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# ASX Announcement

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8 April 2016

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## 2015 Corporate Governance Statement

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Please find attached Oil Search's 2015 Corporate Governance Statement.

**STEPHEN GARDINER**

**Group Secretary**

**For further information please contact:**

Stephen Gardiner

Group Secretary

Tel: +61 2 8207 8400



**Oil Search**

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**CORPORATE GOVERNANCE STATEMENT**

**2015**

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## COMMITMENT TO GOOD GOVERNANCE

Oil Search is committed to adopting and implementing rigorous corporate governance practices across all of its activities. The Company supports this commitment by transparent and open reporting of the Company's governance practices to assist investors in making informed investment decisions.

## ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Oil Search has reported against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the "CGC Recommendations") each year since their first release in 2003. Oil Search believes it followed all of the CGC Recommendations in the 3<sup>rd</sup> Edition during the 12 months ended 31 December 2015.

In reporting against the CGC Recommendations for 2015, this Corporate Governance Statement:

- addresses the CGC Recommendations consecutively; and
- includes cross references to information not included in this Statement, but located in the [2015 Annual Report](#) or on the Company's website.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Role of the Board and Management

Oil Search's internal systems and procedures are designed to enable the Board to provide strategic guidance for the Company and effective management oversight, in accordance with the responsibilities of the Board, as defined in the Company's [Constitution](#).

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

The selection and recruitment process for appointment of a new director to the Board involves a rigorous search and verification programme, usually supported by an external recruitment firm that specialises in Board appointments. To ensure the person selected is fit and proper to serve on the Oil Search Board, a number of reference checks and enquiries are conducted on the person's education, career history, capabilities and experience. In addition, the individual undergoes an extensive interview process with the Chairman and other Board members. (*Recommendation 1.2*)

To assist the Company's shareholders in making an informed decision on whether to vote in favour of a director standing for election or re-election, the Notice of Meeting for the Annual Meeting contains biographical details including a career summary and other directorships and material outside interests of the director, the date of first appointment to the Board and a statement on whether the Board considers the director to be independent and supports the election or re-election of the director. (*Recommendation 1.2*)

The Company has entered into written contractual agreements with each director and senior executive. These agreements address, amongst other matters, the term of appointment, roles duties and obligations, including compliance with Company policies and procedures, remuneration arrangements, and indemnity and insurance arrangements. In addition, the director letter of appointment covers the circumstances in which a director is entitled to seek independent advice at the expense of the Company, rights of access to corporate information and continuous disclosure obligations with respect to relevant shareholdings in the Company. (*Recommendation 1.3*)

The Group Secretary is accountable to the Chairman of the Board with respect to the functioning of the Board and all directors have reasonable access to the Group Secretary. The meeting record keeping responsibilities of the Group Secretary are defined in the Board

Charter. A decision on the appointment or removal of the Group Secretary requires ratification by the Board. (*Recommendation 1.4*)

## Diversity and Inclusion

Oil Search is committed to promoting diversity across the Company at all levels, including at Board level, as an engaged and diverse workforce will contribute to improved operating performance and delivery of strategic objectives. In particular, the focus is to improve the representation, development and retention of diverse groups of employees who represent the communities in which we operate. The Company has established measurable objectives to increase the diversity mix of the workforce.

The Board has approved a [Diversity & Inclusion Policy](#) for the Company that reflects this commitment and includes the requirement for setting and reporting on measurable objectives for increasing diversity, including with respect to the representation of PNG citizens and women in leadership roles. (*Recommendation 1.5*) The [Diversity & Inclusion Policy](#) is supplemented by a Diversity and Inclusion Strategy which contains detailed targets and plans at the business unit and function levels to actively engage line management in the delivery of the diversity goals. A management diversity council holds quarterly meetings to monitor progress against diversity and inclusion targets.

The 2015 diversity targets approved by the Board, and progress against those targets during 2015, is summarised below (*Recommendation 1.5*):

### **Goal 1: Increase the percentage of females in leadership roles by 2017.**

The percentage of female representation in leadership roles increased in 2015, including the promotion of three females to General Manager positions.

