

Making a  
*difference...*



# ABOUT THIS REPORT

This sustainability report covers the performance of Oil Search Limited (Oil Search or the Company) and the activities over which Oil Search had operational control during the 2011 financial year (year end 31 December 2011).

The report data covers our active exploration and production activities in Papua New Guinea (PNG). Our operations in the Kurdistan Region of Iraq, Yemen and Tunisia are included where noted. The report does not include the PNG LNG Project, as operational control rests with Esso Highlands Limited – [www.pnglng.com](http://www.pnglng.com). However the report does include our associated gas activities related to the project. We are investigating how best to report on non-operated joint ventures in the future.

This year, we focused on ensuring the accuracy and completeness of our sustainability data. This led to a number of changes in data collation methodology and restatements. For more detail, see the 2011 Sustainability Data Book.

All financial figures in this report are quoted in US dollars.

## DETERMINING REPORT CONTENT

This year, the Global Reporting Initiative's (GRI Guidelines) Report Content Principles guided our content selection. We considered the broader sustainability context of the oil and gas industry and of operating in PNG. Our key internal sources included the priority issues identified in our 2010 Strategic Review and ongoing community stakeholder management.

The report structure presents our activities around five key areas: Sustainability Strategy and Governance; Operational Integrity (benefits distribution, transparency and efficiency); Social Development (stakeholder management, health and community development); Oil Search People; and the Environment. The stakeholder insights we gather in PNG inform an internal assessment of the impact and significance of these key areas on key stakeholders and Oil Search. The assessment found the aspects that related to our social licence to operate (i.e. social development and operational integrity) were the most material, so we focus on these aspects in the report.

We will formalise stakeholder input into the reporting process as our approach to sustainability matures. The Sustainability Report Working Group, which consists of representatives from across Oil Search, worked with the Corporate Sustainability team to compile the report and it was reviewed by senior managers.

## GLOBAL REPORTING INITIATIVE

We used the GRI's 'G3.1' Sustainability Reporting Guidelines (GRI Guidelines) to prepare this report to application level C+, which is a different level to 2010. With increased rigour around our data collection and reporting processes, we believe declaring and assuring application level C+ is a more accurate reflection of our current status. However, we have maintained our indicator reporting levels and have reported against the number of indicators required for Level B. When we were preparing this report, the GRI Oil and Gas Sector Supplement had not been released so we will incorporate it in future reports.

Deloitte has provided independent limited assurance over our self-declaration of having applied the GRI Guidelines at application level C+ using the Australian Standard on Assurance Engagements 3000. The GRI content index and self-declaration and the Assurance Statement from Deloitte are accessible at [www.oilsearch.com/sustainability/sustainability-reporting.html](http://www.oilsearch.com/sustainability/sustainability-reporting.html).

## United Nations Global Compact

In October 2011, Oil Search signed the United Nations Global Compact (UNGC). This report is our first 'Communication on Progress', as required by the UNGC.

## Contact information

We welcome enquiries and feedback. Please contact our Corporate Sustainability team at [sustainability@oilsearch.com](mailto:sustainability@oilsearch.com).

## Our 2011 reports

This year we have adopted a mixed method approach to sustainability reporting, producing a suite of print and online communications. This report provides a succinct performance update for our investors, partners, government, employees and informed community members.



Oil Search 2011 Annual Report

**PUBLISHED & ONLINE**



Oil Search 2011 Sustainability Report

**ONLINE**



Oil Search 2011 PNG Summary Sustainability Report (Tok Pisin)

**PUBLISHED & ONLINE**



Oil Search 2011 Case Study Book 'Connections'

**PUBLISHED & ONLINE**



Oil Search 2011 Sustainability Data Book

**ONLINE**





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Houses in Tamadigi Village

## MESSAGE FROM THE MANAGING DIRECTOR



Peter Botten, Managing Director

For Oil Search, 2011 was a year focused on building for the future. Full scale construction of the PNG LNG Project commenced and other activities concentrated on establishing the building blocks for the Company's next phase of expansion. Underpinned by highly profitable oil production, Oil Search is now embarking on the largest drilling programme in its history. These opportunities reinforce the need for a strong sustainability platform and the Company worked on number of initiatives to consolidate its sustainability capabilities during the year.

## **BUILDING A STRONG SUSTAINABILITY FRAMEWORK**

The 2010 Strategic Review identified the management of key sustainability issues as critical to the preservation and growth of our business and as an opportunity to differentiate Oil Search from its peers. During 2011, we made significant progress towards building a more robust foundation from which to strategically leverage our sustainability capabilities. Our activities have addressed core business fundamentals, such as sustainability leadership and governance, resourcing, systems, structures and processes. Developing a deeper understanding of our current state, as well as reviewing the performance of our peers, has been pivotal to creating a roadmap for future sustainability performance. Our focus is directed at continuing to strengthen our environmental management capabilities, as well as introducing systems and data management improvements, with the aim of being well positioned for the opportunities that will flow from our growth initiatives.

## **CONFIRMING SUSTAINABILITY PRIORITIES**

During 2011, we remained focused on key aspects of our sustainability performance such as maintaining our social license to operate and our commitment to community health. Our PNG sustainability priorities continue to be centred on advocating against corruption and for a more effective benefits distribution regime, to ensure all the people of Papua New Guinea share equitably in the wealth of their resource-rich country. This is an ongoing challenge, particularly in light of current political uncertainty.

Our success in meeting stakeholder expectations and delivering sustainable outcomes is considered essential in mitigating the increasing operating risk for our business in Papua New Guinea and for maintaining community and government support. In this regard, our community investment activities have continued to achieve positive outcomes, as we focus on building local capabilities with a view to improving community livelihoods beyond the life of the oil and gas projects.

One major step forward on this path in 2011 was the establishment of the Oil Search Health Foundation, with the transition of our community health programmes to the Foundation almost completed during the year. The expansion of our health programmes into new provinces in Papua New Guinea will be aided by the Health

Foundation's selection as a Principal Recipient for the Global Fund to fight HIV/AIDS, tuberculosis and malaria, with over US\$68 million of Global Fund health programme contributions into Papua New Guinea being managed by the Health Foundation over the next five years.

As a Papua New Guinean company, Oil Search continues to be focused on training and developing its PNG citizen employees so that they are equipped to assume leadership positions across the Company. This commitment has been formalised in our Diversity Policy, along with our focus on gender and other diversity objectives.

Safety remains a high priority as changes in our workforce profile, driven by an increased number of contractors participating in complex project construction work, have increased the potential risk of our operations. While our safety performance remained strong in 2011, focus on safety training and awareness will remain of utmost importance, as we strive for further performance improvement.

## **IMPROVING COMMUNICATION**

In spite of an inherently sustainable approach to our business, we have identified the need to more effectively communicate our sustainability performance. In response, this year we have presented our sustainability performance in different formats, each tailored to meet different stakeholder needs. Our main Sustainability Report is accessible online and is complemented by a separate Data Book. A targeted PNG Summary Report in Tok Pisin and a case study book entitled "Connections", provide a more in-depth look at examples of our sustainable development activities.

## **THE ROAD AHEAD**

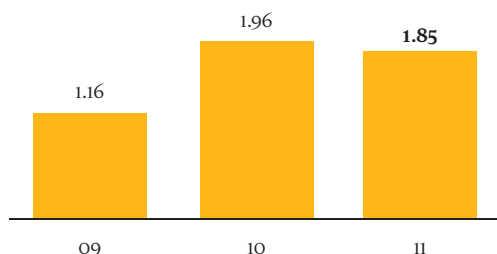
Over the next two years, Oil Search will remain focused on building a sustainability platform for our future.

Oil Search's longer term commitment to sustainability was demonstrated during the year by the Company becoming a signatory to the principles of the United Nations Global Compact (UNGC). Our business has strong alignment with the intent of the UNGC principles and, in combination with the establishment of a Corporate Sustainability function and detailed sustainability strategies, provides the focus and framework within which we intend to leverage our sustainability strengths, grow our capabilities and further integrate sustainability objectives into our business.

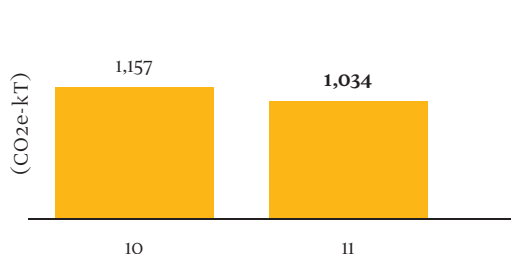
KEY PERFORMANCE SUMMARY



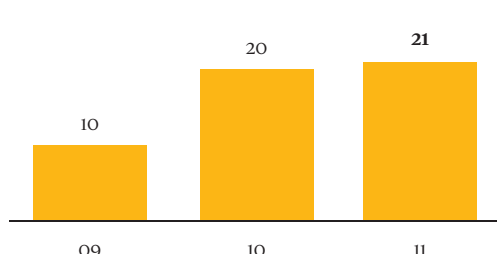
### TOTAL RECORDABLE INCIDENT FREQUENCY RATE (TRIFR)



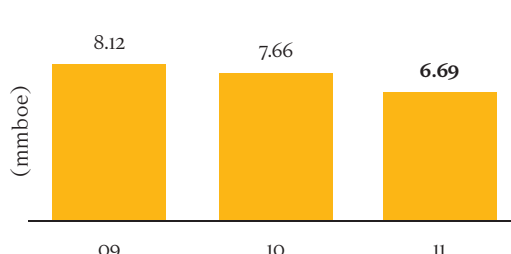
### GREENHOUSE GAS EMISSIONS AT SIGNIFICANT AREAS OF OPERATION



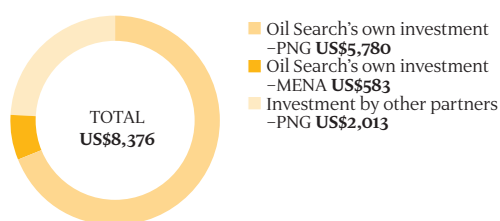
### TOTAL RECORDABLE INCIDENTS



### TOTAL BARRELS OF OIL EQUIVALENT (BOE) NET ANNUAL PRODUCTION

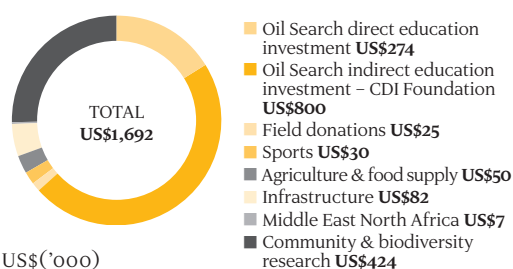


### TOTAL INVESTMENT IN OIL SEARCH COMMUNITY HEALTH PROGRAMS



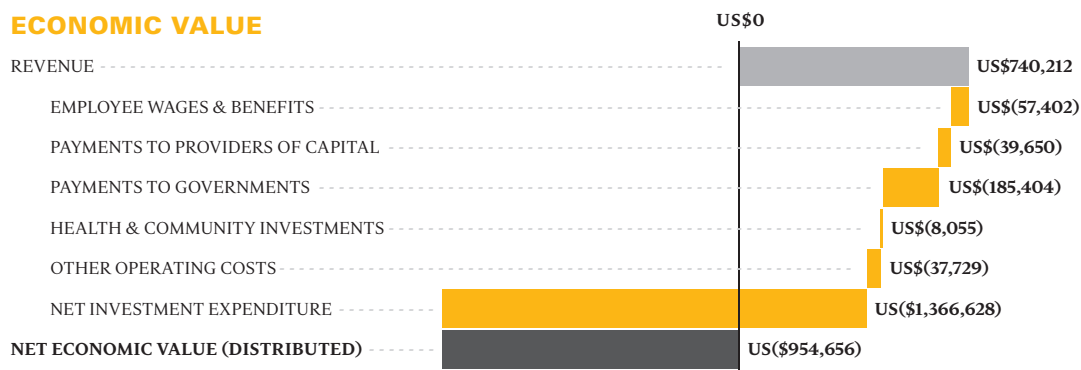
US\$('000)

### TOTAL COMMUNITY DEVELOPMENT INVESTMENT



US\$('000)

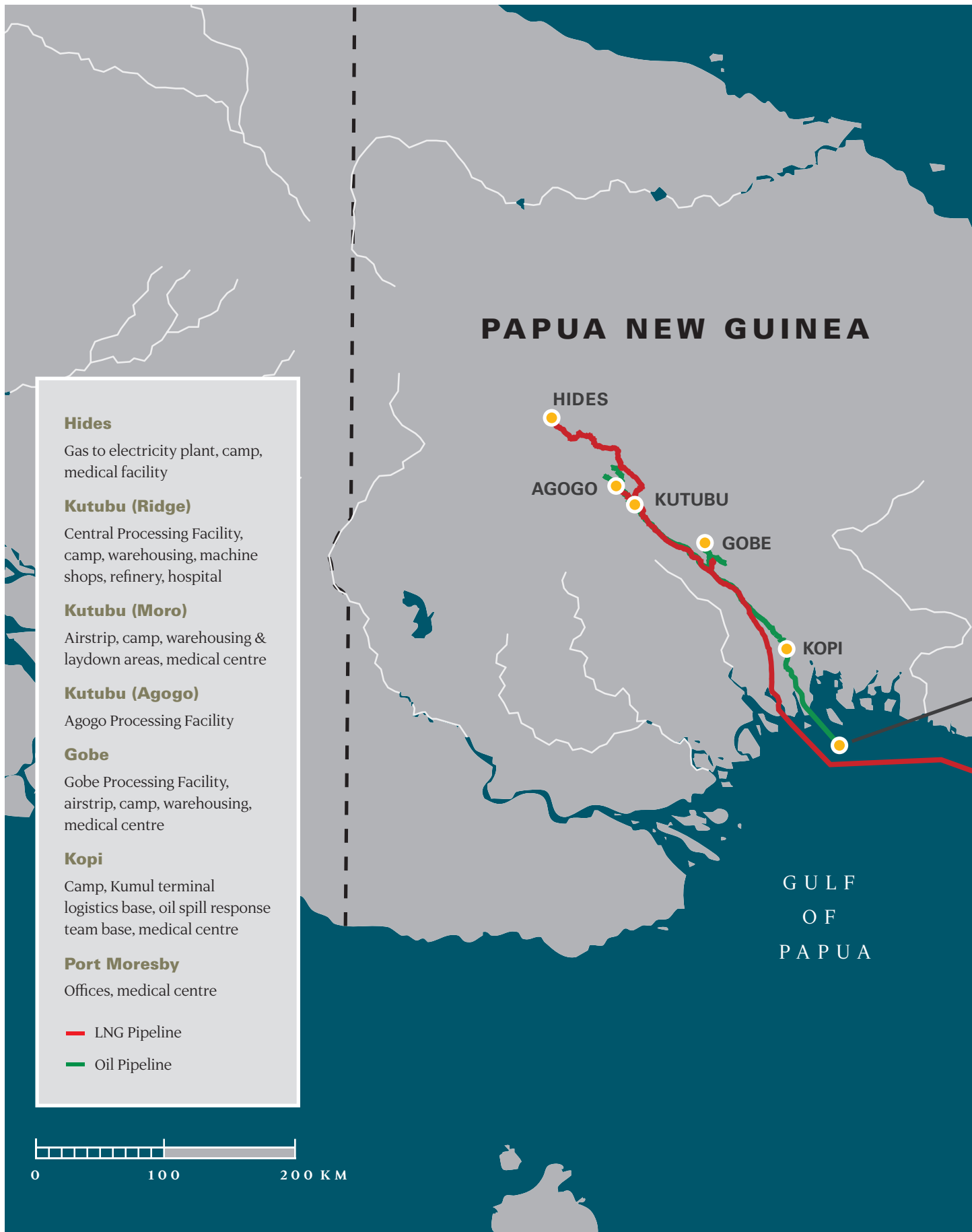
### ECONOMIC VALUE



The negative economic value reflects the investment and growth stage Oil Search is currently in. This was predominately funded by the PNG LNG project financing facility (\$708m) and other existing cash balances available and demonstrates our commitment to development in PNG.

