



# Oil Search

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## 2017 Corporate Governance Statement

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29 March 2018

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Please find attached Oil Search's 2017 Corporate Governance Statement.

**STEPHEN GARDINER**

**Group Secretary**

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**Oil Search**

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**CORPORATE GOVERNANCE STATEMENT**

**2017**

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## COMMITMENT TO GOOD GOVERNANCE

Oil Search is committed to adopting and implementing rigorous corporate governance practices across all activities. The Company supports this commitment by transparently and openly reporting its governance practices so investors can make 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 (CGC Recommendations) each year since their first release in 2003. Oil Search has followed all the CGC Recommendations in the 3<sup>rd</sup> Edition during the 12 months ended 31 December 2017.

In reporting against the CGC Recommendations for 2017, this Corporate Governance Statement:

- addresses the CGC Recommendations consecutively; and
- includes cross references to information that is not included in this Statement, but is located in the [2017 Annual Report](#) or on the Company 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 support the Board in providing strategic guidance for the Company and effective management oversight. The Board carries out these duties in accordance with its defined responsibilities, as detailed in the Company's [Constitution](#).

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

The selection and recruitment process for appointing 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, reference checks and enquiries are conducted regarding their education, career history, capabilities and experience. There is also an extensive interview process with the Chair and other Board members. (*Recommendation 1.2*)

To assist the Company's shareholders in making an informed decision about whether to vote in favour of a Director standing for election or re-election, the Notice of Meeting for the Annual Meeting contains the candidate's biographical details. These include a career summary; a list of other directorships and material outside interests; the date of their first appointment to the Board; and a statement as to whether the Board considers the Director to be independent and supports her or his election or re-election. (*Recommendation 1.2*)

The Company has a written contractual agreement with each Director and senior executive. Among other matters, each agreement addresses: 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's letter of appointment outlines the circumstances under which a Director can seek independent advice at the expense of the Company, rights of access to corporate information, and continuous disclosure obligations regarding relevant shareholdings in the Company. (*Recommendation 1.3*)

The Group Secretary is accountable to the Board, through the Chair, and is responsible for facilitating the proper functioning of the Board. Each Director is entitled to communicate directly with the Group Secretary and a decision on the appointment or removal of the Group Secretary requires Board approval. *(Recommendation 1.4)*

## Diversity and Inclusion

An engaged and diverse workforce contributes to improved operating performance and the delivery of strategic objectives. Oil Search is therefore committed to promoting diversity across the Company at all levels, including within the Board.

The Board has approved a [Diversity & Inclusion Policy](#) for the Company that reflects this commitment. It includes the requirement for setting and reporting on measurable objectives for increasing diversity, including 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. This contains measurable targets approved by the Board and plans at the business unit and function level that actively engage line managers in delivering diversity goals. Progress against diversity and inclusion targets is reported quarterly to the Board People and Nomination Committee.

Additional information on the Company's Diversity and Inclusion Strategy, including progress against diversity targets as well as other diversity indicators, can be found in the [2017 Annual Report](#) and the [2017 Social Responsibility Report](#). Papuan Oil Search Limited's Workplace Gender Equality Report is publically available from the Company website. *(Recommendation 1.5)*

A summary of diversity indicators as at 31 December 2017 is provided in Table 1 below. *(Recommendation 1.5)*

Table 1

| Diversity in senior management and governance roles | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------|------|------|------|------|
| % Women in organisation as a whole                  | 22%  | 22%  | 23%  | 25%  | 25%  |
| % Women in senior management roles                  | 14%  | 15%  | 18%  | 21%  | 22%  |
| % PNG nationals in senior management roles          | 21%  | 16%  | 21%  | 23%  | 23%  |
| % Women on the Oil Search Board                     | 11%  | 11%  | 11%* | 22%* | 33%* |
| % PNG nationals on the Oil Search Board             | 22%  | 22%  | 22%  | 22%  | 11%  |

\* Calculation based on the Directors as at the date of release of the respective Annual Report.

