

Amalgamation reserve				
Balance at start of year	**-**	-	**(2,990)**	(2,990)
Balance at end of year	**-**	-	**(2,990)**	(2,990)

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

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

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

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

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

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
21 Statement of cash flows				
(a) For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank, deposits at call, and bank overdraft				
Cash at bank and on hand [a]	**151,694**	93,917	**105,471**	16,213
Share of cash in joint ventures	**33,182**	17,415	**534**	659
Interest-bearing short-term deposits [b]	**1,103,201**	423,596	**925,233**	221,791
	1,288,077	534,928	**1,031,238**	238,663

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

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

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

(c) Financing facility

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

	Consolidated		Chief Entity	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
22 Interests in jointly controlled operations				
(a) Net assets employed in joint ventures				
Current assets				
Cash	**33,182**	17,415	**534**	659
Receivables	**10,343**	17,871	**180**	297
Inventories	**47,678**	40,637	**-**	113
Non-current assets				
Exploration and evaluation assets	**808,318**	516,256	**63,202**	95,208
Oil and gas assets	**638,026**	588,133	**-**	1,672
Current liabilities	**(169,160)**	(82,309)	**(3,050)**	(9,988)
	1,368,387	1,098,003	**60,866**	87,961

(b) Interests in jointly controlled operations

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

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

(i) Production joint ventures		**Country**	**% Interest 2009**	**2008**
PDL 1 [a]	Hides gas to electricity project	PNG	**100.00**	100.00
PDL 2 [b, c]	Kutubu & Moran oil fields	PNG	**60.05**	60.05
PDL 2 [b]	South East Mananda oil fields	PNG	**72.27**	72.27
PDL 3	Gobe oil field	PNG	**36.36**	36.36
PDL 4 [b]	Gobe oil field	PNG	**10.00**	10.00
PDL 5 [c]	Moran oil field	PNG	**40.69**	40.69
PDL 6 [b, c]	Moran oil field	PNG	**71.07**	72.52
PL 1 [b]	Hides gas pipeline	PNG	**100.00**	100.00
PL 2 [b]	Kutubu oil pipeline	PNG	**60.05**	60.05
PL 3 [b]	Gobe oil pipeline	PNG	**17.78**	17.78

a. Economic entity is operator of the gas to electricity project.

b. Joint venture operated by the economic entity.

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

22 Interests in jointly controlled operations (continued)

(ii) Exploration joint ventures		Country	% Interest 2009	2008
PPL 190 [a]		PNG	**62.56**	62.56
PPL 219 [a]		PNG	**71.25** [c]	72.52
PPL 233		PNG	**52.50**	52.50
PPL 234 [a]		PNG	**80.00** [c]	100.00
PPL 239 [a]		PNG	**80.00** [c]	100.00
PPL 240 [a]		PNG	**100.00** [c]	90.00 [b]
PPL 244		PNG	**30.00** [c]	40.00
PPL 260 [a]		PNG	**50.00** [c]	-
Bina Bawi		Iraq	**-**	6.00
Shakal		Iraq	**15.00**	15.00
Area 18		Libya	**30.00** [e]	30.00
Le Kef		Tunisia	**50.00**	50.00
Tajerouine [a]		Tunisia	**100.00**	100.00
Block 3 [a]		Yemen	**60.00**	60.00
Block 7 [a]		Yemen	**34.00** [d]	34.00 [d]
(iii) Gas licence joint ventures				
PDL 1	Hides gas field	PNG	**16.66**	21.50
PDL 7	Hides gas field	PNG	**40.69**	-
PDL 8	Hides gas field	PNG	**40.69**	-
PDL 9	Hides gas field	PNG	**24.42**	-
PRL 1	Hides gas field	PNG	**17.73**	5.00
PRL 2	Hides gas field	PNG	**31.51**	31.51
PRL 3	Hides gas field	PNG	**38.51**	38.51
PRL 8 [a]	Hides gas field	PNG	**60.71**	60.71
PRL 9	Hides gas field	PNG	**42.55**	42.55
PRL 10 [a]	Hides gas field	PNG	**59.55** [c]	49.55 [b]
PRL 11	Hides gas field	PNG	**52.50**	52.50
PRL 12	Hides gas field	PNG	**-**	52.50
PNG LNG	PNG LNG project	PNG	**29.00**	34.05

a. Joint venture operated by the economic entity.
b. Awaiting government department approval and registration of 10.00% transfer to Oil Search.
c. Awaiting government department approval.
d. Awaiting ministerial grant.
e. Notice of withdrawal submitted.