US\$('000)

# OPERATIONAL OVERVIEW







# OPERATIONAL OVERVIEW

CONTINUED

- *Oil Search Limited was incorporated in Papua New Guinea (PNG) in 1929 and is PNG's largest oil and gas producer*
- *Oil Search operates all PNG's currently-producing oil and gas fields and is one of PNG's largest companies and taxpayers.*



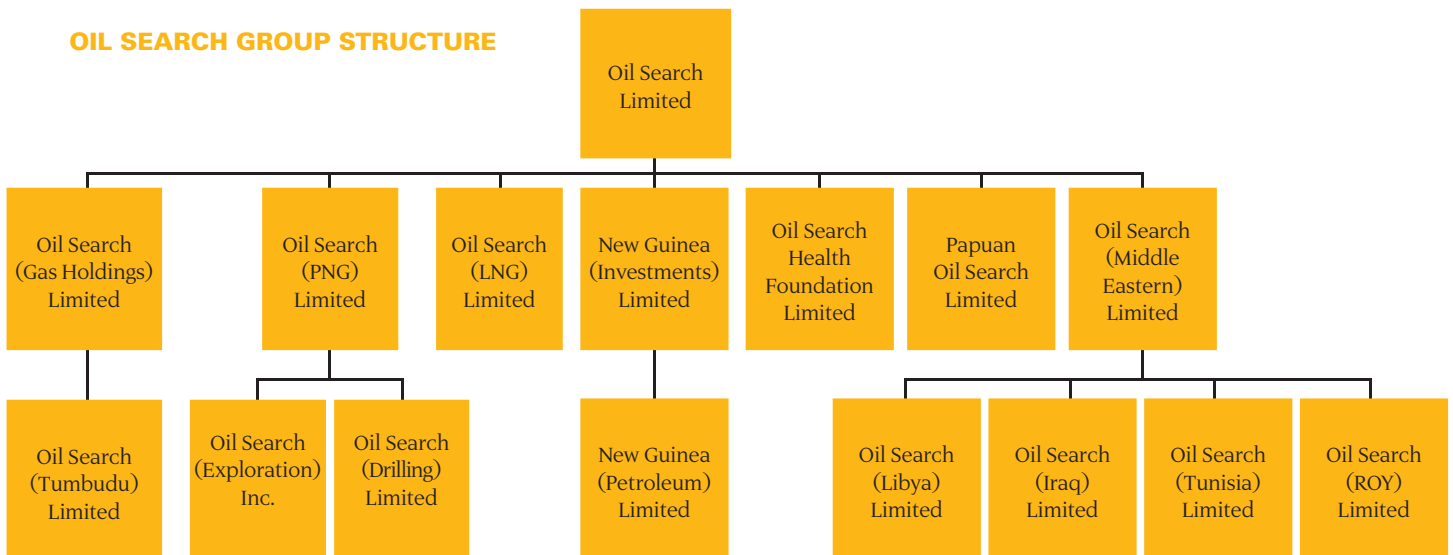
Oil Search is publicly listed on the Australian and Port Moresby Stock Exchanges and trades in the US through the American Depository Receipt (ADR) market. The Independent State of PNG is our largest shareholder, with a 15% interest.

In addition to our head office in Port Moresby, we have offices in Sydney, Brisbane, Dubai, Sana'a – Yemen and the Kurdistan Region of Iraq.

We have interests in over 40 licences in PNG, the Kurdistan Region of Iraq, Tunisia and Yemen and a team of over 1,000 employees. During 2011, exploration or

seismic activities occurred in all locations of operation, with drilling and production in PNG. Most of the crude oil produced is sold into the Asia Pacific region. Our customers include integrated oil companies, refiners and commodity trading organisations. Oil Search is set to embark on the largest drilling programme in its history, with gas appraisal and development wells at Hides and P'nyang, gas exploration at Trapia, and oil appraisal and exploration in the Kutubu fields and in the Taza production sharing contract (PSC) in the Kurdistan Region of Iraq.

## OIL SEARCH GROUP STRUCTURE



## OIL SEARCH OPERATIONAL UPDATE

### **GAS GROWTH INITIATIVES IN PNG**

During the year, the focus of activities was on maturing resource to support an expansion of the PNG LNG Project from 2 to 3 LNG trains. An integrated seismic and drilling programme on high potential non-Project licences in the Highlands was commenced, and Oil Search continued with the work required to assess the gas upside potential in the associated gas fields. Due to logistical issues, the Project (Hides) drilling programme will now start in 2012.

We also made good progress maturing our Gulf of Papua acreage, with the completion of a major 3D seismic survey, the first in PNG history. The findings from this study, together with a study of existing 2D seismic and previous well data, reinforced our view that the Gulf area has sufficient gas potential to support a standalone LNG train.

### **PNG PRODUCTION NEAR FIELD OIL EXPLORATION**

Near field exploration and development drilling continues to be a successful strategy and has led to the identification of two new hydrocarbon bearing zones within the existing producing field areas. Cash flow is already being generated from the Hedinia 10 well, which was brought into production within a few months of drilling. Drilling commenced in late 2011 on Agogo 6 was completed and brought online in early 2012. We expect both wells to contribute to production in 2012 and beyond.

The results of Hedinia 10 and Agogo 6 underline the success of our near field target strategy, developed in 2010, to apply considerable focus on the large number of opportunities around existing PNG oil fields.

### **PNG LNG AND ASSOCIATED GAS PROJECTS**

The PNG LNG Project is now two years into its four-year construction schedule and in December 2011, the operator, Esso Highlands Limited (a subsidiary of Exxon Mobil), confirmed that the project remains on track to achieve first LNG sales in 2014.

By the end of 2011, some 130 kilometres of the 400 kilometre offshore pipeline had been laid. Delivery of the remaining components for the onshore pipeline had been completed and construction of the offshore pipeline commenced following mobilisation of the Semac pipelay barge to PNG.

The LNG PNG project workforce now exceeds 14,000 people and more than 8,400 (60%) of these are PNG nationals.

The AGRP and PL 2 Life Extension projects, executed under the direct control of Oil Search, involves the installation and upgrade of major items of equipment at the Central Processing Facility (CPF) at Kutubu and the Gobe Processing Facility (GPF) to enable the existing assets to process LNG Project gas streams liquids and the refurbishment of the liquids export system.

### **MIDDLE EAST/NORTH AFRICA (MENA) EXPLORATION**

In the Kurdistan Region of Iraq, we converted our option over the Taza Block (formerly K42) into a full Production Sharing Contract (PSC). Seismic information we acquired in 2011 identified a significant four-way dip closed structure, on trend with a number of very large oil and gas fields. This structure will be drilled in mid-2012 and, if successful, has the potential to have a material impact on Oil Search. Industry activity in the region remains high, with the announcement of a major entry by ExxonMobil in November 2011.

In Tunisia, we undertook a 25 kilometre seismic programme over the preferred Tajerouine permit drilling area in 2011. We will use the data to refine the target in preparation for drilling, which is expected to take place in mid-2012.

In Yemen, agreement was reached with Total to sell Block 3, executed in March 2012. Block 7 remains in a state of force majeure. Ensuring the safety of Oil Search staff remains our top priority during this time and we continue to closely monitor the political and security situation.

## SUSTAINABILITY STRATEGY

- *Oil Search will be a leader in delivering sustainability, driven by integrity, innovation and partnership with governments and the communities with whom we work* – Oil Search sustainability vision
- *We will set ourselves apart from our peers by our sustainable development approach and our ability to contribute positively and creatively to the growth and development of communities in which we operate*



**OBJECTIVES FOR 2011****OUTCOME**

|   |   |   |
|---|---|---|
| Establish corporate sustainability function   | ✓ | We established a new corporate sustainability function. This included a new corporate sustainability leadership position in Sydney and a sustainability team in PNG to focus on key in-country priority areas such as transparency, benefits distribution and stakeholder engagement. |
| Develop a corporate sustainability strategy   | ✓ | We undertook a comprehensive current state analysis, a series of internal working sessions and peer review. The outcomes informed the development of our new Sustainability Strategy.   |
| Increase knowledge of our sustainability performance and increase our sustainability profile and communications | ✓ | We published our first Sustainability Report. Our sustainability reporting has evolved to a mixed method approach tailored to different stakeholder needs. We submitted our first Carbon Disclosure Project report and signed the UN Global Compact.                                  |

✓ = Achieved

Oil Search has a longstanding commitment to operating sustainably; we acknowledge the importance of sustainability to the preservation and growth of our business. We demonstrate this commitment through our core values and business practices, and through our comprehensive community programmes, which address the UN Millennium Development Goals and operating business risk.

Our definition of sustainability considers our relationship with key stakeholders, broader social development and the environment. Our operations are in pristine natural areas and protecting their unique biodiversity is a priority for us; we consider actual and potential impacts on the environment at every stage of our operations. We are always aware of our social licence to operate; maintaining strong community and government relationships and making a social investment are very important to us. Our capability in this area is Oil Search's key point of competitive difference and is a vital component of our sustainability profile.

#### **CONSOLIDATING OUR SUSTAINABILITY APPROACH**

As part of the Strategic Review conducted in 2010, we recognised that we were not communicating our achievements or leveraging our strong sustainability

performance in a strategic, coordinated fashion. We committed to formalising a more strategic sustainability approach because:

1. Our core values and reputation demonstrate a strong legacy of ethical and sustainable business practices and achievement;
2. We have a proven social licence to operate, which mitigates the operating risk for our business across all our locations; and
3. We have an enduring commitment to improving the livelihoods of the communities in which we operate.

We reinforced our commitment to continue to drive sustainability as a core element of Oil Search's business during the year when the executive level Sustainability Steering Group confirmed and clarified our sustainability vision and position, agreed short term priorities and goals and associated programmes, and finalised the corporate sustainability strategy.

We demonstrated our commitment during 2011 with the following achievements:

- **Formalised sustainability management** – We formed a corporate sustainability function, including a new corporate sustainability leadership position, a small team based in Sydney and an in-country sustainability team in Port Moresby.
- **Formed a sustainability governance structure** – We implemented a new sustainability governance structure. This included amending the Board charter and creating three new sustainability-focused groups, including an executive level group.

# SUSTAINABILITY STRATEGY

CONTINUED

- **Developed Oil Search’s first formal sustainability strategy** – Preparation for this entailed: a comprehensive current state analysis; reviewing existing sustainability systems, processes, strengths and capabilities; peer reviews; and considering relevant global sustainability initiatives, such as the UN’s Millennium Development Goals and UN Global Compact.
- **Established our PNG-based Oil Search Health Foundation** – The Foundation will deliver targeted health programmes across the country and is a Principal Recipient of Global Fund grants for malaria and HIV.

Oil Search’s performance in social development was recognised by our nomination as a finalist for the Ethical Investor Corporate Sustainability Award for Social/Community in 2011. The nomination recognised our efforts in community development, specifically our public health activities, and our strong advocacy role against corruption in PNG.

In October 2011 Oil Search became a signatory to the UN Global Compact (UNGC). This will provide a recognised framework for integrating sustainability into our core business strategy. It will also provide guidance on what constitutes leading practice in a number of relevant areas such as anti-corruption practices, human rights, women’s empowerment and environmental stewardship. We have joined the UNGC’s Local Area Network and are participating in UNGC leadership groups on corruption and human rights. Our participation in, and commitment to, the UNGC Ten Principles are recognised in our sustainability strategy.

The extent of our progress in 2012 will be driven by the consolidation work done in 2011. Our ability to successfully build upon our existing sustainability strengths will be determined by how well we have put in place a solid foundation from which to leverage our sustainability performance, including structures, data systems and processes.