### **Goal 2: Increase the percentage of PNG citizens in leadership roles by 2017.**

The percentage of PNG citizens in leadership roles increased in 2015.

### **Goal 3: Increase the percentage of female graduates and apprentices by 2017.**

Both graduate and apprenticeship programmes saw an increase in female representation in 2015.

### **Goal 4: Increase the representation of females and PNG citizens in succession plans for leadership and management roles.**

The 2015 succession plan was based on the restructured organisation and female and PNG citizen representation remained constant.

### **Goal 5: Implement diversity and inclusiveness training as part of the Oil Search leadership development programs.**

The Oil Search Accelerated Development Programme included cultural awareness assessment and training as part of the residential course component. The Graduate programme included an introduction to leadership and cultural awareness as part of the participants' induction and professional development workshop.

A summary of diversity indicators as at 31 December 2015 is provided in Table 1 below. (*Recommendation 1.5*)

Table 1

DIVERSITY IN SENIOR MANAGEMENT AND GOVERNANCE ROLES	2011	2012	2013	2014	2015
% Women in organisation as a whole	20%	21%	22%	22%	23%
% Women in senior management roles	10%	13%	14%	15%	18%
% PNG nationals in senior management roles	23%	22%	21%	16%	21%
% Women on the Oil Search Board	0%	0%	11%	11%	11%
% PNG nationals on the Oil Search board	22%	22%	22%	22%	22%

\* Calculation comprises the Directors as at the date of the 2015 Financial Report, listed in Table 3 below.

Additional information on the Company's Diversity and Inclusion Strategy can be found in the [2015 Annual Report](#) and the [2015 Social Responsibility Report](#).

### Board and Senior Management Performance

The Oil Search Board operates a formal annual review process for the Board and individual directors. The process involves each director completing a detailed questionnaire covering the performance of the Board as a whole, the performance of each of the four Board Committees, the individual director's own performance and the performance of the Chairman. The Chairman then meets with each director to review their responses to the questionnaire and to give the director the Chairman's view on how the director has performed during the year. This formal review process was conducted in 2015 and was supplemented by a Board online governance survey in which both directors and members of the executive team participated. (*Recommendation 1.6*)

The 2015 performance and governance review, including the one-on-one interview process, identified a number of key focus areas for the Board, namely:

- Succession Planning – having commenced an internal process for CEO succession planning in 2015, the review highlighted the need to extend the Board's thinking around succession to the Board itself and board committees as well as planning for transition to new leadership in the executive.
- Board Composition – the Board has developed a skills matrix relevant to the Company's circumstances and will need to take this into account when addressing issues around PNG citizen and gender diversity.
- Risk – the Company's processes for managing operational and financial risk were recognised as being in a stage of development and, while not yet mature, were much improved. However, the Company's pivotal role in managing the interface with local PNG communities, both on its own behalf and that of joint venture partners, is dependent on a number of key individuals within the organisation with extensive experience in operating in PNG. The Company will be focusing considerable attention on ensuring that this skill and experience is embedded in the organisation and the way it does business going forward, as the Company adapts to a low price environment.
- Strategy – the review of Board and management confirmed strong and continuing alignment within the Company on the strategy developed and communicated to stakeholders in 2014/15. The severe downturn in oil and gas prices and the uncertain outlook for recovery has served to reinforce the strategic priorities in PNG.

These priorities and objectives have been incorporated into current board and management plans and are being actively progressed.

The Board and the Managing Director review the performance of senior executives on an annual basis.

The Managing Director conducts an annual performance review with the senior executive team. The performance of each senior executive during the year is assessed, having regard to a variety of individual and corporate key performance indicators and agreed deliverables. The Board also assesses the performance of the Managing Director. The Chairman meets with the Managing Director and gives him feedback on that assessment.