Additional information on the Company's Diversity and Inclusion Strategy can be found in the [2017 Annual Report](#) and the [2017 Social Responsibility Report](#).

## Board and Senior Management Performance

The Oil Search Board periodically conducts a formal review process for the Board and individual Directors. As part of this process, each Director completes a detailed questionnaire covering their own performance and that of the whole Board, the Board Committees and the Chair. The Chair then meets with each Director to review their responses to the questionnaire and to provide feedback on how the Director has performed during the year.

This formal review process was last conducted in 2016 and was supplemented by an online Board governance survey for Directors and members of the executive team. Priorities identified from that review were progressed during 2017. The next formal review is planned for 2018. The Committee Chairs conducted questionnaire-based performance reviews for their respective Committees during 2016.

During 2017 the Board appointed a consultant to conduct a review of overall Board performance and to assist the Board in assessing the appropriate future structure of the Board in terms of skills and capabilities (*Recommendation 1.6*)

The Board and the Managing Director review the performance of senior executives every year.

The Managing Director conducts an annual performance review with the senior executive team. The performance of each senior executive during the year is assessed against 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 to provide feedback on that assessment.

Performance evaluations for the Managing Director and the senior executive team were carried out in the reporting period in accordance with this process. (*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 Company performance.
- Effectively reviews and challenges management's performance.

There are four Board 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 written [Charter](#) that details its role and responsibilities, composition, structure and membership requirements.

At all times during 2017 the People and Nominations Committee consisted of:

- Non-Executive Directors that were independent.
- An independent Chair, who was not Chair of the Board.
- A minimum of three members.

The members of the People and Nominations Committee, their qualifications, the number of Committee meetings held and attendance at meetings during 2017 are detailed in the Directors' Report section of the [2017 Annual Report](#). (*Recommendation 2.1*)

## Board Composition

The Company believes its Board should consist of Directors with an appropriately diverse mix of skills and experiences that are compatible with the Company's operating activities, geographic focus and strategic direction. During 2017, the Board reviewed and refined a skills matrix that records its target mix of skills, experience and technical capabilities. The skills and experience of the Company's current Directors have been mapped against this matrix to identify potential gaps compared to the target mix of capabilities – see Table 2 (*Recommendation 2.2*).

The matrix is used to support the process of briefing the recruitment firm or firms selected to search for a prospective new Director when a Board vacancy arises. It is also used to assist in defining the ongoing Board education programme.