## PUTTING IN PLACE A FRAMEWORK – KEY ACTIVITIES PLANNED FOR 2012 – 2015+

|                    |  |
|--------------------|--|
| <b>2012</b>        | <ul style="list-style-type: none"> <li>• Remedy gaps and areas identified as requiring improvement</li> <li>• Put in place and operate governance structure</li> <li>• Develop and implement detailed strategies</li> <li>• Acquire robust understanding of key sustainability risks and mitigation</li> </ul> |
| <b>2013 - 2014</b> | <ul style="list-style-type: none"> <li>• Implement strategies</li> <li>• Establish baseline of sustainability data and set performance targets</li> <li>• Grow knowledge and capability</li> <li>• Implement opportunities</li> </ul>  |
| <b>2015+</b>       | <ul style="list-style-type: none"> <li>• Achieve consistent performance</li> <li>• Realise opportunities</li> <li>• Achieve targets</li> </ul>   |



Central Processing Facility (CPF), Kutubu

SUSTAINABILITY STRATEGY  
CONTINUED



Community fishponds, Kutubu region



**KEY OBJECTIVES FOR 2012**

| <b>OBJECTIVE</b>  | <b>ACTION</b>   |
|---|---|
| 1. Reach internal agreement on sustainability priorities and positions  | <ul style="list-style-type: none"> <li>• Set short, medium and long term objectives, including setting specific environmental key performance indicators.</li> </ul>  |
| 2. Establish an effective management framework to leverage existing strengths and address gaps, and to ensure coordination, credibility and reliability of performance. | <ul style="list-style-type: none"> <li>• Board adoption of Sustainability Policy.</li> <li>• Effective Sustainability Governance structure in place and operating.</li> <li>• Align internal controls and systems with Sustainability Policy.</li> <li>• Achieve continual improvement in environmental management system performance.</li> </ul> |
| 3. Build internal understanding and align organisational commitment to sustainability.  | <ul style="list-style-type: none"> <li>• Ensure internal sustainability capability aligns with organisational commitment and vision for sustainability.</li> <li>• Develop a technical competency framework for field based environment resources.</li> <li>• Develop an internal communications, education and engagement strategy.</li> </ul>   |
| 4. Increase external credibility/profile of organisational capability and performance in sustainability (i.e. external communications).                                 | <ul style="list-style-type: none"> <li>• Adopt external sustainability communications strategy.</li> <li>• Put in place effective measurement and monitoring to enable accurate and balanced communication of performance.</li> <li>• Implement improvement plan to support effective data collation.</li> </ul>                                  |
| 5. Progressively introduce/enhance adoption of benchmark activities that align Oil Search with peers.   | <ul style="list-style-type: none"> <li>• Increase disclosure levels for sustainability related policies and practices.</li> </ul>   |

**Human rights**

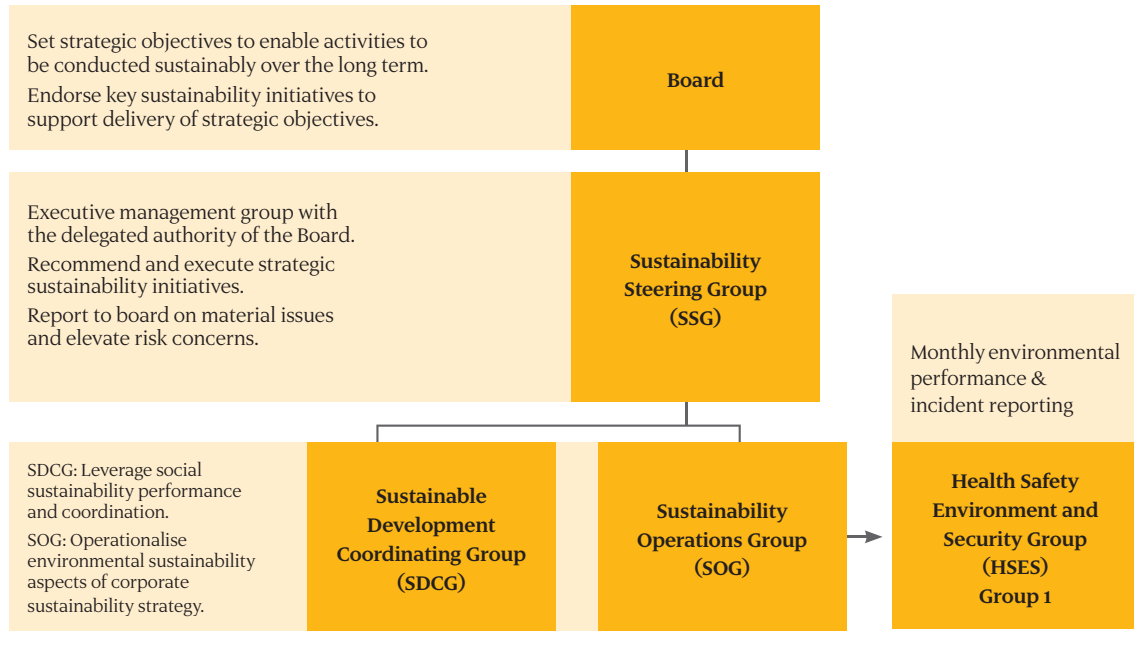
Our operations supply chain is where any risk of human rights infringements may occur. Due to the complex and changeable conditions in the countries in which we operate security companies are contracted at each of our areas of operation and play an important role in protecting our staff and assets. To ensure Oil Search is not inadvertently complicit in any human rights abuses, our focus to date has been on our security contractors, each of which is required to attend an induction session that addresses Oil Search's requirements regarding the protection of human rights. Regular briefings are conducted between Oil Search and contractor staff regarding expectations. As demonstrated by our signature to the United Nations Global Compact this year, we intend to make operational human rights protection measures more explicit, and are committed to further developing a human rights policy and management framework.

## SUSTAINABILITY GOVERNANCE

- *Manage sustainability in an integrated and coordinated manner across the whole business*
- *Demonstrate involvement by Board members and senior executives in sustainability decision making*



## OILSEARCH SUSTAINABILITY GOVERNANCE STRUCTURE



Our stakeholder and business requirements are continually evolving, and during 2011 we made some significant changes to our sustainability governance. These will help us to demonstrate Oil Search's effective consideration and management of a broad range of sustainability and operational issues, and allow us to leverage our sustainability strengths and capacity more effectively. The Board retains full responsibility for sustainability.

### Key changes

- Creating a Corporate Sustainability team, led by the Corporate Sustainability Lead and working collaboratively with the new PNG Sustainability Group;
- Creating the Sustainability Steering Group (SSG), Sustainable Development Coordination Group (SDCG) and Sustainability Operations Group (SOG);

- Amending the Board Charter to ensure appropriate visibility and decision making processes are adopted and recorded;
- Restructuring our field environment team, separating the environment function from safety and creating a new field based environmental leadership position with a view to ensuring increased focus on each area of importance; and
- Increasing rigour around our sustainability systems and processes.

These changes will support executive and senior management engagement in strategic sustainability decision making, and encourage operational management to apply sustainability considerations more effectively. The revised structure will minimise duplication and increase coordination while providing a credible and effective structure for leveraging sustainability performance and accountability.

# SUSTAINABILITY GOVERNANCE

## CONTINUED

### ROLES AND RESPONSIBILITIES OF NEW SUSTAINABILITY GROUPS

The SSG commenced in late 2011 and meets quarterly or when required. An executive management group, its purpose is to provide strategic direction and guidance for sustainability leadership and management at Oil Search and to report to the Board on material sustainability issues. While the Board retains full responsibility for sustainability, its role is focussed on general oversight as the implementation of key initiatives has been delegated to the SSG.

The SDCG and SOG will commence meeting in 2012.

The SDCG will meet quarterly. It will manage, coordinate and communicate community development activities that help us to maintain our social licence to operate.

The SOG will meet monthly. It will drive integration of the environmental aspects of the Sustainability Strategy into operational strategy and performance. The activities of the SOG will complement the existing environmental incident and management processes considered by HSES Group 1.

Charters for the groups are available at [www.oilsearch.com/sustainability/vision-and-strategy.html](http://www.oilsearch.com/sustainability/vision-and-strategy.html).

For further information on our other governance activities, see p54-61 of the 2011 Oil Search Annual Report.

### BUILDING OUR SUSTAINABILITY EXPERTISE

One of the outcomes from our Strategic Review in 2010 was the consolidation of our sustainability efforts. Consolidation enables Oil Search to: focus on more strategic outcomes; embed sustainability further throughout the business; and more effectively communicate and coordinate our sustainability activities. The appointment of a new Corporate Sustainability Lead in mid-2011 means this team will increase its capacity in the short term to provide support and strategic guidance to our sustainability related specialists in the field.

In addition to formalising our first Sustainability Strategy, this year we released a Diversity Policy and began developing a Sustainability Policy. We also reviewed our Code of Conduct and drafted a Fraud and Corruption Prevention Policy as part of a refresh of our Fraud and Corruption Prevention Framework. These policies provide guiding principles and outline our approach to addressing these key aspects of our business. Along with a number of supporting initiatives, they will help to drive meaningful change.

### IMPROVING SUSTAINABILITY SYSTEMS AND PROCESSES

This year we began consolidating and continuously improving our data management systems, with a particular focus on health, safety and environment.

To prepare for a new integrated incident management system in 2012, we evaluated appropriate systems and identified an implementation team and key stakeholders. The new software system will replace our incident notification system. It will ensure that we have more effective trend analysis and incident investigation, more objective and consistent reporting, and focused HSES improvement spending.

During the year we commissioned an external review of selected aspects of our sustainability data management and control systems. This identified gaps and opportunities for improvement; supported our drive for increased accountability, credibility and assurance; and will help us to set targets.

The key findings centred on: improving the consistency of our waste and water records; a general policy and system review; and data management controls, particularly for greenhouse gas emission calculations. These recommendations informed our Sustainability Strategy and will receive the required focus and resources during 2012 to create a strong platform for progress.



New control room at the Central Processing Facility, upgraded as part of Associated Gas Projects

## OPERATIONAL INTEGRITY

- *Contribute to the transparency and efficiency of governance structures affecting the oil and gas industry in PNG*
- *Promote project security and sustainable cash-flows to PNG communities from PNG LNG over its project life*



**OBJECTIVES FOR 2011****OUTCOME**

Increase payments disclosure in the oil and gas industry to improve transparency in PNG.



We increased the disclosure of our payments and worked with our PNG extractive industry peers to produce an aggregate payments report for PNG for release in mid-2012.

Take an active role in ensuring integrity in the management of oil and PNG LNG benefit streams.



We conducted an internal review to profile each benefit stream to identify the relative size of the streams and their ability to impact operations. We continued to support work on project delivery vehicle proposals targeting funds made available by PNG Government for oil and PNG LNG impacted areas.

Help to build capacity of regulatory authorities responsible for administering the extractives regulatory regime.



We continued to advocate for the transformation of the Department of Petroleum and Energy (DPE) to assist the effective regulation of the petroleum industry.

✓ = Achieved    → = Ongoing

During our Strategic Review in 2010, we identified combating corruption, improving benefits management and ensuring adequate government mechanisms as organisational priorities for Oil Search. These are material to ensuring the safe and continued operations of Oil Search in PNG.

We formed the PNG Sustainability Group in early 2011 to concentrate on these issues. The primary focus of the team is to engage with and manage our relationships with key government and industry stakeholders to help build the capacity, capability and reputation of our stakeholder partners. While the dynamic political environment in PNG hampered our success during 2011, we will continue with our advocacy role.

Oil Search participates in general public debate and is committed to promoting the integrity of established PNG Government mechanisms, processes and institutions. We recognise the importance of maintaining integrity and independence in our government interactions and try to lead by example regarding transparency and fraud and corruption prevention. To strengthen this position, we are drafting policies defining how we interact with government officials, maintain political independence and manage conflict of interests and donations. We will introduce these in 2012 when we update our Fraud and Corruption Prevention framework.

**COMBATING CORRUPTION**

Our approach to combating corruption occurs on three levels:

1. Oil Search's internal corruption prevention measures;
2. Increased organisational disclosure; and
3. Improved country-level disclosure and systems.

Improved fraud and corruption prevention processes will strengthen Oil Search's position, helping us to drive greater disclosure at industry and country level and improve mechanisms for disseminating benefit streams derived from our projects.

**Transparency**

Transparency is a significant tool for combating corruption. It is particularly relevant for members of the extractive industries in developing countries, whose operations generate such considerable payments to governments that they no longer rely on other forms of income. By disclosing these payments, our industry helps to improve transparency of government revenue and allows citizens to hold their governments to account.

To achieve this requires disclosure of information about: our procurement of resources; operational investment; contributions; payments collection; benefits distribution; and revenue utilisation. We have adopted a holistic approach to transparency and this forms part of our commitment to Principle 10 of the United Nations Global Compact (UNGC).

# OPERATIONAL INTEGRITY

## CONTINUED

### **Increasing our payment disclosures**

This year we focused on developing strategies to address country-level disclosure in PNG and on increasing our own levels of disclosure. We reviewed transparency initiatives for our industry and collaborated with stakeholders. This involved engaging with the PNG Government Treasury Department - the lead agency on the Extractive Industries Transparency Initiative (EITI) State Working Group - as well as the PNG Chamber of Mines & Petroleum, World Bank and Transparency International PNG.

Our Sustainability Steering Group (SSG) approved a number of strategic actions, including to:

- Support the EITI at corporate and PNG national level;
- Increase disclosure of Oil Search payments to the PNG Government;
- Evaluate transparency initiative developments such as the Natural Resource Charter;
- Facilitate partnerships with governments and NGOs to build capacity and promote a holistic approach to transparency across the value chain; and
- Support local efforts in working towards the creation of a PNG Sovereign Wealth Fund.

In November 2011, Oil Search attended an EITI workshop in Jakarta with other PNG state, industry and civil society representatives to discuss the merits of adopting EITI in PNG. We strongly support this initiative and the PNG Government's efforts to create the PNG State Working Group, which will investigate the applicability of EITI in PNG.

Oil Search has developed a reporting template to use under EITI. We are also collaborating and evaluating other disclosure-related initiatives, such as Publish What You Pay and the Research Watch Institute. This year we increased the level of public disclosure of

our payments. The 2011 Oil Search Sustainability Data Book includes a Wealth Distribution section and we will publish the Oil Search Benefits Payment Report in 2012. Although EITI has not yet been formally accepted by the PNG Government, we are working with our PNG extractive industry peers to produce an aggregate industry payments report for PNG, which will be released in mid-2012.

### **Improving measures to reduce fraud and corruption**

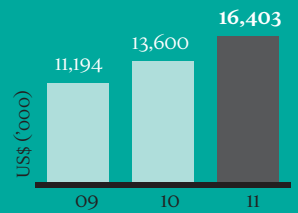
During 2011 we reviewed our Code of Conduct within the context of internal and external fraud and corruption obligations and industry practice. We are developing a framework to address fraud and corruption prevention more holistically and will introduce it in 2012. The framework will consist of new and updated policies and procedures that we will publish on our website.

A small number of instances of fraud or misappropriation were reported and investigated during 2011 but most were minor and were dealt with internally. Investigations into the behaviour of two staff members in PNG led to their contracts being terminated. No instances of actual or attempted corruption were identified during the year.





**BENEFIT PAYMENTS  
PAID TO PNG  
DEPARTMENT  
OF PETROLEUM  
AND ENERGY**



Benefits paid will vary depending on oil price and production levels. Payments increased 21% in 2011 due to increased oil prices.

