



OIL SEARCH LIMITED

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

12 May 2009

Mr Vincent Ivosa, Market Controller
PORT MORESBY STOCK EXCHANGE LIMITED
P.O. Box 1531
Level 4, Defence Haus
Port Moresby
National Capital District
PAPUA NEW GUINEA

Dear Mr Ivosa,

Oil Search Limited – 2009 Annual Meeting – Chairman’s Address

Attached please find the 2009 Annual Meeting Chairman’s Address released to the Australian Securities Exchange (ASX) today.

Please release to the market.

Upon release of this information, please advise Lydia Isaac on email Lydia.Isaac@oilsearch.com.

Yours sincerely
OIL SEARCH LIMITED

Michael Sullivan
General Counsel/Group Secretary

Encl.

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CHAIRMAN'S ADDRESS OIL SEARCH LIMITED ANNUAL MEETING 12 MAY 2009

2009 is an important year for Oil Search, as it marks the Company's eightieth year of incorporation. Since its inception in 1929, Oil Search has grown from a small company with a vision to explore for oil and gas in PNG, to a regionally significant oil and gas producer. It employs over 2,000 full time staff and contractors, the majority of whom are PNG nationals, and is PNG's largest tax payer. The Company is now on the cusp of entering another major expansion phase, with the development of its large gas resources through the world class PNG LNG Project. Despite the global financial crisis, Oil Search is in its strongest financial position ever, and has the most exciting outlook in its 80 year history.

Oil Search has been through many varied and challenging times. However, the volatility seen in the last 12 months is probably the most extreme the Company has ever experienced. Certainly, the circumstances in which we find ourselves today are very different to what they were at last year's Annual Meeting. In May last year, oil was trading at well over US\$100 per barrel and heading upwards. During the second half of 2008, the oil price fell by over 60%, from a peak of US\$147 per barrel to US\$40 per barrel in the space of just a few months.

Despite this extremely volatile environment, Oil Search achieved a net profit after tax on core activities of US\$240 million in 2008. This was 70% higher than in 2007 and a record for the Company. During the year, Oil Search sold a package of its Middle East and North African assets for US\$225 million, realising a profit of US\$128 million and bolstering the Company's cash position. Oil Search ended



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2008 with a very solid balance sheet, with over US\$500 million in cash, no debt and an undrawn five year revolving credit facility.

Given the Company's strong performance, the Board approved the payment of dividends totalling eight US cents per share in respect of the 2008 financial year. This equated to 22 toea per share.

Regarded equally as important as financial measures, Oil Search's safety performance also improved during 2008. The Company reported a Total Recordable Injury Frequency Rate for 2008 of 2.04 per million hours worked, far lower than its Australian peer group average, as recorded by APPEA, of 6.78 per million hours worked. This performance, together with the official ISO 14001 accreditation of our environmental management systems in early 2009, is a strong endorsement of the Company's Health, Safety, Environment and Security systems and practices. The Board and management of Oil Search have a clear objective, to improve the Company's safety and environmental performance each year. While this is challenging, given that our safety standards are already world class, this remains our aim for 2009 and beyond.

In light of the continuing global financial crisis, Oil Search has undertaken a detailed review of what sustained low oil prices would mean for the Company. Clearly, if oil prices remain subdued for the rest of 2009, revenues and profitability this year will be significantly lower than in 2008. However, the review confirmed that even in a low oil price environment, the PNG LNG Project is highly robust and will still be a major value driver for the Company. Our core strategy therefore remains unchanged, to ensure the PNG LNG Project is developed in a timely manner.



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PNG LNG has continued to make progress despite the global economic slowdown and is one of only a few LNG projects in the Asia Pacific region that is expected to reach a Final Investment Decision in 2009. This reflects the benefits of having:

- a conventional LNG project with no new technology risk;
- a strong joint venture that is fully committed to working together and moving the Project forward; and
- the continued strong support from the PNG Government.