Performance evaluations for the senior executive team were carried out in the reporting period, in accordance with the process disclosed in the above paragraph. (*Recommendation 1.7*)

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Oil Search recognises that an effective Board facilitates the efficient discharge of the duties imposed by law on directors and contributes to the delivery of the Company's strategic objectives. Accordingly, Oil Search has structured its Board so that it:

- Has a proper understanding of, and the competencies to deal with, the current and emerging issues in Oil Search's business.
- Exercises independent judgement.
- Encourages enhanced performance of the Company.
- Effectively reviews and challenges management's performance and exercises independent judgment.

Following a review of the evolving activities of the Company, the Board restructured its committees in 2013, with the formation of the following committees:

- Audit and Financial Risk Committee;
- Corporate Actions Committee;
- Health, Safety and Sustainability Committee; and
- People and Nominations Committee.

### People and Nominations Committee

The People and Nominations Committee has a formal [Charter](#) that details its role and responsibilities, composition, structure and membership requirements.

At all times during 2015 the People and Nominations Committee consisted of:

- Independent directors only.
- An independent chairman.
- A minimum of three members.

The members of the People and Nominations Committee, their qualifications, the number of Committee meetings held during 2015 and attendance at meetings of the Committee during 2015 are detailed in the Directors' Report section of the [2015 Annual Report](#). (*Recommendation 2.1*)

### Board Composition

The Company believes that its Board should consist of directors bringing an appropriately diverse mix of skills and experiences that are compatible with the Company's operating activities, geographic focus and strategic direction. Recently, the Board reviewed and refined a skills matrix that records the target mix of skills, experience and technical capabilities of the Board. The skills and experience of the Company's current directors were then mapped against this matrix to identify potential gaps compared to the overall targeted mix of capabilities.

This gap analysis will be used to support the process of preparing the recruitment brief given to the recruitment firm or firms selected to search for a prospective new director when a Board vacancy arises and also to assist in defining the ongoing Board education programme.

The target Oil Search Board skills matrix and the assessment of how the current Board members align with the target profile are set out in Table 2 (*Recommendation 2.2*):

Table 2

Skills and experience	Board	Audit and Finance Risk	Health, Safety and Sustainability	People and Nominations	Corporate Actions
<b>Total Directors</b>	8 Directors**	3 Directors	4 Directors	4 Directors	5 Directors
<b>Oil &amp; Gas Industry Experience</b> Senior executive experience in the oil and gas Industry including in-depth knowledge of the Group's strategy, markets, competitors, operational issues, technology and regulatory concerns.	6 Directors	1 Director	4 Directors	2 Directors	4 Directors
<b>PNG/Government Relations</b> Senior management or equivalent experience in PNG, familiar with national and regional political, cultural, regulatory and business environments.	5 Directors	1 Director	2 Directors	2 Directors	2 Directors
<b>Finance &amp; Audit</b> Senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including ability to probe the adequacies of financial and risk controls.	7 Directors	2 Directors	4 Directors	3 Directors	4 Directors
<b>Risk Management</b> Experience working with and applying broad based risk management frameworks in various country, regulatory or business environments.	7 Directors	2 Directors	4 Directors	3 Directors	4 Directors
<b>M&amp;A</b> Experience managing, directing or advising on mergers, acquisitions, divestments and portfolio value optimisation.	6 Directors	2 Directors	3 Directors	2 Directors	4 Directors
<b>Global Experience</b> Senior management or equivalent experience in global locations, exposed to a range of political, cultural, regulatory and business environments.	6 Directors	2 Directors	3 Directors	3 Directors	4 Directors
<b>Capital projects; financing/ project management</b> Experience in an industry with projects involving large-scale capital outlays and long-term investment horizons.	7 Directors	2 Directors	4 Directors	3 Directors	4 Directors

Skills and experience	Board	Audit and Finance Risk	Health, Safety and Sustainability	People and Nominations	Corporate Actions
<b>Remuneration (Nominations &amp; People)</b> Board People & Nominations Committee membership or management experience in relation to talent management & remuneration, including incentive programs and pensions / superannuation and the legislation and contractual framework governing remuneration.	7 Directors	2 Directors	4 Directors	3 Directors	4 Directors
<b>HSE Sustainability/Corporate Social Responsibility</b> Experience related to workplace health and safety, environmental, social responsibility and community.	6 Directors	2 Directors	4 Directors	3 Directors	3 Directors

\*\* Excludes Ms Fiona Harris, who resigned in December 2015, and Dr Eileen Doyle, who joined the Board in February 2016.