# OPERATIONAL INTEGRITY

CONTINUED

Laying the LNG pipeline south of Gobe



## HELPING TO DEVELOP EFFECTIVE BENEFIT DELIVERY VEHICLES

The various benefits sharing agreements resulting from our operations stipulate short and long term, cash and non-cash benefit streams to the PNG Government and land-owning bodies. There are benefit delivery mechanisms in place for the oil projects that we are advocating to improve however we do not have control over these processes. A transparent benefit delivery mechanism is critical to ensure these benefits are appropriately disseminated. As an independent PNG company we are also advocating that new systems for the LNG PNG Project address the weaknesses and deficiencies of the past. To help focus our efforts on the most critical and material benefit streams, we reviewed them all in 2011. The review identified: the size or dollar value of each stream; whether the PNG Government had drawn down funds; timing; and the likelihood of a cash handout.

We identified two benefit streams as priorities:

- Oil Memorandum of Agreement/Development Agreement infrastructure commitments; and
- Infrastructure Development Grants (IDGs).

IDGs are particularly relevant due to the significant increase in benefits that will be paid in coming years by the PNG LNG Project.

We have been supporting the Government's desire to improve the control of these funds via the Expenditure Implementation Committee, which is constituted under Section 178 of PNG's Oil & Gas Act. Our contributions have included the preparation of detailed public private partnership infrastructure project delivery vehicle proposals and helping the government understand the nature of its historical commitments. As has been demonstrated through other schemes, such as the Tax Credit Scheme (See page 40), an arrangement which couples government funding with private sector project management skills is effective. Our preference over time is for one vehicle to be created to manage all benefit streams.

## WORKING WITH PNG GOVERNMENT TO BUILD CAPACITY

During 2011 we continued working alongside our industry peers and government stakeholders to advocate for the transformation of the Department of Petroleum and Energy (DPE) into a National Petroleum Authority. This involves shifting the DPE from a government department structure to a statutory body with well-defined functions and operational flexibility, as has occurred with the Mineral Resources Authority.

The DPE has struggled to keep pace with the significant expansion in PNG's petroleum sector and to maintain appropriate capacity for effectively managing the associated policy, regulatory, management and coordination issues. Our experience during the PNG LNG Project agreement negotiations is an example. With the industry poised for a new growth phase, the existing structure could become a major impediment to the effective management of ongoing development in PNG.

The aim of our advocacy is to ensure that appropriate resourcing, analysis and consultation occur, and that there is a plan for a carefully phased, timely and priority-driven approach to implementing the transformation of the DPE into a National Petroleum Authority. However, despite these efforts there is no visible support from within the PNG Government to support the proposal at this stage.

## SOCIAL DEVELOPMENT



- *Establish and maintain strong and mutually beneficial community relationships*
- *Leave a long term positive community and social development legacy*
- *Monitor the financial and social impact of our activities on our project area communities*

## Oil Search has developed a deep cultural understanding in PNG that differentiates us from our peers and informs our approach to sustainable development and community relationship management.

Social development is one of Oil Search's most significant sustainability matters as it is directly linked to our social licence to operate. Taking cultural expectations into consideration helps us to operate with local support, reducing the likelihood of disruption.

We aim for outcomes that are mutually beneficial and that support the aspirations of the United Nations Millennium Development Goals. Our approach to sustainable development is to create shared value through: our positive impact on the national economy; specific initiatives to improve public health, education and training; and creating sustained local economic opportunities.

While we work collaboratively with communities, we emphasise the importance of their active participation and promote a sense of responsibility in development outcomes. In this way, future generations can prosper once oil and gas projects cease operation.

### ENGAGING WITH STAKEHOLDERS

Relationship management and stakeholder engagement are core to our sustainable development approach.

We have identified Oil Search's key stakeholders based on our ability to impact them and their ability to impact our operations (see p28). In addition to the stakeholder relationships formed by our Public Health, Community and External Affairs teams, many senior managers have well-established relationships with key stakeholder representatives.

We maintain an active and open presence and actively engage with communities in our project areas. Community groups can engage in two-way communication with Oil Search through many avenues, most of them managed by our Community Affairs team.

For many community members, our Community Affairs team is the face of Oil Search. Its officers are permanently based in our main project locations in PNG, Yemen and the Kurdistan Region of Iraq. In PNG, our Community Affairs team is supported by 25 full time Village Liaison Officers (VLOs) who are local residents of villages in the project areas. The VLOs enable us to quickly identify, understand and act on any concerns before they become issues for our operations. Their activities and feedback help us with our community development priorities and planning.

We use our experience and knowledge of PNG to provide guidance and advice to our partners on the PNG LNG project, particularly around community engagement, as it directly relates to the project's social licence. While the course of action is up to our partners, we try to advocate in these areas, which are our key capabilities and strengths in PNG.

### Building a framework around our engagement activities

In 2011 we began developing a formal Stakeholder Management Framework. This will consist of:

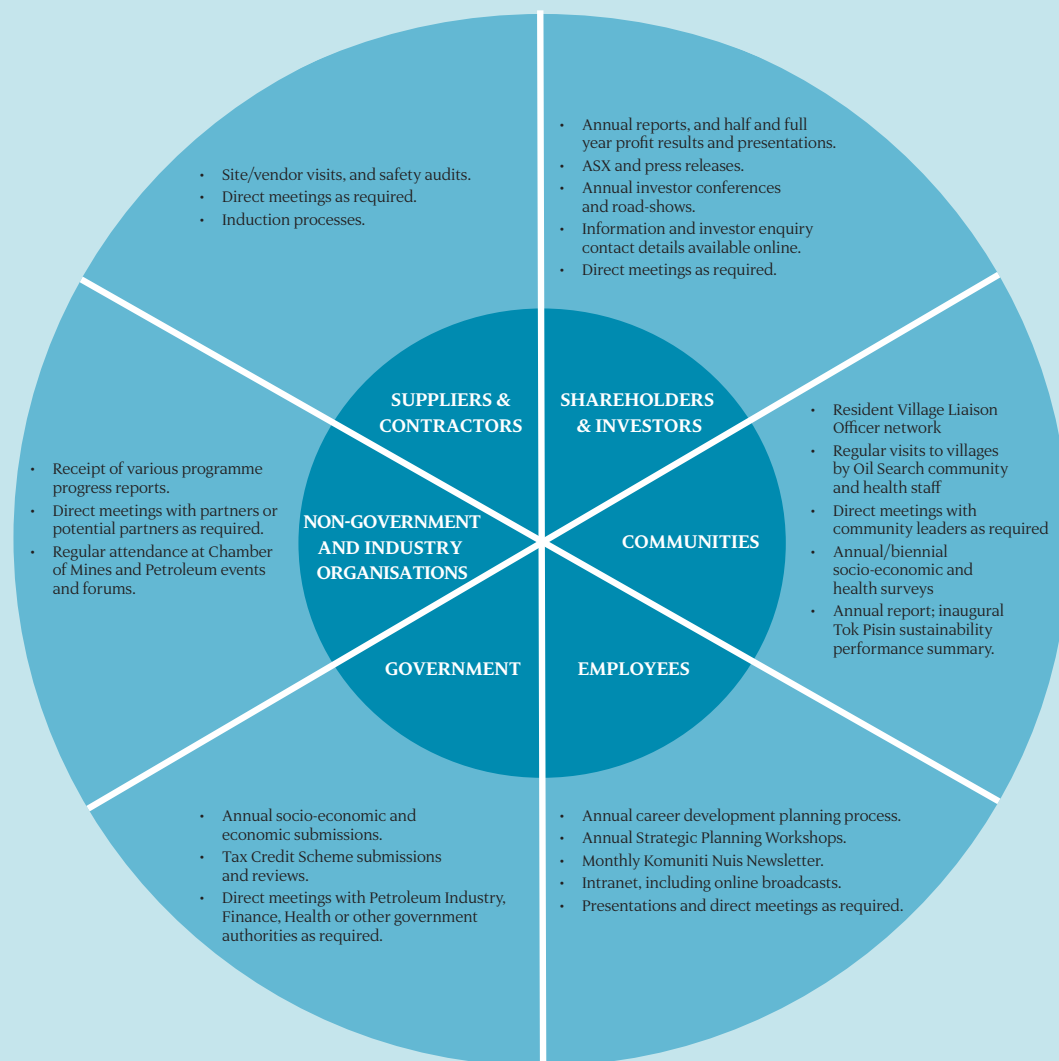
- A company-wide Stakeholder Management Policy with key engagement principles, for example guidelines for responding to specific stakeholders feedback and stakeholder conflict management;
- Individual engagement plans for each department, identifying key stakeholders and engagement methods based on an initial stakeholder analysis; and
- A consolidated information management system for tracking, managing and updating stakeholder engagement plans and guidelines.

The framework will be piloted by our PNG External Affairs team with our PNG stakeholders and operations in 2012. Our goal is for the departmental stakeholder relationship owners to be responsible for managing stakeholders.

# SOCIAL DEVELOPMENT

## CONTINUED

### STAKEHOLDER ENGAGEMENT AT OIL SEARCH



### Applying the same principles across our operations

We manage our social development approach in the Kurdistan Region of Iraq and in Yemen using a similar approach to that in PNG but on a smaller scale and customised to the local context.

Civil upheaval in Yemen and Tunisia slowed the execution of our activities in these countries in 2011. Our activities in Tunisia consisted of seismic programming, with explorative drilling scheduled to occur in 2012. Once we move to the drilling phase, we will localise our activities and set in place community development projects and programmes.

Despite local challenges, our Community Affairs team, consisting of one full time staff member and two Village

Liaison Officers (VLOs), maintained regular contact with communities in the Kurdistan Region of Iraq project area during the year. This team will increase in size and activity next year when drilling begins.

Key activities in the MENA region this year included:

- Ongoing sponsorship of a mobile medical clinic for villages in the Kurdistan Region of Iraq project area to provide immunisations, women's health support and general practice services; and
- Continuing community activities in Yemen, including providing water filters, helping to refurbish community dams and wells and sponsoring a basic medical service.

## SOCIAL DEVELOPMENT COMMUNITY HEALTH

- *Increase access to antimalarial treatments to reduce the prevalence of malaria*
- *Reduce the transmission of HIV and other STIs and minimise their impact on individuals, families and communities.*
- *Reduce the transmission of communicable disease in children through improvements in immunisation coverage*
- *Improve access to and participation in antenatal care*



SOCIAL DEVELOPMENT  
**COMMUNITY HEALTH** CONTINUED



*“Our commitment is driven by a strong sense of responsibility and a desire to play a role in the long term development and wellbeing of the people of PNG.”*

**- Peter Botten, Managing Director**



**OBJECTIVES FOR 2011****OUTCOME**

|  |   |  |
|--|---|--|
| Establish the Oil Search Health Foundation   | ✓ | Established the Oil Search Health Foundation. As well as seed funding from Oil Search, it will receive funding from the Global Fund as a Principal Recipient in early 2012.  |
| Expand the reach of our community health services by building on existing programmes and initiatives within our project areas and across PNG | → | We established a new office in Port Moresby and are recruiting local and international staff. We made agreements with the PNG Department of Health and various provincial health offices. In the provinces identified for potential expansion, we held introductory meetings with key community stakeholders and conducted rapid health assessments to help with activity planning. These assessments will continue throughout 2012. |
| Further develop the Marasin Stoa Kipa (MSK) (Medicine Store Keeper) programme  | → | We reached an agreement with the Evangelical Church of PNG to run the MSK programme and discussions are underway with similar partners. MSK participants piloted providing services in addition to malarial treatments; we will expand this option throughout the programme.   |

✓ = Achieved    → = Ongoing

With a well-established presence in PNG, Oil Search is able to initiate real, sustainable change and we have a long history of delivering public health programmes at our areas of operation. Combined with our other sustainable development activities, these health initiatives lead to a more productive and stable society within which to conduct our operations.

**Oil Search Health Foundation established**

The expansion of our health programme in 2011 resulted in the establishment of the Oil Search Health Foundation, a not-for-profit charitable trust. The trustee - Oil Search Health Foundation Limited - is a wholly-owned subsidiary of Oil Search Limited. The Foundation offers an opportunity to demonstrate our expertise in improving public health outcomes and represents a new approach to fostering partnerships and programmes for the future.

The Foundation is now the recognised Oil Search body for working with the PNG Government, non-government and donor partners in designing and implementing public health initiatives. These include clinical services, community health campaigns, staff education, mentoring and support programmes and

research and development. Investment in our PNG public health programmes has more than doubled since 2010, reflecting the increased activity driven by the Oil Search Health Foundation. The value of Oil Search contributions increased from US\$1.6 million in 2010 to US\$5.8 million in 2011, including our first donation to the Oil Search Foundation of US\$3.7 million.

The set-up of the Foundation was substantially completed during 2011. We began recruiting the Foundation team, agreed a robust organisational structure and designed a detailed monitoring and evaluation framework. The Foundation will ensure transparency and enable Oil Search and donor partners to direct funds and resources to achieving a range of health objectives.

*The establishment of the Oil Search Health Foundation represents a significant step forward in delivering one of our sustainability priority areas and strategic plan deliverables for 2011.*

The Foundation now has primary responsibility for the management and delivery of our core public health programmes: HIV, malaria and maternal and child health. In future, these programmes will benefit from the Foundation's presence in the Southern Highlands, Gulf, Milne Bay, Morobe, Hela and other provinces.

SOCIAL DEVELOPMENT  
**COMMUNITY HEALTH** CONTINUED



Oil Search Health Foundation delivery

**GLOBAL FUND PRINCIPAL RECIPIENT STATUS SECURED**

*“The Global Fund to Fight AIDS, Tuberculosis and Malaria was created to dramatically increase resources to fight three of the world’s most devastating diseases, and to direct those resources to areas of greatest need.”*

– Global Fund

The Foundation’s greatest achievement in 2011 was being nominated as the Principal Recipient for Round 10 (HIV) and Round 8 (Malaria) grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria. This important role involves administering more than US\$60 million over several years. The HIV grant will run until early 2017 and the Malaria grant until 2014.

Being one of only three private sector companies to be granted Principal Recipient status provides the Foundation with the opportunity to be a credible recipient of international funds.

**CONTINUED EXPANSION OF MATERNAL AND CHILD HEALTH PROGRAMMES**

As part of the Foundation’s activities, we widened the reach of the maternal and child health programme beyond the Oil Search operational footprint around Kutubu and Kikori to provinces such as Milne Bay. An initial health service needs assessment on Goodenough Island in Milne Bay occurred in mid-2011. The results of this rapid assessment will enable us to tailor our approach and training programmes and to develop models for improving health service delivery in remote areas.