Table 2

| Skills and experience   | Board       | Audit and Finance Risk | Health, Safety and Sustainability | People and Nominations | Corporate Actions |
|---|-------------|------------------------|-----------------------------------|------------------------|-------------------|
| <b>Total Directors</b>  | 9 Directors | 6 Directors            | 5 Directors                       | 6 Directors            | 4 Directors       |
| <b>Oil &amp; Gas Industry Experience</b><br>Senior executive experience in the oil and gas industry including in-depth knowledge of strategy, markets, competitors, operational issues, technology and regulatory concerns.                 | 5 Directors | 2 Directors            | 4 Directors                       | 3 Directors            | 3 Directors       |
| <b>PNG/Government Relations</b><br>Senior management or equivalent experience in PNG: familiarity with national and regional political, cultural, regulatory and business environments.   | 5 Directors | 3 Directors            | 2 Directors                       | 4 Directors            | 3 Directors       |
| <b>Finance &amp; Audit</b><br>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. | 6 Directors | 4 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>Total Directors</b>   | 9 Directors | 6 Directors            | 5 Directors                       | 6 Directors            | 4 Directors       |
| <b>Risk Management</b><br>Experience working with and applying broad based risk management frameworks in various countries, regulatory or business environments.   | 6 Directors | 4 Directors            | 4 Directors                       | 3 Directors            | 4 Directors       |
| <b>M&amp;A</b><br>Experience managing, directing or advising on mergers, acquisitions, divestments and portfolio value optimisation.   | 7 Directors | 4 Directors            | 5 Directors                       | 4 Directors            | 4 Directors       |
| <b>Global Experience</b><br>Senior management or equivalent experience in global locations, exposed to a range of political, cultural, regulatory and business environments.   | 7 Directors | 4 Directors            | 5 Directors                       | 4 Directors            | 3 Directors       |
| <b>Capital Projects: Financing/ Project Management</b><br>Experience in an industry with projects involving large-scale capital outlays and long-term investment horizons.   | 7 Directors | 4 Directors            | 5 Directors                       | 4 Directors            | 4 Directors       |
| <b>Remuneration (People &amp; Nominations)</b><br>People & Nominations Committee membership or management experience in relation to talent management and remuneration, including incentive programmes and pensions / superannuation and the legislation and contractual framework governing remuneration. | 8 Directors | 5 Directors            | 5 Directors                       | 5 Directors            | 4 Directors       |
| <b>HSE Sustainability/Corporate Social Responsibility</b><br>Experience related to workplace health and safety, environment, social responsibility and community.  | 7 Directors | 4 Directors            | 4 Directors                       | 4 Directors            | 3 Directors       |
| <b>Capital Management</b><br>Experience in capital management strategies including debt financing and capital raisings.  | 5 Directors | 3 Directors            | 3 Directors                       | 2 Directors            | 2 Directors       |
| <b>Investor Relations &amp; capital markets</b><br>Experience related to investor relations & capital markets.   | 7 Directors | 4 Directors            | 4 Directors                       | 4 Directors            | 3 Directors       |

| Skills and experience  | Board       | Audit and Finance Risk | Health, Safety and Sustainability | People and Nominations | Corporate Actions |
|--|-------------|------------------------|-----------------------------------|------------------------|-------------------|
| <b>Total Directors</b>   | 9 Directors | 6 Directors            | 5 Directors                       | 6 Directors            | 4 Directors       |
| <b>Legal</b><br>Experience related to the management of legal and regulatory compliance matters. | 3 Directors | 1 Director             | 1 Director                        | 2 Directors            | 3 Directors       |

\* Mr Rick Lee as Chairman is an ex-officio member of each of the Board sub-committees and is included in the above analysis.

### Director Independence

Details of the Oil Search Directors in office at 29 March 2018 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<br>Chairman since February 2013 | BEng (Chem) (Hons), MA (Oxon), FAICD, AM     | Independent                  |
| PR Botten (Managing Director) | Director since October 1994                             | BSc, ARSM, CBE                               | Executive<br>Not Independent |
| KG Constantinou               | Director since April 2002                               | OBE  | Independent                  |
| EJ Doyle                      | Director since February 2016                            | BMath (Hons), MMath, PhD, FAICD              | Independent                  |
| AJ Kantsler                   | Director since July 2010                                | BSc (Hons), PhD, GAICD, FTSE                 | Independent                  |
| MP Togolo                     | Director since October 2016                             | CBE, BEcon (Hons), MA (Econ), MA (Geography) | Independent                  |
| FE Harris                     | Director since January 2017                             | BCom, FAICD, FCA (Aust)                      | Independent                  |
| SM Cunningham                 | Director since March 2018                               | BAGeol                                       | Independent                  |
| BS Al Katheeri                | Director since March 2018                               | PhD, BAsc, MSc, Executive MBA (Hons)         | Not Independent              |

The Board considers each Oil Search Director, other than the Managing Director, Peter Botten and Non-Executive Director, Bakheet Al Katheeri, 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. To avoid doubt, only Non-Executive Directors (that is, Directors who are not members of Oil Search management) can be considered independent. The Board takes account of all relevant circumstances when determining whether a Director is free from any external interest or any business or other relationship which could, or could reasonably be perceived to, materially interfere with their 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 Non-Executive Directors meet during the year to discuss Board matters without the presence of Executive Directors or other senior executives.