### Director Independence

Details of the Oil Search directors in office as at date of the 2015 Financial Report are shown in Table 3 (*Recommendation 2.3*):

Table 3

Name of Director	Term in Office	Qualifications/Honours	Status
RJ Lee (Chairman)	Director since May 2012 Chairman since February 2013	BEng (Chem) (Hons), MA (Oxon), FAICD, AM	Independent
PR Botten (Managing Director)	Director since October 1994	BSc, ARSM, CBE	Executive
G Aopi	Director since May 2006	BEc, BAC, MBA, CBE	Executive
KG Constantinou	Director since April 2002	OBE	Independent
E Doyle	Director since February 2016	BMath (Hons), MMath, PhD, FAICD	Independent
AJ Kantsler	Director since July 2010	BSc (Hons), PhD, GAICD, FTSE	Independent
B Philemon	Director since November 2012		Independent
KW Spence	Director since May 2012	BSc (Geophysics) (Hons)	Independent
ZE Switkowski	Director since November 2010	BSc (Hons), PhD, FAA, FAICD, FTSE, AO	Independent

As highlighted in the table above, each Oil Search director (other than the Managing Director, Peter Botten and Executive Director, Gereia Aopi) is considered by the Board to be an independent director. As such, seven of the nine directors, a majority of the Board, are independent (*Recommendation 2.4*). The independence of directors is assessed regularly. For the avoidance of doubt, only non-executive directors (that is, directors who are not members of management) can be considered independent. The Board takes account of all circumstances relevant to a director in determining whether the director is free from any external interest or any business or other relationship which could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company. In determining materiality, the Board has regard, among other things, to the matters detailed in paragraph 3.3 of the [Board Charter](#).

The independent directors gather on a number of occasions during the course of the year to discuss Board matters without the presence of the executive directors or other senior executives.

The Chairman of the Board is an independent director and has no executive responsibilities, including that of Chief Executive Officer, as noted above. (*Recommendation 2.5*)

#### Director Induction and Ongoing Education

New directors participate in an induction programme to assist them in understanding Oil Search's strategic objectives, values and culture, financial performance, operations and risk management systems. The induction process also covers the Company's Code of Conduct and other corporate policies that Board members must comply with, and relevant administrative and procedural arrangements to promote the effective functioning of the Board.

A programme of continuing education is offered to all directors, including the practice of inviting external industry and subject specialists to present to the Board on matters of general relevance to the Company. During 2015, the Board received presentations from external experts on human rights, petroleum tax regimes and Middle Eastern geopolitics.

In addition, Board members visit the Company's operating facilities at least annually. (*Recommendation 2.6*)

### PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Oil Search actively promotes ethical and responsible decision making.

Oil Search has a [Code of Conduct](#) which is supported by a training module and periodic monitoring of compliance. All new employees and contractors to the Company are required to complete online training on the Code, with refresher training provided periodically. (*Recommendation 3.1*)

The Code was supplemented in late 2014 by the introduction of a comprehensive framework of corruption prevention standards and procedures. During 2015, training on Corruption Prevention Framework was conducted across the Company, including via compulsory online training for all contractors, employees and directors.

The Board also has approved a [Social Responsibility Policy](#) that identifies the Company's high level of commitment to acting in a socially responsible way, including with respect to human rights, stakeholder engagement and the environment. Specifically, the Company has committed to embedding the principles of the United Nations Global Compact and the Voluntary Principles on Security and Human Rights.