I would like to formally acknowledge the highly constructive role that the PNG Government, led by Prime Minister Sir Michael Somare, has played in supporting the Project. This has been particularly evident in recent weeks at the meeting held in Kokopo, East New Britain, to negotiate the terms of an Umbrella Benefits Sharing Agreement, or BSA, between the Government and Landowners.

With over 1,000 people involved, Oil Search has been most impressed by the professional manner in which the discussions have taken place and the high level of knowledge and understanding of the key issues by all participants. We understand that good progress is being made and look forward to a positive conclusion in the very near future. The focus will then turn onto reaching agreement for Production Licence awards, following the completion of licence-based development forums. We urge the Government and Landowners to continue to work together constructively on these agreements, in order not to delay the Project timetable.

A key milestone was reached last month when agreement was achieved on the key terms of a Heads of Agreement, or HOA, with a major Asian buyer for the



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sale of two million tonnes of LNG per annum, subject to final approval from the buyer Government. Detailed discussions are underway with a number of other potential buyers and we believe there is more than enough demand for the remaining 4.3 million tonnes per annum to be sold. The Project team is confident that long term sales arrangements for the full 6.3 million tonnes capacity of the proposed LNG plant will be made by mid year.

Front End Engineering and Design is on-track for completion by the end of the third quarter of this year, with a Final Investment Decision scheduled for year end. There is growing evidence that the inflationary cycle seen in the energy industry over the past five years has finally broken, with downward pressure on capital costs now emerging, particularly for steel and equipment. We hope to see the impacts of this when the bids for construction are received in the third quarter of 2009.

The PNG LNG Project Financing team continues to be encouraged by the high level of interest in the Project from the international lending community. Negotiations for a substantial project finance facility, which we anticipate will fund 70% of the project development costs, remain on schedule. The remaining 30% of Project costs will be funded by equity contributions from each Project participant.

Given its potential to transform the Company's value, Oil Search is committed to ensuring it can fund its equity share of PNG LNG Project costs. To support this objective, and in response to the changed economic conditions, the Company has commenced a prudent capital management programme. Discretionary spending



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on production, exploration and corporate activities has been reduced and other cost cutting measures have been implemented. We also introduced an underwritten Dividend Reinvestment Plan for the 2008 final dividend.

Whether Oil Search will need to tighten its belt further is dependent on a range of factors, including the future oil price. In addition, there are a number of other exciting, longer term growth opportunities, including a third train LNG expansion, in which Oil Search is eager to participate and for which some preliminary capital may be required. Many of the inputs for the PNG LNG Project, including finalisation of the offtake arrangements, confirmation of the capital costs and finance terms, will be known later this year. Oil Search remains ready to take the appropriate actions to ensure it meets all its obligations. Fortunately, the Company is in a very strong financial position and has a number of actions it can take, including hedging, asset sales and equity raisings, with the key driver being maximisation of shareholder value.

Our Managing Director, Peter Botten, talk more about our other operational activities and financial outlook later.

I would like to take this opportunity to say a few words about the recently completed transaction between the PNG Government and International Petroleum Investment Company, IPIC. IPIC, which is wholly owned by the Abu Dhabi Government, has acquired bonds from the PNG Government which are exchangeable into the Government's 17.6% shareholding in Oil Search. A principal amount of A\$1.68 billion was paid by IPIC for the bonds, which the Government will use to fund the purchase of its direct equity in the PNG LNG Project and its share of Project capital costs. We believe this is an excellent outcome for the Government, enabling it to retain its full equity interest in this long term legacy project.



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When the bonds are exchanged into the Government's Oil Search shares, IPIC will become Oil Search's largest shareholder. IPIC has indicated that it is highly supportive of our strategic direction. We are confident that having IPIC as a long term, stable shareholder will be beneficial to the Company and all shareholders.

Before I conclude, I would like to thank all Oil Search staff, led by Peter Botten, for their efforts which helped make 2008 a very successful year. 2009 is presenting some significant challenges, but I am confident that the Company is taking the appropriate actions to operate successfully in a very different business environment. We are on the threshold of developing a world class LNG Project here in PNG and look forward to a very exciting future.

Thank you.