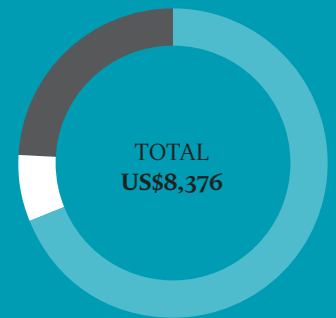
Our key achievements in 2011 included:

**Improving maternal health services:** We provided on-site coaching and support to improve local health staff skills and to instil a client-centred approach to encouraging women to access maternal health services. There was a significant increase in women accessing health facilities for maternal healthcare from 384 in 2010 to 1300 in 2011. This trend displays the engagement of the community and the strengthening of both the health workers’ capacity and the health system.

**Emergency obstetric care training and development programmes:** Access to obstetric care at a health facility dramatically improves a woman’s chances of surviving complications related to labour and immediately after birth. This programme involved intensive formal training in basic management of obstetric care, on-site coaching and mentoring, and ensuring the supply of essential medicines and equipment. It was expanded to Tari in the Southern Highlands, Kikori and Gulf Provinces in 2011 and was further consolidated in Kutubu.

**Expanded programme of immunisation:** Our role in the expanded programme of immunisation included coaching and logistical support for vaccination management, including procurement, transport and human resources for outreach clinics and the management of data. Survey results indicate a corresponding increase in vaccination coverage, from 52% in 2010 to 77% in 2011.

**TOTAL INVESTMENT IN OIL SEARCH COMMUNITY HEALTH PROGRAMS**

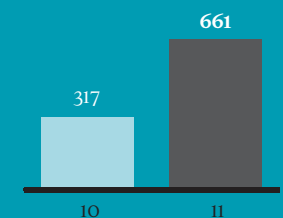


US\$ ('000)

- Oil Search’s own investment – PNG US\$5,780
- Oil Search’s own investment – MENA US\$583
- Investment by other partners – PNG US\$2,013

Oil Search’s own community health investment in PNG has increased from US\$1.6 million in 2010 to US\$5.8 million in 2011.

**NUMBER OF BIRTHS ATTENDED BY SKILLED HEALTH WORKERS**



Efforts to increase community engagement on maternal and child health have led to a 109% increase in the number of births attended by skilled health workers.

### WRAP UP OF HIV PREVENTION AND CONTROL IN RURAL DEVELOPMENT ENCLAVES PROJECT

As part of the restructure of our health programmes under the Oil Search Foundation, the Rural Enclaves project ended in 2011. Key outcomes were:

- Increasing the number of staff dedicated to delivering HIV testing, treatment and support;
- Refurbishing 17 health service facilities to ensure they were fit for purpose;
- Delivering a comprehensive package of training over a four-year period, backed by onsite supportive supervision and mentoring by the Oil Search health team; and
- Improving access to accredited laboratory services in the Southern Highlands with the development of the Oil Search laboratory at Moro.

To generate demand for services and to mitigate the impact of HIV in local communities, we trained many community groups in community theatre performance, peer education, HIV awareness and basic HIV counselling. Our behavioural change interventions included distributing 210,000 condoms during the project. The project also strengthened relationships between Oil Search, the National Department of Health, National AIDS Council Secretariat and other development partners. By the end of 2011, we had conducted nearly 14,000 HIV tests at sites supported by Oil Search. Of these, 145 people (approximately 1%) were confirmed as HIV positive.

### PROGRESSING TOWARDS COMMUNITY-BASED MALARIA MANAGEMENT

To increase malaria medicine uptake, our approach shifted from a clinic-focused to a community-based approach during 2011. This involved expanding the Marasin Stoa Kipa (MSK) Programme (Medicine Store Keeper). For more information on this programme, see [Oil Search's Case Study Book 'Connections'](#).

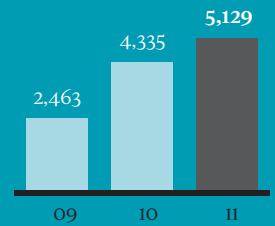
We partnered with the Evangelical Church of PNG health service to run the programme and develop ways to increase and strengthen the quality of the service. Despite considerable population movement in the Highlands area due to work opportunities, there were only small malaria outbreaks across the areas which were managed by the MSK programme. The annual malaria incidence per 1,000 people in the project area decreased from 315 in 2010 to 120 in 2011. This was supported by a decrease in the percentage of positive rapid diagnostic tests found to be positive from 42.8% to 21.8%.

To sustain MSK sales in the event of decreased malaria transmission, two community shops piloted an incentive scheme of providing additional over-the-counter health and hygiene products. We will expand this initiative across all MSK sites in Kutubu in 2012. A key element will be assisting MSK programme participants, who are all women, to obtain access to affordable supplies and develop their capacity to create sustainable small businesses.



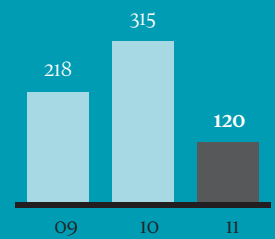
Testing for Malaria at the Tamadigi MSK

**NUMBER OF PEOPLE WHO RECEIVED AN HIV TEST IN THE LAST 12 MONTHS AND WHO KNOW THEIR RESULTS**

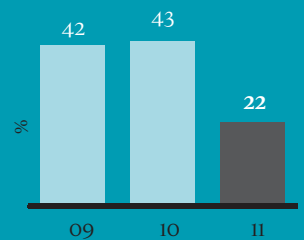


The number of HIV tests performed increased in 2011 by 18% with approximately 12,000 tests performed in the last three years.

**ANNUAL MALARIA PARASITE INCIDENCE (PER 1,000 POPULATION)**



**PERCENTAGE OF MALARIA SLIDES OR RAPID DIAGNOSTIC TESTS FOUND POSITIVE**



Decreasing malaria incidence provides an indication of the impact of community-based malaria programs, which allows communities to treat instances of malaria identified before a major outbreak occurs.

SOCIAL DEVELOPMENT  
COMMUNITY DEVELOPMENT



- *Contribute towards developing sustainable livelihoods for the people of PNG*
- *Increase life skills by increasing participation in and the quality of education programmes*

**OBJECTIVES FOR 2011****OUTCOME**

Improve access to a quality education



Our education sponsorship programme continued this year with 21 new students joining. 14 students completed their courses and graduated.

Build capacity of educational institutions in project area



A number of our initiatives supported educational institutions. We provided school desks through our donations programme, teacher training in conjunction with the CDI Foundation, and infrastructure upgrades (e.g. installing water tanks and catchments) under our Community Area Planning (CAP) programme.

Create opportunities for agricultural extension and commercialisation



Through our Sustainable Community Development Programme, we helped to establish four women's co-operatives and one mixed gender rice co-operative, enabling members to generate a reliable income source.

= Ongoing

We want our community development approach to generate shared value for our business and the communities in which we operate. We do this by maintaining strong working relationships with key stakeholders, including local community members and government representatives. When coupled with our support for long term sustainable development in the community, this contributes to our social licence to operate.

We use formal and informal community feedback to assess the success of our projects. The results inform an annual review of our Community Development Programme and ensure its ongoing relevance to the project area.

Our sustainable development approach consists of three main elements:

1. Direct programmes and initiatives;
2. Partnering with community groups and/or Non-Governmental Organisations (NGOs); and
3. Funds administered on behalf of the PNG Government.

Our priority areas for 2011 included: education; training; agriculture; and sports development. This was the final year of our sports participation programme as we determined our efforts would be more effective in other areas.

# SOCIAL DEVELOPMENT

## COMMUNITY DEVELOPMENT CONTINUED

### **DIRECT PROGRAMMES AND INITIATIVES**

With access to a quality education and the knowledge and skills to generate independent revenue streams, communities are better equipped to adapt and provide for themselves and their families in the future.

### **Creating agricultural-based social enterprise**

With the objectives of supporting food security and local economic development, we focused our Sustainable Community Development Programme this year on supporting the establishment of social enterprises, principally agricultural projects.

A key aspect was assisting local groups to establish business cooperatives so they could commercialise agricultural activities from surplus produce (primarily coffee, rice and fish). Led by our Business Development Officers, this initiative established four women's co-operatives and one mixed co-operative. Their key objectives were to:

- Target women for many activities by providing a viable, less labour-intensive food source; this frees them up for other revenue generation (e.g. basket-weaving, sewing) and releases girls from home duties so they can go to school;
- Equip community members with the skills and knowledge to generate a reliable income source, providing financial independence beyond the life of the oil projects; and
- Improving nutrition and food security by providing training in new farming techniques, introducing new and more resilient crop options (e.g. rice, drought-resistant yams) and alternative protein sources (e.g. chickens and fish).

Oil Search's business development team provided advice on co-operative structuring and management and simple book-keeping. They also worked with local leaders to provide training on fish farming techniques and how to produce food stock from existing sources (e.g. sweet potatoes and rice chaff).

An example of one of these cooperatives is included in *Oil Search's Case Study Book, 'Connections'*.

### **Continued sponsorship for further education**

During 2011, 21 new students began our education sponsorship programme. Potential students are put forward by project area communities and their applications are examined by Oil Search staff to ensure balance of gender and village of origin. We give priority to applications from students wishing to complete tertiary courses in skills that address a local need. The Project Impact Area Committee makes the final decision on sponsorships. The Committee is made up of representatives from local communities and Oil Search staff. At the end of 2011, 14 sponsored students completed their chosen courses and graduated from tertiary education institutions in PNG.

### **Partnering with community groups and NGOs**

Collaborating with NGOs and local community groups to achieve social development outcomes enables us to increase the impact of our activities. By working with NGOs, we leverage each other's expertise and reach. The involvement of community groups increases local ownership and the likelihood that benefits will be maximised.

### **Community Area Planning Programme**

The Community Area Planning (CAP) programme combines materials and funding with community in-kind support such as labour and land. Applications from local communities are reviewed by a local CAP committee comprising Community Affairs team members. Only projects that demonstrate the availability of the stated community inputs are approved. Oil Search's contributions are usually materials that are not locally available (e.g. cement and building materials) and skilled trade assistants.



This year, CAP projects focused on two areas:

- Water Catchment Projects: we completed six water catchments and water tanks across the project impact area, at schools, churches and health care centres in Kutubu, Gobe and Moro; and
- Community infrastructure: we refurbished and/or built nine community buildings, including churches and staff houses, across the project impact area in Kutubu, Gobe, Kikori and Moro.

Other CAP projects during the year provided storage facilities, upgraded medical centres and built kit homes. The difficulty of getting materials safely to site and organising community involvement meant some planned projects were not completed by year end. These are expected to be completed in 2012.

### Community Donations Programme

The intention of Oil Search’s Community Donation Programme is to help local community institutions to improve their effectiveness. We focus on community health and education and make donations based on an annual needs assessment within the project area. In 2011, we donated US\$24,592 to local institutions for school stationery, desks, sports equipment, sewing machines and wheelbarrows.

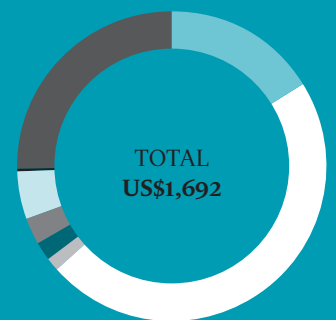
### Working to improve education

Recent changes in PNG teaching regulations left a number of experienced teachers unable to continue teaching without training for a Diploma in Education Primary In-Service (DEPI). In order to up-skill these teachers, with our support the CDI Foundation (a local industry-supported NGO) carried out the first two parts of a three-part training course at the CDI Training Centre in Moro. Phase two was completed by 12 teachers and the third phase will be completed in early 2012. The course is approved by the PNG Department of Education.

CDI conducted other training during 2011, including programmes for:

- Agriculture (rice farming; harvesting and milling; coffee nursery; transplanting and pruning; vegetable production and mulching; and fish pond construction and farming); and
- Public health (maternal child health; immunisation; nutrition; and cold chain management for medical supplies).

## TOTAL COMMUNITY DEVELOPMENT INVESTMENT



Units ('000)

- Oil Search direct education investment US\$274
- Oil Search indirect education investment - CDI Foundation US\$800
- Field Donations US\$25
- Sports US\$30
- Agriculture & food supply US\$50
- Infrastructure US\$82
- MENA US\$7
- Community and biodiversity research US\$424

The emphasis on long term development is apparent in the relative size of investment towards education and training programmes. CDI Foundation work with us to provide training on agricultural practices as well as elements of public health i.e. nutrition.

# SOCIAL DEVELOPMENT

## COMMUNITY DEVELOPMENT CONTINUED

### ADMINISTERING GOVERNMENT FUNDS

Leveraging our project management expertise, we administered nine Government-approved projects under the PNG Tax Credit Scheme (TCS) in 2011. Under the scheme, 0.75% of the tax payable by Oil Search to the PNG Government can be committed to these projects. As the Operator, Oil Search administers the scheme on behalf of tax paid by all joint venture partners. The TCS projects are designed to improve transport, health, education, economic development and law and order infrastructure in the Southern Highlands Provinces.

During the year, two projects were completed. One was an upgrade of the Kumin Community Health Workers Training Centre, which began in late 2010. The upgrade improved facilities in order to increase student capacity and training quality. The Centre, which is run by the Catholic Church, provides basic medical training for people working in some of PNG's most remote and rural locations.

The second project was a facilities and access upgrade at Erave High School. This enabled the school to meet the PNG Government's national educational requirements for a high school.

### Assessing socio-economic progress

This year we conducted our bi-annual household and village survey to assess community participants' livelihoods against a range of socio-economic indicators. The indicators include: demographics, education levels, literacy, water supply, sanitation, village infrastructure, nutrition and expenditure patterns. As we have undertaken this survey for six years, we can now analyse trends, using the information to assess the success of our activities and inform the direction of our community development activity in future years. This year's findings included:

- The development priorities of survey respondents in 2011 were power supply, water supply and road access. The priorities were the same across each project area, although the order of priorities differed from location to location.
- Access to key road infrastructure has improved substantially over the past decade in the project areas. The survey data indicated a reduction in the average time it took villagers to reach a major road, down to 36 minutes in 2011 from 50 minutes in 2009 and 300 minutes in 2007/2008.
- Attendance at school by children aged 8–14 has remained steady at around 50% due primarily to law and order issues and a shortage of teachers.
- The total average household monthly spend across the whole project area is US\$565, an increase of US\$213 from the 2009 average monthly spend of US\$352. The major expenditures in 2011 were food (reliance on store-bought food increased), school fees, compensation and bride price.