More information on compliance with the Code of Conduct and on initiatives to promote socially responsible behaviours and outcomes across the Company can be found in the 2015 [Social Responsibility](#) section of the Company's website.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

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

- The Board has an Audit and Financial Risk Committee which is responsible for the review and consideration of the financial statements.
- A process to ensure the independence and competence of the Company's external auditors.

At all times during 2015 the Audit and Financial Risk Committee consisted of:

- Independent, non-executive directors only.
- An independent chairman who was not chairman of the Board.
- A minimum of three members.

The Audit and Financial Risk Committee has a formal [Charter](#) that details its role and responsibilities, composition, structure and membership requirements.

The members of the Audit and Financial Risk Committee, their qualifications and their attendance at meetings of the Committee held during 2015, as well as the number of meetings of the Committee that were held during 2015 are detailed in the Directors' Report section of the [2015 Annual Report](#). (*Recommendation 4.1*)

The external auditors attended all Audit and Financial Risk Committee meetings in 2015. The external auditors held discussions at each meeting with the Committee members without management present.

Internal auditing activities are carried out by Oil Search's Assurance and Compliance function, with assistance from external consulting firms as required.

### Financial Statements

Before the financial statements of the Company are finalised for approval and release to the market, the statement and supporting materials prepared by management and the external auditors are reviewed by the Audit and Financial Risk Committee. All Board members are requested to attend the Audit and Financial Risk Committee meetings scheduled to review the half-year and full-year financial statements.

Both the Managing Director and the Chief Financial Officer issue detailed certifications and declarations to the Board and to the external auditors in accordance with Section 295A of the *Australian Corporations Act 2001(Cth)*. These certifications and declarations are supported by a comprehensive questionnaire and certification process across the Company's broader management team. (*Recommendation 4.2*)

### External Auditor

Oil Search's policy is to appoint an internationally recognised external audit firm with expertise in the resources sector. Deloitte Touche Tohmatsu was appointed the Company's auditor in May 2002. The Audit and Financial Risk Committee reviews the performance of the external auditor and the rotational plan for external audit partners. The Committee recommends the tendering and selection of the external auditor to the Board. The external audit was last tendered in March 2009 to a range of qualified international audit firms, with Deloitte Touche Tohmatsu successful in resecuring the role. The re-appointment of Deloitte Touche Tohmatsu was approved at the 2015 Annual Meeting.

Deloitte Touche Tohmatsu's professional requirements mandate that each lead audit partner rotates from his or her client after no more than five years of service. That policy is followed for the Oil Search assignment and a partner rotation occurred in 2015.

The external auditor is required to attend the Company's Annual Meeting, where shareholders are invited to submit questions to the auditor on the Company's financial statements and the audit process. The Deloitte Touche Tohmatsu lead audit partner on the Company's audit attended the 2015 Annual Meeting in Port Moresby. (*Recommendation 4.3*)

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

Oil Search has written policies designed to ensure compliance with ASX Listing Rules disclosure requirements, in particular ASX Listing Rule 3.1-3.1B and to ensure accountability at a senior manager level for that compliance and the integrity of information contained in external disclosures. These are documented in the [Public Disclosure Policy](#). (*Recommendation 5.1*)

Although not required by the PNG regulatory framework, but demonstrating the Company's commitment to maintaining good governance practice, Oil Search elects to include a Remuneration Report within the Directors' Report. The 2015 Remuneration Report complies with section 300A of the Australian *Corporations Act 2001(Cth)* and has been audited by Deloitte Touche Tohmatsu.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

Oil Search's [Public Disclosure Policy](#) is designed to promote effective communication with shareholders, through the provision of readily accessible, balanced and understandable information about the Company.

When the Company holds major investor briefings such as the half and full year results presentations, electronic facilities such as webcasting and teleconferencing are utilised to facilitate wide participation and the transcript is loaded on the Company's website afterwards to ensure those unable to participate are still able to access the information.