23 Segment reporting

Information about reportable segments

The Group's segments are arranged primarily by location of operation (e.g. PNG and MENA) followed by the commodity (e.g. oil, gas or LNG).
Each managed segment has a management team that is accountable to the Managing Director.
The Group's Executive Management team evaluates the financial performance of the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment.

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

Geographical segments

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

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

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

Major customers

Revenue from one customer of the Group's PNG oil and gas segment represents approximately $368.3 million or 77% of the Group's total oil and gas sales revenues (2008: $529.3 million, 70%) and 72% of the Group's total revenue of $512.2 million (2008: 65% of $814.3 million).
Revenue from each of the other customers is less than 10% of total revenue for the Group.

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

The provisions represent amounts due to employees in respect of entitlements to annual leave and long service leave accrued under statutory obligations applicable in Australia, PNG, and Middle East and North Africa. These amounts are payable in the normal course of business either when leave is taken or on termination of employment.

Employee Share Option Plan

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

24 Employee entitlements and superannuation commitments (continued)
Employee Share Option Plan (continued)

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

a. Whilst not formally granted until 28 October 2005, the 2005 options were awarded on 13 May 2005, when the share price was A$2.29. Shares

b. 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.

c. Fair value of shares granted on 1 June 2009 is A$2.02.
d. Settled by cashing out and cancelling the options or by issuing new shares on market.
e. Settled by cashing out and cancelling the options or by purchasing shares on market.

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

	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant	June 2004 grant
Volatility	40%	38%	32%	35%	40%	40%
Dividend yield	4.55%	1.50%	2.90%	1.80%	1.73%	3.00%
Risk-free interest rate	2.00%	5.96%	5.93%	5.90%	5.27%	5.60%

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

24 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:

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

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

For each peer group, if Oil Search's TSR performance is:
- below median, that is the 50th percentile, no performance rights will vest;
- at the median, 25% of the performance rights granted will vest;
- greater than the median and less than the 75th percentile, the number of performance rights that will vest increases on a straigh 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 Stock Exchange. There are currently 148 (2007: 132) employees participating in the Performance Rights Plan.

24 Employee entitlements and superannuation commitments (continued)
Performance Rights Plan (continued)

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

a. Performance period 1 January 2009 - 31 December 2011. Fair value of shares granted on 1 June 2009 is A$4.70.
b. Performance period 1 January 2008 - 31 December 2010.
c. Board discretion exercised in granting rights to new executive in 2009 for prior grant periods.
d. Performance period 1 January 2007 - 31 December 2009.
e. Performance period 1 January 2006 - 31 December 2008. All rights vested on 28 July 2009.
f. Performance period 1 January 2005 - 31 December 2007. All rights vested on 13 May 2008.
g. Performance period 1 January 2004 - 31 December 2006. All rights vested on 25 June 2007.
h. Settled by cashing out or cancelling the rights or by issuing new shares on market.
i. Settled by cashing out and cancelling the rights or by purchasing shares on market.
j. Board discretion exercised in relation to the death, resignation or termination of employee's.

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

	June 2009 grant	August 2008 grant	May 2007 grant	July 2006 grant	October 2005 grant	June 2004 grant
Volatility	40%	38%	32%	35%	40%	40%
Dividend yield	2.00%	1.50%	2.90%	1.80%	1.73%	3.00%
Risk-free interest rate	4.16%	6.00%	5.98%	5.93%	5.25%	5.60%

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

24 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 621 (2008: 47) employees participating in the Restricted Share Plan.