For a detailed report, visit [www.oilsearch.com/sustainability/sustainability-reporting.html](http://www.oilsearch.com/sustainability/sustainability-reporting.html). We report the results to the PNG Department of Environment & Conservation (DEC) and use them to measure performance against our commitment to the UN Millennium Development Goals.

We completed upgrades to our Community Affairs Information Management System (CAIMS) this year to improve its reporting functionality. We can now create and record village profiles to support our stakeholder engagement activities. Work is also underway to merge our socio-economic survey results into CAIMS to create one central repository.

CAIMS is critical to effective stakeholder management as it contains a record of all community interactions and our responses, aiding our knowledge and understanding of community concerns. We are evaluating ways to tailor this information and incorporate it into our broader stakeholder management plan.

### PARTICIPATING IN THE LOCAL MARKETPLACE

Private sector utilisation of local businesses provides a flow-on effect to local communities. It generates local employment and training; creates opportunities for sub-contracts to small and medium enterprises; and provides additional revenue streams from community dividends.

### Supporting Landowner Companies

Oil Search is committed to supporting the development of landowner companies (Lancos) by providing supplier opportunities and business development advice. Our current Lanco contracts include: catering and maintenance services at all camps, security, trucking and transport, and civil infrastructure support.

In 2011, Oil Search paid Lanco contractors US\$64.1 million, up from US\$54.3 million in 2010.



The long term success of these companies has been variable. The positive benefits of the contracts depend on the Lanco operating appropriately, profitably and sustainably. To overcome some of these challenges, our Local Business Development Officers (BDO) help individual Lancos to develop their business management effectiveness. They assist them with statutory and contractual compliance; provide guidance on governance; advise their Boards; and act as intermediaries during industrial disputes. BDOs also provide business and entrepreneurial training to the wider Lanco community.

#### Obtaining a snapshot of suppliers

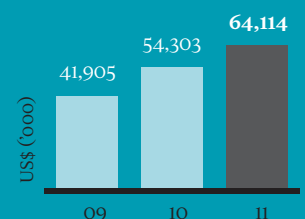
Our focus in 2011 was quantifying some aspects of our supplier data, such as physical location, packaging types and shipping costs and methods. We conducted this research as part of a broader supply chain review that will help us to understand our current supply chain characteristics so we can make more informed decisions.

As part of our progress towards certifying our supply chain practices, we asked the Chartered Institute of Purchasing and Supply to conduct an independent review. The review led to training for our local PNG procurement staff to increase their awareness of best practice procurement. The review also identified some gaps in current processes around assessment and monitoring of suppliers. We will address these gaps in 2012.

#### In the community

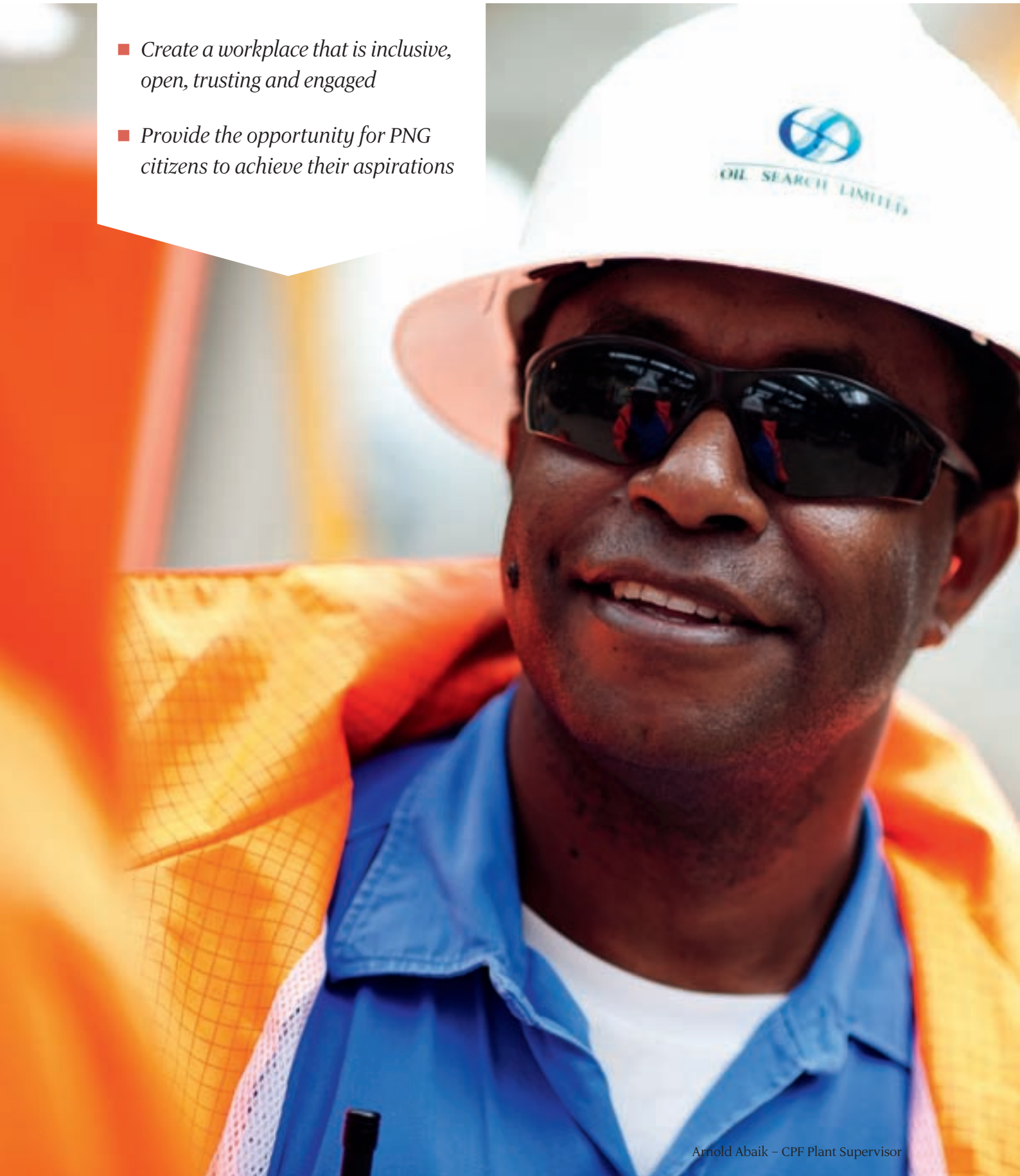
In the photo above is Henry Samogo Oil Search Village Liaison Officer, from Ai'io village in the Kutubu area.

#### TOTAL PAID TO PNG LANDOWNER COMPANIES



## OIL SEARCH PEOPLE

- *Create a workplace that is inclusive, open, trusting and engaged*
- *Provide the opportunity for PNG citizens to achieve their aspirations*



Arnold Abaik – CPF Plant Supervisor

**OBJECTIVES FOR 2011****OUTCOME**

|   |        |  |
|---|--------|--|
| Implement new HR Operating Plan to address workforce planning, succession and talent management needs for 2011-2015 | ✓<br>→ | We began implementing the HR Operating Plan and addressed our people capability requirements to 2015 in our People Report. This process included identifying and putting in place development plans for talented employees and senior role succession planning. This work will continue in 2012. |
| Implement a learning management system (LMS) to track and record training progress and currency                     | ✓<br>→ | We transferred Oil Search PNG and Australia to a single database to prepare for the LMS. We installed the LMS and began populating the database. This work will continue in 2012.  |
| Identify and confirm our diversity aspirations  | ✓      | We developed our first Diversity Policy, which was adopted by the Board in early 2012. To support the Policy's principles, we developed diversity objectives and strategies.   |

✓ = Achieved    → = Ongoing

## Our priority is to ensure we provide a safe workplace that encourages accountability and diversity and consistently drives high performance.

We approach all relationships with trust, transparency and fairness. We are committed to protecting basic labour rights such as freedom of association and the right to collective bargaining.

We take this approach so we can preserve Oil Search's unique, positive and supportive culture. All our operations abide by local employment law or our Human Resource Policies and Guidelines, whichever is more stringent.

We took a number of steps in 2011 to implement the key outcomes and strategy of our HR Operating Plan, which is our human resource road map for the next five years. In a series of workshops attended by senior managers, we decided our key actions for 2011 would include:

- Creating the People Development Group to identify and plan the development of top talent within the company and to monitor progress against our people development strategy;
- A renewed approach to structured career development planning, encouraging all employees to prepare an Individual Career Development Plan (ICDP); and

- Competency assurance and skills development, including implementing a framework that ensures employees have the role-specific and management skills they need to perform their jobs.

### FORMALISING OUR PLANS TO IMPROVE DIVERSITY

We encourage and value a diverse workforce that reflects our areas of operations. In 2011 we developed a new [Diversity Policy](#) that outlines our position regarding diversity. This includes applying diversity principles at all levels of the company and targeting for example ethnicity, gender, age and culture with our diversity initiatives. The Policy reflects our commitment to: giving preference to PNG citizens for in-country roles; providing focused training and development for leadership positions across the company; and removing barriers to achieving diversity. To help drive change, we have set diversity objectives and agreed supporting initiatives.

More information on our diversity objectives is in our 2011 Annual Report.

## OIL SEARCH PEOPLE

CONTINUED

Oil Search has a long-standing commitment to developing staff across the business. Our emphasis in PNG is on the development and retention of PNG citizen employees. Our PNG citizen retention plan has been in place since construction of the LNG PNG project commenced. The plan provides a revised view on learning and development, clear opportunities for development at Oil Search and a financial incentive to stay beyond the construction phase. Despite a skilled labour market shortage in PNG due to the resource boom, our male turnover has remained steady at around 6%. Our female PNG citizen turnover has dropped from 11% in 2009 to 2% in 2011.

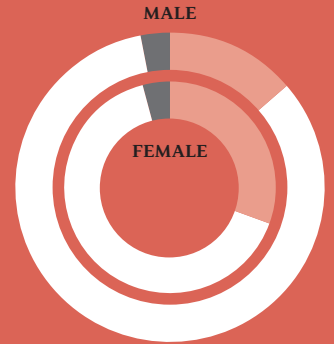
The number of women in senior management across the business increased from 6% in 2010 to 10% in 2011. The number of PNG nationals in senior management held steady at 15; the percentage decreased from 24% in 2010 to 22% in 2011. There is potential to increase the participation of PNG citizens in senior management; over the past three years, the number of PNG citizens in the Manager or Technical Specialist level (the precursor to senior management roles) has increased by 15%.

A single allegation of racial discrimination was submitted to the Australian Anti-Discrimination Board in 2011. The ADB found the allegation to be without substance and no hearing was convened. The decision was appealed and the process is ongoing.





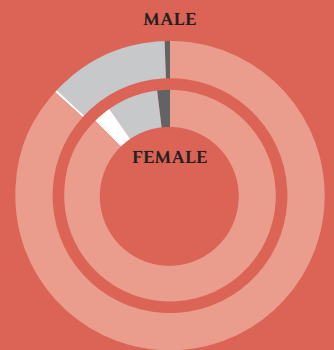
**TOTAL WORKFORCE BY LOCATION**



- Australia Male 124 Female 70
- PNG Male 745 Female 150
- MENA Male 26 Female 9

The total number of employees in 2011 was 1,124, up 8% from 2010.

**PNG AND AUSTRALIAN WORKFORCE BY EMPLOYMENT TYPE**



- Permanent full-time Male 757 Female 193
- Permanent part-time Male 1 Female 6
- Fixed term Male 108 Female 17
- Casual Male 3 Female 4

The number of Fixed Term Contract staff increased 33% this year, due to increased project requirements.

## OIL SEARCH PEOPLE

CONTINUED



### Oil Search Apprentices

In the photo above are Pauline Kina and Sylvia Ekali, two female apprentices participating in Oil Search's apprentice program.

### REFRESHING EMPLOYEE DEVELOPMENT AND WELLBEING PROGRAMMES

Providing our people with opportunities to develop professionally and personally benefits Oil Search and the communities in which we operate.

This year we piloted and rolled out Individual Career Development Plans (ICDPs) to increase our employees' involvement in their career planning. Approximately 150 PNG employees are participating in an accelerated, more intensive and structured development programme to extend their capability and confidence. Most will be supported by a mentor as they tackle 'stretch' assignments.

We are implementing a Learning Management System so we can record and report more accurately on training hours.



### Developing leadership skills

In 2011 we continued to offer our 'Leading the Oil Search Way' programme. So far, 180 supervisors have completed the programme, which highlights supervisory skills and how to apply them. This year we restructured the content to enable higher levels of attendance around work commitments, and 80 supervisors completed the revised programme.

### Tapping into graduate and apprentice talent in PNG

Developing local talent and providing opportunities for key positions within the Company are part of our PNG growth strategy. Our 2012 intake will be the first to experience the newly revised and updated graduate programme. The programme now has a more streamlined recruitment and selection process; a more structured approach to development opportunities; and clearer potential career pathways after completing the programme.

Oil Search also has two apprentice streams: Production and Maintenance. Participants who complete the four-year programme achieve a Process Technician Trade Certificate or a Mechanical, Electrical or Machinist Trade Certificate. This year, one of our 4th year Production apprentices, Raymond Amos, won the PNG Apprentice of the Year Award. This national PNG initiative recognises apprentices who demonstrate specialist knowledge in their chosen field and an awareness of national issues.

### Managing employee health and wellbeing

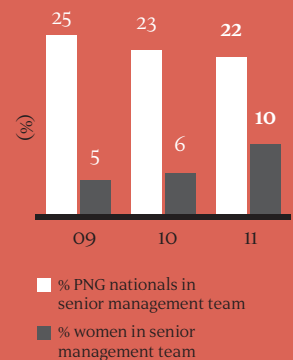
Our company-wide health and wellbeing programme, Vision Balance Control (VBC) provides information and ongoing support to help employees make informed decisions about their health. We use each employee's pre-employment medical assessment to conduct a medical and risk review. We recommend that employees with identified health risks start our 'FreshStart' programme, which provides the highest level of individual support. The programme includes medical tests and health parameters, which are regularly monitored and recorded in the VBC Traka database.