The Oil Search website is regularly updated so as to give all shareholders ready access to balanced and factual information about the Company's business activities, financial and operating performance, key events calendar and governance practices. All ASX releases are lodged on the website immediately after release to the ASX and documents are archived on the website for more than a decade. (*Recommendation 6.1*)

Oil Search's website details how investors may contact the Company's investor relations team. In addition, the website contains contact details for the Company's external share registry, including a general enquiry line, fax number and email details. Shareholder queries are answered promptly, comprehensively and courteously.

## Investor Engagement

Oil Search has established a structured investor engagement programme to develop and maintain effective two-way communication between the Company and the market. The Company's Investor Relations function is responsible for providing the market with clear, meaningful and timely information on the activities and financial performance of the Company, to enhance the market's understanding and trust in the Company, through regular telephone contacts, one-on-one and group meetings and desk presentations. Market participants include institutional investors, private shareholders, equity analysts and the financial media.

In addition, the senior management of the Company regularly undertake domestic and international investor roadshows and participate in investor and industry forums and conferences, both locally and overseas. The Chairman of the Board meets with institutional investors and other stakeholders on a regular basis.

The proactive engagement process extends to other relevant stakeholders, including government officials and regulators, local communities and non-government organisations. (*Recommendation 6.2*) More information on the Company's stakeholder engagement approach can be found in the [Social Responsibility](#) section of the Company's website.

Oil Search's [Public Disclosure Policy](#) sets out the procedures and tools the Company adopts to encourage participation at general meetings.

## Shareholder Meetings and Communications

As the Company is incorporated in Papua New Guinea, Oil Search's Annual Meetings are held in Port Moresby. The meeting is webcast to allow shareholders located both within and outside Papua New Guinea to participate. Oil Search's [Constitution](#) requires the Chairman of the Annual Meeting to allow a reasonable time for shareholders at the meeting to question, discuss and comment on the management of the Company. (*Recommendation 6.3*)

The Company and its share registry, Computershare, offer facilities for shareholders to both receive Company and registry communications electronically and also send communications via email or via accessing the websites of the Company or Computershare. (*Recommendation 6.4*)

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Oil Search recognises that risk management is a fundamental component of managing its oil and gas business and the Company has in place an extensive system of risk oversight, management, reporting and internal control and compliance monitoring.

### Risk Management Framework

The Oil Search Board conducts an annual review of its risk management framework. These reviews cover the process for reporting on the identification, assessment and management of material business risks, including Board and committee reviews of material business risk reports prepared by management. Oil Search has procedures in place covering the oversight and management of material business risks arising within the oil and gas environment. These policies and standards are based on management of the hazards and exposures inherent in Oil Search's business activities. Oil Search's risk profile incorporates the following areas of exposure:

- Strategic and business;
- Asset and operations management;
- Governance;
- Financial and commodity;
- Information technology;
- Societal factors (including community and other stakeholders);
- Health, safety and security;

- Environmental; and
- Human resources.

Oil Search has developed risk management processes to address each of these areas. Oil Search's website contains a [Risk Profile Summary](#) of these exposure categories.

### Governance of Risk Management

The overall oversight of the Company's risk management framework resides with the Board. However, the Board has delegated oversight of specific risk classes to the Board Committees. The Audit and Financial Risk Committee supports the Board in reviewing the systems and processes employed to manage the Company's financial risks, as set out in its Charter. The details of this Committee are set out in section above addressing Principle 4.

The Health, Safety and Sustainability Committee assists the Board in monitoring the performance of the Company in respect of health, safety and sustainability risks, including environmental exposures. The role of the Committee is to oversee the strategies and processes adopted by management in these areas and to review whether the Company's performance is in accordance with the Board's policies and expectations.

At all times during 2015 the Health, Safety and Sustainability Committee consisted of:

- A majority of independent, non-executive directors.
- An independent chairman.
- A minimum of three members.

The Health, Safety and Sustainability Committee has a formal [Charter](#) that details its role and responsibilities, composition, structure and membership requirements.