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

Oil Search (PNG) Limited	**March 2009 grant**
Grant date	15 June 2009
Share price at grant date	A$5.80
Exercise date	17 June 2013
Exercise price	A$ nil
Number of shares	
Balance at 1 January 2009	-
Granted during period	760,354
Forfeited during period	(3,264)
Balance at 31 December 2009	**757,090**
Exercisable at 31 December 2009	
Balance at 1 January 2008	-
Granted during period	-
Forfeited during period	-
Balance at 31 December 2008	-

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

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

	2009 US$	2008 US$

25 Key management personnel remuneration

(a) Directors' remuneration

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:

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

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

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

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

	2009 US$	2008 US$
25 Key management personnel remuneration (continued)		
(b) Executives' remuneration (excluding directors)		
Amounts received or due and receivable by executive officers of the economic entity whose remuneration is US$100,000 or more, from entities in the economic entity and related entities		
Short-term benefits	**6,425,630**	7,172,446
Long-term benefits	**89,450**	80,335
Post-employment benefits	**235,926**	416,307
Share-based payments	**4,052,664**	2,422,484
	10,803,670	10,091,572

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

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

	Consolidated		Chief Entity	
	2009 US$	2008 US$	2009 US$	2008 US$
26 Auditors' remuneration				
Amounts paid or due and payable in respect of:				
Auditing the economic entity's financial report	**225,635**	428,610	**90,254**	54,127
Other services	**23,884**	44,811	**-**	-
	249,519	473,421	**90,254**	54,127

27 Related party transactions

(a) Key management personnel

The Directors and key management personnel of Oil Search Limited during the year to 31 December 2009, and their interests in the shares of Oil Search Limited at that date were:

	No. of ordinary shares		No. of performance rights[a]		No. of restricted shares[a]	
Directors	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
BF Horwood	**12,500**	-	**-**	-	**-**	-
PR Botten	**1,403,590**	1,040,000	**995,591**	1,097,697	**453,918**	288,045
G Aopi	**124,066**	121,450	**164,972**	118,972	**102,920**	76,188
F Ainsworth	**-**	-	**-**	-	**-**	-
KG Constantinou	**-**	-	**-**	-	**-**	-
R Igara	**10,000**	10,000	**-**	-	**-**	-
MD Kriewaldt	**14,590**	12,000	**-**	-	**-**	-
JL Stitt	**42,190**	9,600	**-**	-	**-**	-
TN Warren	**-**	-	**-**	-	**-**	-
Executives						
P Bainbridge	**128,205**	-	**269,058**	330,463	**252,444**	206,212
P Caldwell	**173,846**	156,500	**180,900**	202,946	**90,116**	60,966
P Crute	**-**	-	**113,300**	65,900	**190,597**	165,254
S Gardiner	**81,672**	-	**103,453**	149,915	**38,200**	38,200
N Hartley	**56,838**	166,292	**221,512**	273,450	**133,969**	98,605
R Marcellus	**-**	-	**134,300**	78,200	**128,487**	95,447
A Miller	**388,613**	44,000	**280,456**	346,112	**265,476**	214,928
M Sullivan [b]	**94,017**	-	**-**	173,228	**-**	24,148
Z Todorcevski	**-**	-	**279,255**	-	**224,714**	-

a. Refer to note 24.

b. Number of ordinary shares held by the Executive at date of ceasing employment with the Group.

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

27 Related party transactions (continued)

(b) Other transactions

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

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

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

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

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

	Consolidated		**Chief Entity**	
	2009	**2008**	**2009**	**2008**
	US$'000	**US$'000**	**US$'000**	**US$'000**
28 Leases				
Operating leases not capitalised in the accounts				
Rental of premises and motor vehicles				
Payable within 12 months	**4,790**	1,084	**-**	-
Payable 1 to 2 years	**4,981**	403	**-**	-
Payable 2 to 5 years	**11,398**	1,296	**-**	-