### TOTAL 12 MONTH TURNOVER RATES BY GENDER



The trend of lower turnover rates reflects the success of our PNG Nationals Retention Strategy. Increased male turnover this year was driven by high demand for skilled employees worldwide. This trend was most prevalent in our male expatriate workforce turnover figures. This information does not include our MENA operations.

### DIVERSITY IN SENIOR MANAGEMENT



The number of PNG Nationals in senior management positions remained the same in 2011. The percentage decrease in nationals in senior management is due to a comparatively larger increase in the number of expatriates hired for a short term, to fulfil project requirements.

# OIL SEARCH PEOPLE

CONTINUED

## UNDERSTANDING WORKPLACE CULTURE

At Oil Search, we pride ourselves on our honest and compassionate company culture. Working with integrity and openness is critical to developing strong working relationships with internal and external stakeholders and is the cornerstone of successful operations.

As part of our organisational capability assessment, we surveyed approximately 60 employees from all areas of the business during the year. We wanted to increase our understanding of their perceptions of Oil Search so we could articulate the characteristics of our corporate culture. The results indicated that overall, there were very high levels of employee loyalty and satisfaction. People felt there was a strong safety culture and that it was a positive work environment. They highlighted some challenges, including raising awareness of sustainability, managing all facets of political and operating risks in PNG and influencing transparency.

## EFFECTIVE REMUNERATION AND BENEFITS

We adopt a market-matching strategy, setting salaries against prevailing local conditions. This is particularly important in PNG, where Oil Search's size means it has the potential to adversely impact other local organisations' ability to attract employees at affordable wages. In PNG and Australia we play an active role in this area and participate in a number of remuneration and benefit forums managed by an independent third party.

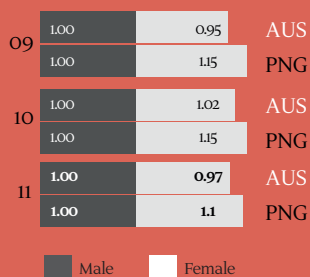
We try to ensure our employees are remunerated commensurate to their role and have the opportunity for long term economic wellbeing. In PNG, we do this using a combination of benefits and remuneration offerings in addition to salary and wages. These include: contributions to superannuation; assistance with housing costs; child education costs; and participation in employee share plans. All these benefits are available to all employees on either permanent or fixed term contracts, except employee share plans, which are only available to permanent employees.

### Helping staff to understand remuneration and benefits

To ensure our employees can extract the most value from their remuneration and benefits, we began a Financial Education Programme for our PNG staff in 2011. Running for 12 months, the sessions will address issues in clear, easy to understand terms, helping employees to plan for the future. The topics include:

- Elements of the Oil Search remuneration and benefits package, including the share scheme;
- Understanding tax;
- Interpreting pay slips; and
- Superannuation.

### RATIO OF BASIC SALARY BY GENDER AND EMPLOYEE CATEGORY



In contrast to Australia, women in PNG appear incrementally higher paid than men. This is largely because the women in the OSL PNG workforce are predominately hired for skilled positions.

## OIL SEARCH PEOPLE SAFETY PERFORMANCE



- *To be incident free at all areas of operations*

# OIL SEARCH PEOPLE

## SAFETY PERFORMANCE CONTINUED

### OBJECTIVES FOR 2011

### OUTCOME

Refresh health and safety management knowledge in safety critical roles in the PNG

→ The refresh of health and safety management knowledge is underway. Once the review of safety roles is complete, we will conduct a health and safety competency assessment to determine each employee's additional training needs.

Commence implementation of an upgraded company-wide HSES incident management system

✓ → We identified the implementation team and key stakeholders for configuration input. We held the first implementation meeting and identified Steering Group members. The system is in phase one of implementation and testing and is due to go live in mid-2012.

Field Operations Leadership Team to implement the Balanced Scorecard and Safety Plan

✓ We implemented the HSES Balanced Scorecard and Safety Plan across the business. Managers monitored performance against the KPIs in the Balanced Scorecard at least monthly.

✓ = Achieved    → = Ongoing

We value our strong safety reputation and understand that as an oil and gas producer in remote locations, we operate within a potentially high risk environment. Through effective leadership, commitment, behaviour and safe systems of work, we are committed to incident free operations, the protection of our staff and the ongoing viability of our assets.

### INCREASING SAFETY AWARENESS AND COMPETENCY

With a number of large projects underway in 2011 and a major scheduled shutdown of our Kutubu production facility in August, there were some changes to our PNG operations and workforce. Due to the proximity of their construction to active production facilities, these projects significantly changed the risk profile of associated assets. Many of the 300 contract and permanent staff brought on for these projects have not been exposed to Oil Search's safety first work environment and are from a diverse range of ethnic backgrounds. This changing profile meant we increased the amount of safety training, with a focus on landowner company (Lanco) employees.

We put in place a number of measures to ensure a continued level of safety awareness and reporting during this challenging period. We established a new on-site Safety Training Facility in July and provided a two-day on-site 'work ready' induction in English and Tok Pisin for all trainees.

The contractor input we obtained during the Contractor Safety Forum in 2010 led to the creation of new safety advisor and officer roles in 2011 to support our contractors. Other measures we implemented this year included safety audits and tours of Lanco operations by Oil Search staff to ensure the transfer of safety knowledge. The performance and outcomes

of these tours and audits are monitored as part of the PNG Safety and Environment Performance Scorecard assessment process. Despite the more challenging work programmes and a significant increase in the number of contractor hours worked, we were able to reduce our total recordable incident frequency rate (TRIFR) from 1.96 in 2010 to 1.85 in 2011.

### Increasing our process safety management parameters

Our process safety management system expanded this year with the introduction of a number of additional parameters covering emergency shut downs and pressure safety valves for continual management review. These new parameters broaden the current indicators that managers monitor and demonstrate our desire for continuous improvement in our process safety system to mitigate the risk of a major accident event.

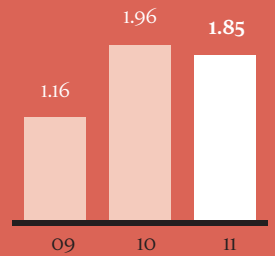
### Monitoring safety performance

The 2011 Health, Safety, Environment and Security (HSES) Balanced Scorecard targets and objectives were developed using output from the 2010 Contractor Safety Forum and 2010 HSES performance. The Scorecard focused on KPIs in four areas: people, process safety, control of work and environment. We have delegated responsibility for achieving the targets to relevant staff, and senior managers discuss performance every month.

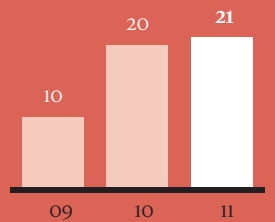
We held two Safety Leadership Workshops, one for Oil Search managers and the other for representatives from each contracting company. These workshops provided a forum where contractors and management could discuss strategies for meeting the objectives in the PNG Safety and Environment Performance Scorecard.



**TOTAL RECORDABLE INCIDENT FREQUENCY RATE (TRIFR)**



**TOTAL RECORDABLE INCIDENTS**



TRIFR improved slightly in 2011 from 1.96 in 2010 to 1.85. This was achieved despite a large increase in the contractor workforce many of whom were new to PNG and Oil Search's safety first culture.

## ENVIRONMENT

- *Increase environmental monitoring and measuring*
- *Minimise our environmental impact*
- *Operate in an environmentally sustainable way*

**OBJECTIVES FOR 2011****OUTCOME**

|   |   |   |
|---|---|---|
| Close out minor non-conformances prior to ISO 14001 recertification audit in 2011   | → | Although we maintained our certification status, some minor non-conformances remain. An action plan is in place to remediate these non-conformances and senior managers will regularly monitor performance against this action plan.                                      |
| Improve accuracy and completeness of greenhouse gas (GHG) inventory   | → | Reviewing our GHG inventory collation process led to changes to the process. We have restated our 2010 GHG results from 844 to 1,157 CO <sub>2</sub> e –kT. We have put in place new procedures to guide the process and will address system gaps in 2012.                |
| Execute Phase 2 of the Lake Kutubu research project, covering socio-economic and resource use, fish population and aquatic weed studies | ✓ | We completed several research projects to improve our understanding of socio-economic and resource use changes in the Lake Kutubu catchment. These studies will inform the management plans that we develop in partnership with local communities and other stakeholders. |

✓ = Achieved    → = Ongoing

Oil Search operates in a diverse range of environments, including tropical, desert and marine. With the majority of our operations in PNG – one of the most pristine and biologically diverse regions in the world – we have the opportunity and the obligation to demonstrate leading environmental management practices.

We take all the necessary steps to ensure environmental issues are considered prior to and during all stages of our operations. We are committed to taking a precautionary approach to environmental risks.

**ENVIRONMENTAL MANAGEMENT**

This year our priority was consolidating and improving our environmental data collection processes, systems and controls. This involved evaluating our existing processes and systems to determine the current state of the existing data set, and identifying gaps and areas for

improvement. We are implementing or planning several initiatives to improve our water, waste and greenhouse gas (GHG) emissions data and processes in the short term. Most will be implemented during 2012, so we can establish a credible baseline for data from 2013.

Due to a change in the World Wildlife Fund's donor rules, we were temporarily unable to continue our participation in the Kikori Integrated Development and Conservation Project. As this was a key part of our biodiversity efforts, we were unable to achieve a number of biodiversity objectives during 2011. We are in discussion with another partner and hope to recommence our efforts with a similar programme in 2012.

All our major areas of operation in PNG have an environmental management system compliant with ISO 14001. This ensures a consistent, robust approach to managing our environmental risks and demonstrates our commitment to continuous performance improvement. Our approach to managing our environmental impact applies to all stages of our operations, from drilling to decommissioning.

# ENVIRONMENT

## CONTINUED

### **Developing our environmental management system**

In December 2011 our environmental management system was recertified against the requirements of ISO 14001. Throughout the year, we focused on remedying areas identified for improvement to ensure we maintained this certification.

The areas for improvement were:

- Hazardous goods storage, particularly bunding of chemical stores. We have begun a bunding design and reconstruction programme and our bund operations have been an area of focus;
- Facility risk registers, improving the level of completeness and detail; and
- Increasing management certainty around compliance with permit requirements e.g quality control measures in the on-site laboratory.

We have adopted an action plan to address the identified improvement areas. Senior managers are regularly monitoring progress against this action plan, including the Field Operations Leadership Team and the future Sustainability Operations Group.

We have identified key performance indicators relating to ISO 14001 performance improvement for all field-based operations teams and managers for 2012.

### **Environmental incidents**

We have a strong reporting culture and record spills as small as a few litres in our incident management system. Following a drop of more than 50% in the number of environmental incidents from 2009 to 2010, the number of incidents rose slightly in 2011. This was due to the improved reporting culture and an increase in on-site construction activity related to associated gas project. All spills were classified as having a minor impact on the environment. Incidents involving fire, explosion, blow-out, spillage of hydrocarbons in excess of 10 barrels (1600 litres) and/or serious structural damage must be reported to the Department of Petroleum and Energy (DPE); this year we reported no incidents to the DPE.

### **Understanding community wellbeing and conservation outcomes around Lake Kutubu**

As part of our commitment to social responsibility, we seek to make a positive difference in the lives of the PNG communities with which we interact. We understand that our operations have many potential direct and indirect impacts.

To develop a better understanding of the complexity of our impacts, during 2011 we undertook a number of socio-economic and resource use research projects around the Lake Kutubu catchment. These projects had multiple objectives. Most importantly, we sought to understand the impacts of the oil project on the livelihoods and wellbeing of local communities and their inter-relationship with the conservation management of Lake Kutubu.

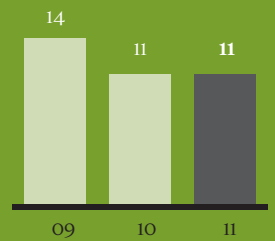
To date, the studies demonstrate the complexity of issues and how social conditions can influence conservation outcomes. For instance, an increase in money from the oil project and other infrastructure and activity in the area can link indirectly to increased fishing activity as a result of there being more people and more sophisticated fishing practices (nets and outboard motors). This places increased pressure on fish supplies and species diversity, with the potential to create concerns around food security. Information such as this will inform our revisions to the Lake Kutubu Catchment Management Plan and local community development programmes.





Canoes on Mubi River near Pimaga

### NUMBER OF LIQUID SPILLS >100 LITRES



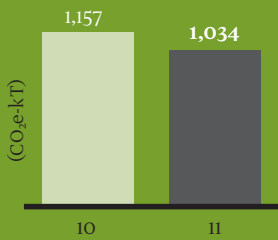
All of these spills were determined to have had a minor impact on the environment. There were no spills reportable to the Department of Petroleum and Energy (DPE).

# ENVIRONMENT

CONTINUED

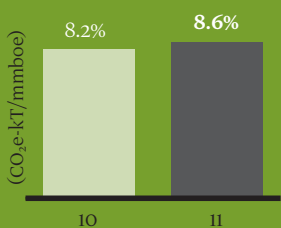


## GREENHOUSE GAS EMISSIONS AT SIGNIFICANT AREAS OF OPERATION



A detailed review of our greenhouse gas inventory has led to a restatement of our 2010 GHG emissions from 844 to 1,157 CO<sub>2</sub>e-kT. 2009 has been excluded as it was not compiled using the same methodology as 2010 and 2011.

## CO<sub>2</sub>E EMISSIONS INTENSITY



### Taking the initiative

The Green Office Group (GOG) at our Port Moresby office consists of a cross-section of volunteer staff, including senior managers. The GOG meets monthly and is responsible for developing initiatives and conducting awareness campaigns to manage the office's environmental impact.

The programme has raised local awareness of ways individuals can reduce their impact on the environment and is addressing a number of initiatives which, although simple, often represent a significant change to behaviour in PNG. This year the GOG achieved recognition for 'best practice for office environmental management' in the 2011 ISO 14001 audit and was recommended as a model for other operational areas.

### ENERGY AND EMISSIONS

As an operator of oil and gas facilities, we understand that our business activities generate greenhouse gas emissions and we acknowledge we have an obligation to address our contribution to climate change. While not currently subject to any regulations imposing a cost on carbon emission, we are focused on reducing our greenhouse gas emissions. An Oil Search position statement on climate change is currently being developed to help us better communicate our intentions in this area.