The members of the Health, Safety and Sustainability Committee, their qualifications and their attendance at meetings of the Committee held during 2015, are detailed in the Directors' Report section of the 2015 Annual report.

The number of meetings of the Health, Safety and Sustainability Committee held during 2015 is detailed in the Directors' Report section of the [2015 Annual Report](#). (*Recommendation 7.1*)

The Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks. During 2015 management regularly reported to the Board on those material business risks and the Board conducted a review of the risk management framework. (*Recommendations 7.2*)

In developing its risk management systems, Oil Search has considered its legal obligations and its responsibilities to various interest groups. Oil Search recognises that many groups, including shareholders, employees, customers, suppliers, creditors, consumers, landowners, government authorities, NGO's and the broader community, both locally and internationally, have a legitimate interest in the Company's risk management policies and procedures. Oil Search takes account of the potential impacts and consequences for all stakeholders when assessing risk exposures.

Oil Search's risk management framework is based on the International Standard for Risk Management (ISO 31000). Aspects of other internationally developed risk frameworks, such as the "Enterprise Risk Management (ERM) Model", developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), have been incorporated as appropriate.

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

## Assurance and Compliance

Oil Search has an Assurance and Compliance function with responsibility for managing the internal audit function. As part of its duties, the Assurance and Compliance function provides independent assurance on the adequacy and effectiveness of the Company's risk management framework and the completeness and accuracy of risk reporting by management. The Assurance and Compliance function conducts annual risk based audits and reviews based on a plan agreed with senior management and the Audit and Financial Risk Committee and Health, Safety and Sustainability Committee. The Head of Assurance and Compliance has access to all members of the management team and the right to seek information and explanations from any staff member or contractor.

The Head of Assurance and Compliance is independent of the external auditor and has unfettered access to and regularly meets privately with the Chairman of the Audit and Financial Risk Committee. The Head of Assurance and Compliance is also required to attend and report to Audit and Financial Risk Committee and Health, Safety and Sustainability Committee meetings. The Audit and Financial Risk Committee reviews the performance of the Head of Assurance and Compliance and approves his/her appointment and termination. *(Recommendation 7.3)*

## Material Risks

A summary of the material risks that the Company is potentially exposed to and the measures taken to mitigate those risks is set out in the Operating and Financial Review section of the Directors' Report in the 2015 Annual Report. The Company transparently reports environmental and social sustainability risks and management approach in the [Social Responsibility](#) section of the Company website. *(Recommendation 7.4)*

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

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

As described in the section above addressing Principle 2, Oil Search has a People and Nominations Committee. The role and responsibilities, composition, structure and membership requirements as well as members' qualifications, the number of Committee meetings held during 2015 and attendance at meetings of the Committee during 2015 are detailed in the Directors' Report section of the [2015 Annual Report](#). *(Recommendation 8.1)*

## Remuneration Structure

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

The payment of any equity based remuneration is made in accordance with plans approved by shareholders. Oil Search has a Long Term Incentive Plan that allows the Board the flexibility to grant employees Performance Rights, Share Appreciation Rights, Share Rights and Restricted Shares. Non-executive directors do not participate in these plans.

Within the aggregate amount approved by shareholders, the fees of the Chairman and non-executive directors are set at levels in line with the responsibilities of those directors and the time spent by those directors in discharging their duties. In setting fees, regard is also given to the level of fees paid to directors of similarly sized companies. Non-executive directors are not currently entitled to retirement benefits.

Remuneration packages of senior executives include both short term and long term performance based components. Rights granted under the Performance Rights Plan to senior executives are linked to the long term return to shareholders from investing in Oil Search.

Performance Rights only vest following satisfaction of performance hurdles that are designed to reward total shareholder return out-performance relative to comparator groups. Further details of the terms and conditions of short term and long term incentive plans are set out in the Remuneration Report.

#### [Employee Share Plan Hedging Prohibition](#)

Oil Search's [Share Trading Policy](#) expressly prohibits employees entering into transactions in financial products which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. (*Recommendation 8.3*)