29 Contingent liabilities

(a) Guarantees

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

(b) Contingent claims

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

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

30 Commitments for expenditure

(a) Exploration and evaluation expenditure

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

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

(b) Development expenditure

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

(c) Other capital expenditure

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

	Ownership interest % 2009	Ownership interest % 2008	Country of Incorporation
31 Consolidated entities			
Oil Search (Middle Eastern) Limited	**100**	100	British Virgin Is.
Oil Search (Iraq) Limited	**100**	100	British Virgin Is.
Oil Search (Libya) Limited	**100**	100	British Virgin Is.
Oil Search (Tunisia) Limited	**100**	100	British Virgin Is.
Oil Search (ROY) Limited	**100**	100	British Virgin Is.
Oil Search (Gas Holdings) Limited	**100**	-	PNG
Oil Search (Tumbudu) Limited	**100**	100	PNG
Oil Search (PNG) Limited	**100**	100	PNG
Oil Search (Drilling) Limited	**100**	100	PNG
Oil Search (Exploration) Inc.	**100**	100	Cayman Is.
Oil Search (LNG) Limited	**100**	-	PNG
Oil Search (PNG) Investments Limited	**100**	-	PNG
Oil Search (Petroleum) Limited	**100**	-	PNG
Oil Search (LNG Interests) Limited	**100**	-	PNG
Papuan Oil Search Limited	**100**	100	Australia
Oil Search Limited Retention Share Plan Trust	**100**	100	Australia

32 Financial instruments

(a) Terms, conditions and accounting policies

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

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(i) Financial assets			
Receivables - trade	9	Trade receivables are carried at amortised costs less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms.
Receivables - Related parties/entities	9	Amounts (other than trade debts) receivable from related parties/entities are carried at amortised cost less any allowance for doubtful debts.	Receivables from related parties/entities are payable at call. Refer to note 27(b).
Short-term deposits	21(a)	Short-term deposits are stated at amortised cost. Interest is recognised in the profit and loss account at the effective interest rate.	Short-term deposits have maturity dates of three months or less.
(ii) Financial liabilities			
Trade creditors and accruals	17	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.	Trade liabilities are normally settled on 30 day terms.
Accounts payable - Related parties/entities	-	Loans from related parties are carried at amortised cost. Interest is taken up as an expense on an accrual basis.	Amounts owing to related parties/entities are payable at call.

32 Financial instruments (continued)
(a) Terms, conditions and accounting policies (continued)

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(ii) Financial liabilities (continued)			
Secured loans	-	Secured loans are carried at amortised cost net of transaction costs. Interest on borrowings for major projects is capitalised until the commencement of production and then amortised over the estimated life of the project. All other interest on borrowings is expensed at the effective interest rate.	The secured loans are repayable in quarterly instalments from proceeds earned from the producing oil fields. Interest is charged at LIBOR plus a margin. Details of the security over the secured loans are set out in note 29(a).
(iii) Equity			
Ordinary shares	20	Ordinary share capital is recognised at the historical US$ equivalent of capital raised, net of capital raising costs.	Under the PNG Companies' Act, the concept of Authorised Capital no longer exists and there is no limit on the number of shares the company may issue. Details of shares issued and the terms and conditions of options and rights outstanding over ordinary shares are disclosed in notes 20 and 24.

32 Financial instruments (continued)

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

Recognised financial instruments	Balance sheet notes	Accounting policies	Terms and conditions
(iii) Equity (continued)			
Hedges		From time to time the economic entity enters into hedging arrangements in circumstances where it is necessary to ensure adequate cash flow to meet financial commitments. As per IAS 39: Financial Instruments Recognition and Measurement the company recognises the fair value of outstanding effective hedges in the Balance Sheet. Hedging settlements are included in the profit and loss at the same time as the underlying physical exposure is recognised in the profit and loss.	There are no outstanding forward sales contracts at balance date (2008: nil). As at 31 December 2009, there are no outstanding barrels hedged (2008: nil).

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

Foreign exchange risk management

The Group manages its exposure to foreign exchange rate volatility by matching the currency of its cost structure to its US$ revenue stream. Transaction exposures are netted off across the Group to reduce volatility and avoid incurring the dealing spread on transactions, providing a natural hedge. The residual operating cost exposures, primarily in A$, are recurring in nature and therefore no long-term hedging is undertaken to minimise the profit and loss impact of these exposures.

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

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

32 Financial instruments (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Foreign exchange (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.