In our 2010 sustainability report we committed to setting targets for emissions reductions. To guide our work we have set ourselves a target to reduce GHG emissions intensity across our existing operations by 12% by 2016 against a 2009 baseline.

During 2011 we identified further systems improvements that will enable us to evaluate opportunities for emissions reductions and energy efficiency improvements, and to determine an appropriate carbon reduction strategy. In 2012 we will focus on ensuring the correct policies, controls and data management systems are in place so we have a robust framework for developing credible baseline data. This will be in place by the end of 2012 and we will begin gathering baseline data in 2013. Over this period we will continue to assess opportunities for emissions reductions and improved efficiency. We propose to deliver a revised carbon reduction strategy by the end of 2014, once the emissions impact of introducing LNG to our portfolio is better understood.

With the goal of continually improving our energy and emission performance, our approach focuses on efficiency measures and using international emission reduction incentives. During 2011 we continued to investigate developing alternative renewable energy sources for PNG and global export.

### Improving GHG inventory data and collation

A review of our GHG inventory collation and reporting process identified some errors in our 2010 inventory, leading us to restate our 2010 results from 844 CO<sub>2</sub>e-kt to 1,157 CO<sub>2</sub>e-kt. The majority of this restatement related to the inclusion of sources that were originally incorrectly excluded, and application of a set of consistent and up to date emission factors. We applied the lessons from this exercise when calculating the GHG inventory for 2011. We have drafted detailed procedures for the compilation of the inventory to ensure consistency in the future.

Methane represents approximately 20% of our overall GHG inventory but less than 1% of our overall gas emissions. Although we are restricted by our operational capacity, we acknowledge the significant impact methane has on the environment and are seeking to reduce its release.

### Mapping our gas consumption

We conducted a detailed mapping exercise in 2011 to determine our usage of fuel and instrument gas and the extent of metering, and to estimate consumption where meters were not available. An upgrade of two refinery fuel gas meters in 2012 will enable us to more accurately measure fuel gas and confirm our gas balance. This will enable us to track production consumption more closely.

Key information from this analysis will be incorporated into our new production data management system, which is due to go live in the second half of 2012. The new system will have added functionality for quality control, audit trail, security, visual displays, ease of expansion, reporting and viewing.

We will evaluate further system and process improvement opportunities throughout 2012. The GHG inventory and other system improvements made in 2011 and 2012 will help us to develop a complete baseline data set by the end of 2013. From there, we can work on further opportunities for GHG emission reductions and develop a carbon reduction strategy.

### Biomass project assessment progressing to next stage

The feasibility study for the proposed biomass project commenced in late 2010 and was completed in March 2011. The initial results are encouraging. We have committed an additional US\$4 million to reach a front end engineering design, which is due for completion in 2012. This project could feed renewable energy into the PNG electricity grid and could help diversify PNG's energy for export.

# ENVIRONMENT

## CONTINUED

### **Clean Development Mechanism project proposal submitted**

During 2011 we investigated potential emission reduction projects eligible for carbon credits under the Clean Development Mechanism (CDM) and made a submission to the United Nations Framework Convention for Climate Change (UNFCCC). The proposed project comprises several components to minimise the flaring and venting of associated gas within our oil production operations. The project would involve our Central Processing Facility, the Kutubu Refinery and the Gobe Processing Facility. These technologies are proven elsewhere in the global energy industry but have not been implemented in PNG. The skills and technology this project would develop are transferrable across PNG so it represents an even larger potential benefit. If our UNFCCC application is successful, project engineering and construction will proceed on a schedule that would provide for the Certified Emission reduction (CER) crediting period commencing at or shortly after LNG gas sales begin. The estimated annual reduction in GHG emissions is 64,000 CO<sub>2</sub>e-kT.

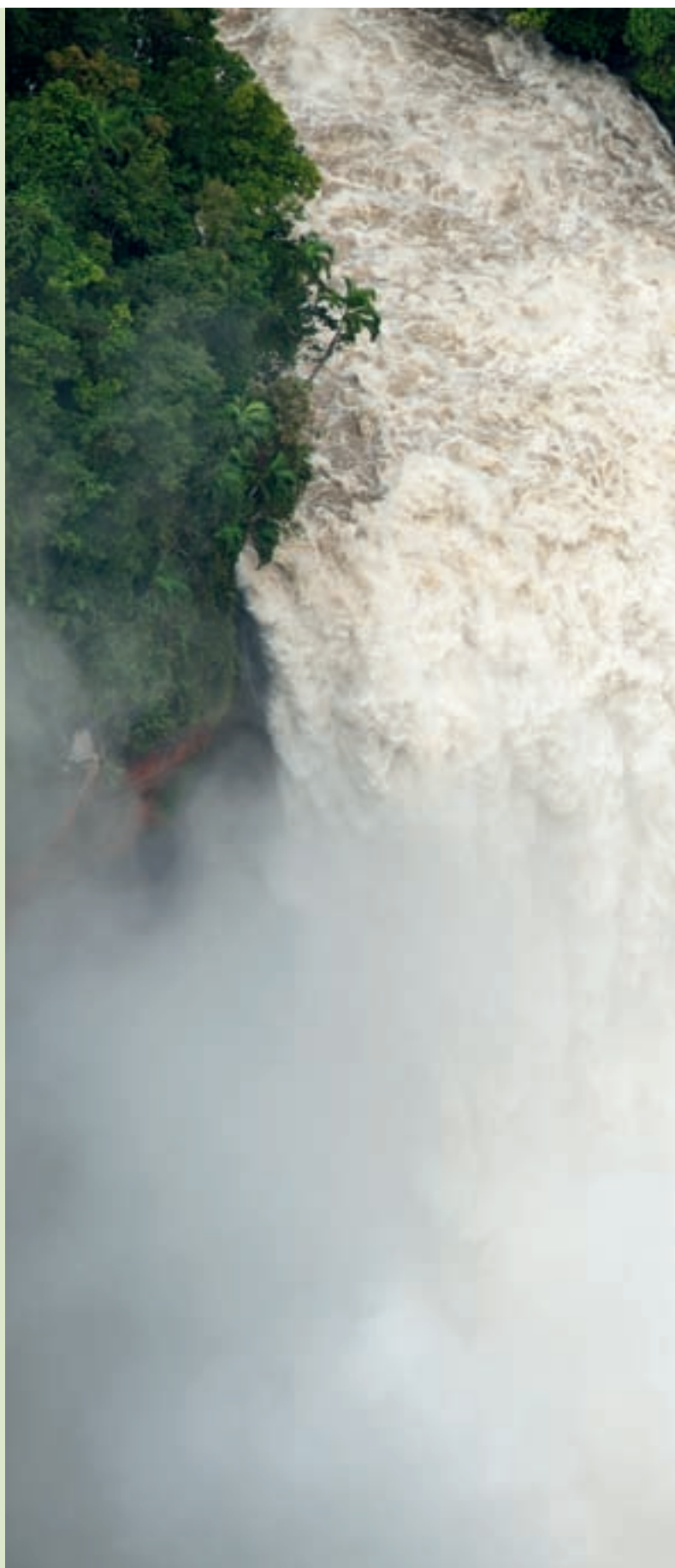
### **MONITORING WATER CONSUMPTION AND WASTE**

A review of our waste tracking, reporting and storage processes commenced this year with our hazardous and chemical waste. This was our first priority as it is difficult to source appropriate locations locally to treat this waste and to find appropriately licensed contractors to transport it. We began working with disposal companies to determine the best way to safely remove and dispose of redundant chemicals in accordance with the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.

All our waste data is compiled by visual assessment. We want to improve the robustness of this data prior to reporting and are investigating the feasibility of installing a weigh bridge at Kutubu.

We installed a number of water meters this year at Moro, one of the largest water consuming sites. We will install more meters in 2012 at our Kutubu facility. This activity is part of our metering programme to improve the quality of our water consumption data. The meters at these two sites will capture more than half our total water consumption.

These initiatives all form part of our overall sustainability focus, which is on setting in place the required systems and processes to help us determine a baseline from which to set environmental targets.





Beaver Falls, Southern Highlands

# GLOSSARY

**ADB**

Asian Development Bank

**ADR**

American Depository Receipt

**AGRP**

Associated Gas Related Project

**APF**

Agogo Production Facility

**API**

American Petroleum Institute

**APPEA**

Australian Petroleum Production and Exploration Association

**BBL/BARREL**

The standard unit of measurement for all production and sales – one barrel equals 159 litres or 35 Imperial gallons

**BSCF/BCF**

Billion standard cubic feet where a billion is defined as 10<sup>9</sup>

**BOE**

Barrels of oil equivalent – the factor used to convert volumes of different hydrocarbon production to barrels of oil equivalent.

Conversion rate used by Oil Search is 6,000 cubic feet of gas is equivalent to 1 barrel of oil

**CAP**

Community Area Planning

**CDI Foundation**

Community Development Initiative (a local NGO)

**CDM**

Clean Development Mechanism

**CPF**

Central Production Facility in Kutubu

**DEC**

PNG Department of Environment and Conservation

**DPE**

PNG Department of Petroleum and Energy

**EIA**

Environmental Impact Assessment

**EMS**

Environmental Management System

**GHG**

Greenhouse Gas

**GPF**

Gobe Production Facility

**GTE**

Gas to Electricity

**HAZID**

Hazard Identification

**HSES**

Health Safety Environment and Security

**ISO**

International Organisation for Standardisation

**IPIECA**

International Petroleum Industry Environmental Conservation Association

**LANCOs**

PNG Landowner Companies

**LBBSA**

Local Based Benefits Sharing Agreements

**MDGs**

Millennium Development Goals

**MENA**

Middle East North Africa

**MMBBL**

Million barrels

**MMBOE**

Million barrels of oil equivalent

**MOA**

Memorandum of Agreement

**MRDC**

Mineral Resources Development Company

**OGP**

International Association of Oil and Gas Producers

**PDL**

Petroleum Development Licence

**PL2 LE**

Pipeline Life Extension Project

**PNG**

Papua New Guinea

**PSC**

Production Sharing Contract

**PSMLI**

Process Safety Management Lag

**SEISMIC SURVEY**

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

**STAKEHOLDER MANAGEMENT**

The process of managing the expectations of those who have an interest in a project or who will be affected by its activities, outputs or deliverables

**SUSTAINABLE DEVELOPMENT**

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs

**TAX CREDIT SCHEME**

0.75% of Petroleum Tax payment to PNG National Government can be applied to approved infrastructure construction and maintenance by the Operator

**TRIFR**

Total Recordable Incident Frequency Rate defined as total recordable injuries per million man-hours worked

**TOK PISIN**

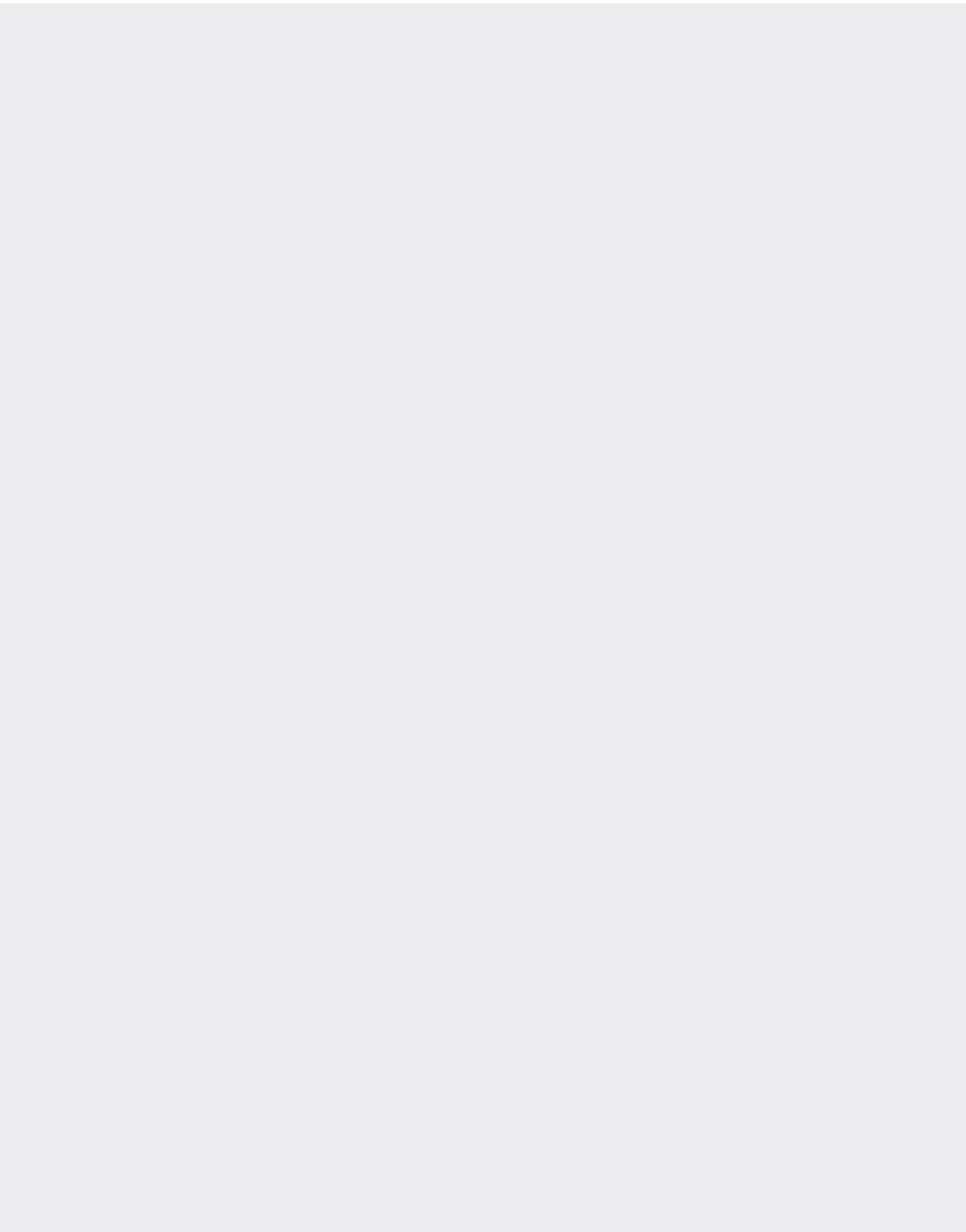
Official language of Papua New Guinea

**UBSA**

Umbrella Benefits Sharing Agreement

**WHO**

World Health Organization





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