Interest rate risk

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

Interest rate risk management

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

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

Interest rate sensitivity

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

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

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

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

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

32 Financial instruments (continued)
(b) Financial risk management (continued)
Interest rate risk (continued)

Consolidated

Financial Instruments	Floating Interest Rate US$'000	Fixed interest rate maturing in: 1 year or less US$'000	1-5 years US$'000	More than 5 years US$'000	Non interest bearing US$'000	Total carrying amount as per the balance sheet US$'000	Weighted average effective interest rate %
2009							
Financial assets							
Cash and cash equivalents	**184,876**	**1,103,201**	**-**	**-**	**-**	**1,288,077**	**0.7**
Receivables – trade	**-**	**-**	**-**	**-**	**81,347**	**81,347**	
Other debtors	**-**	**-**	**-**	**-**	**27,436**	**27,436**	
Non-current receivables	**-**	**-**	**-**	**-**	**416**	**416**	
Total financial assets	**184,876**	**1,103,201**	**-**	**-**	**109,199**	**1,397,276**	
Financial liabilities							
Trade creditors and accruals	**-**	**-**	**-**	**-**	**204,119**	**204,119**	
Other payables	**-**	**-**	**-**	**-**	**-**	**-**	
Total financial liabilities	**-**	**-**	**-**	**-**	**204,119**	**204,119**	
2008							
Financial assets							
Cash and cash equivalents	111,332	423,596	-	-	-	534,928	3.4
Receivables – trade	-	-	-	-	41,222	41,222	
Other debtors	-	-	-	-	54,910	54,910	
Non-current receivables	-	-	-	-	42,848	42,848	
Total financial assets	111,332	423,596	-	-	138,980	673,908	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	166,127	166,127	
Other payables	-	-	-	-	3,453	3,453	
Total financial liabilities	-	-	-	-	169,580	169,580	

There exists no unrecognised financial instruments at balance date.

32 Financial instruments (continued)
(b) Financial risk management (continued)
Interest rate risk (continued)
Chief Entity

Financial Instruments	Floating Interest Rate US$'000	Fixed interest rate maturing in: 1 year or less US$'000	1-5 years US$'000	More than 5 years US$'000	Non interest bearing US$'000	Total carrying amount as per the balance sheet US$'000	Weighted average effective interest rate %
2009							
Financial assets							
Cash and cash equivalents	**106,005**	**925,233**	**-**	**-**	**-**	**1,031,238**	**0.7**
Receivables – trade	**-**	**-**	**-**	**-**	**-**	**-**	
Other debtors	**-**	**-**	**-**	**-**	**788**	**788**	
Total financial assets	**106,005**	**925,233**	**-**	**-**	**788**	**1,032,026**	
Financial liabilities							
Trade creditors and accruals	**-**	**-**	**-**	**-**	**18,869**	**18,869**	
Other payables	**-**	**-**	**-**	**-**	**2,043**	**2,043**	
Total financial liabilities	**-**	**-**	**-**	**-**	**20,912**	**20,912**	
2008							
Financial assets							
Cash and cash equivalents	16,871	221,792	-	-	-	238,663	3.4
Receivables – trade	-	-	-	-	189	189	
Other debtors	-	-	-	-	8,549	8,549	
Total financial assets	16,871	221,792	-	-	8,738	247,401	
Financial liabilities							
Trade creditors and accruals	-	-	-	-	14,018	14,018	
Other payables	-	-	-	-	1,422	1,422	
Total financial liabilities	-	-	-	-	15,440	15,440	

There exists no unrecognised financial instruments at balance date.

32 Financial instruments (continued)

(b) Financial risk management (continued)

Commodity price risk

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

Commodity risk management

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

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

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

(ii) Credit risk

The Group has exposure to credit risk if counterparties are not able to meet their financial obligations to the Group. The exposure arises as a result of the following activities:

- Financial transactions involving money market, surplus cash investments and derivative instruments.
- Direct sales of crude
- Other receivables

Credit risk management

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

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

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

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

32 Financial instruments (continued)
(b) Financial risk management (continued)
(ii) Credit risk (continued)

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

(iii) Liquidity risk

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

Liquidity risk management

The Group manages liquidity risk by ensuring that there are sufficient funds available to meet its financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. The Group's liquidity policy is to maintain surplus immediate cash liquidity together with committed undrawn lines of credit for business opportunities and unanticipated cash outflows.

The Group also seeks to ensure maturities of committed debt facilities are reasonably well spread over time to minimise the Group's exposure to risk on the cost or availability of funds should the refinancing requirement coincide with unexpected short-term disruption or adverse fund-raising conditions in the capital markets. In order to avoid an exposure to any particular source of external funding the Group acknowledges the benefits of diversification of funding sources and where possible, aims to source its funds from a range of lenders, markets and funding instruments.

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

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

32 Financial instruments (continued)

(b) Financial risk management (continued)

(iv) Capital risk

Capital management

The consolidated entity manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

This involves the use of corporate forecasting models which facilitate analysis of the Group's financial position including cash flow forecasts to determine the future capital management requirements. Capital management is undertaken to ensure a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements.

(c) Fair values

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

	Aggregate fair value			
	Consolidated		Chief Entity	
	2009	2008	2009	2008
	US$'000	US$'000	US$'000	US$'000
Financial assets				
Cash	**1,288,077**	534,928	**1,031,238**	238,663
Receivables – trade	**81,347**	41,222	**-**	189
Other debtors	**27,436**	54,910	**788**	8,549
Non current receivables	**416**	42,848	**-**	-
Total financial assets	**1,397,276**	673,908	**1,032,026**	247,401
Financial liabilities				
Trade creditors and accruals	**204,119**	166,127	**18,869**	14,018
Other payables	**-**	3,453	**2,043**	1,422
Total financial liabilities	**204,119**	169,580	**20,912**	15,440

The methods and assumptions used to estimate the fair value of financial instruments are outlined below:

Cash

The carrying amount is fair value due to the liquid nature of these assets.

Receivables/payables

Due to the short term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

Directors' Declaration 31 December 2009

In accordance with a resolution of the directors of Oil Search Limited, the directors declare that:

(a) the attached financial statements and notes thereto of the Company and of the consolidated entity:

(i) give a true and fair view of the Company’s andconsolidated entity’s financial position as at 31 December 2009 and their performance for the year ended on that date; and

(ii) comply with International Financial Reporting Standards; and

(iii) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Stock Exchange Listing Rules; and

(b) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due or payable.

Signed in accordance with a resolution of the directors.

On behalf of the Board of Directors

B. F. Horwood
....
BF HORWOOD
Chairman

....
PR BOTTEN
Managing Director

Sydney, 22 February 2010

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

We have audited the accompanying financial report of Oil Search Limited (the company), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 35 to 83.

Directors' Responsibility for the Financial Report

The directors of the entity are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee) and the Companies Act 1997. This responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor’s Opinion

In our opinion, the financial report of Oil Search Limited is in accordance with the Companies Act 1997, including:

(a) giving a true and fair view of the company’s and consolidated entity’s financial position as at 31 December 2009 and of their performance for the year ended on that date;

(b) complying with International Financial Reporting Standards (including the interpretations of the International Financial Reporting Interpretations Committee); and

(c) proper accounting records, in all material respects, have been kept.

Other Information

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 31 of the directors’ report for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report and have voluntarily complied with section 300A of the Australian *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Standards on Auditing.

Auditor’s Opinion

In our opinion the Remuneration Report of Oil Search Limited for the year ended 31 December 2009, complies with section 300A of the Australian *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 22 February 2010

DELOITTE TOUCHE TOHMATSU

John A Leotta
Partner
Chartered Accountants
Registered Company Auditor in Australia
Sydney, 22 February 2010

OIL SEARCH LIMITED

Incorporated in Papua New Guinea
ARBN 055 079 868

OIL SEARCH LIMITED
2009 Final Dividend

Oil Search Limited will pay a 2009 final dividend of US$0.02 (two US cents) per ordinary share on Friday, 9 April 2010.

The record date will be Wednesday, 17 March 2010 and the ordinary shares will trade “ex” dividend from Thursday, 11 March 2010.

The Company’s Dividend Reinvestment Plan, which will be underwritten, will operate for the 2009 final dividend.

The dividend will be paid in PNG Kina for those shareholders domiciled in Papua New Guinea, in GB Pounds for those shareholders that have lodged direct credit details requesting a GB Pounds credit and in Australian dollars for all other shareholders. The exchange rates used for converting the United States dollar dividend into the payment currencies will be the closing rates on the record date.

The dividend will be unfranked and no withholding tax will be deducted.

STEPHEN GARDINER
Group Secretary

Tuesday, 23 February 2010