The Chair of the Board is an independent Director and has no executive responsibilities, including those of the Chief Executive Officer. (*Recommendation 2.5*)

### Director Induction and Ongoing Education

New Directors participate in an induction programme so they can understand 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, as well as administrative and procedural arrangements that 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 2017, the Board received presentations from external experts on the outlook for the global LNG market and shipping as well as internal experts on oil & gas reserves methodology, exploration portfolio management and value creation and small scale LNG technology.

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's [Code of Conduct](#) is based on the Company's values and behaviours and represents our commitment to uphold ethical business practices and meet applicable legal and regulatory requirements.

Oil Search has seven policies which support the Code: Social Responsibility, Health, Safety, Environment and Security (HSES), Corruption Prevention, Diversity and Inclusion, Share Trading, Public Disclosure and Drug and Alcohol.

The policies have been approved by the Board and are core to our internal governance structure. They set the Company's expectations of all employees on key areas of importance to the Company and therefore define how we operate.

Every new Oil Search employee and on-site contractor must complete online training on Oil Search's Corruption Prevention, HSES, and Share Trading policies, as well as the Code of Conduct when they commence work. Refresher training and compliance monitoring is conducted periodically. (*Recommendation 3.1*)

## 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, including:

- The Audit and Financial Risk Committee, which is responsible for 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 2017, the Audit and Financial Risk Committee consisted of:

- Non-Executive Directors that were independent,
- an independent Chair who was not Chair of the Board, and
- a minimum of three members.

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

The members of the Audit and Financial Risk Committee, their qualifications, attendance at meetings held during 2017, and the number of meetings held are detailed in the Directors' Report section of the [2017 Annual Report](#). (*Recommendation 4.1*)

The external auditors attended all Audit and Financial Risk Committee meetings in 2017. They held discussions at each meeting with 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 Company's financial statements are finalised for approval and release to the market, the Audit and Financial Risk Committee reviews the statement and supporting materials prepared by management and the external auditors. All Board members are requested to attend the Audit and Financial Risk Committee meetings where the half-year and full-year financial statements are reviewed.

Both the Managing Director and the Chief Financial Officer issue detailed certifications and declarations to the Board and 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 approach 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 and 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 2017 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 on the Company's financial statements and the audit process. A Deloitte Touche Tohmatsu audit partner for the Company's audit attended the 2017 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 with mechanisms that ensure compliance with ASX Listing Rules requirements namely:

- 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), accountability at a senior manager level for that compliance, and the integrity of information contained in external disclosures. This approach is documented in the [Public Disclosure Policy](#). (*Recommendation 5.1*)

Although not required by PNG corporate law, Oil Search demonstrates its commitment to maintaining good governance practice by electing to include a Remuneration Report in the Directors' Report section of the 2017 Annual Report. The 2017 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, by supporting the provision of readily accessible, balanced and understandable information about the Company.

When the Company holds major investor briefings such as the half year and full year results presentations, electronic facilities (e.g. webcasting and teleconferencing) are used to facilitate wider participation. The presentation transcripts are loaded onto the Company website promptly afterward so investors who were unable to participate can access the information.

The Oil Search website is regularly updated 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 and POMSx releases are lodged on the website immediately after release to the ASX and POMSx and documents are archived on the website for more than a decade. (*Recommendation 6.1*)

The website details how investors may contact the Company's Investor Relations team. It also 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 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 clear, meaningful and timely information on the activities and financial performance of the Company to enhance the market's understanding and trust. It does this through regular telephone contact, 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 Company's senior management team undertakes domestic and international investor roadshows and participates in investor and industry forums and conferences, both locally and overseas. The Board Chair regularly meets with institutional investors and other stakeholders.

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 is in the [Stakeholder Engagement](#) section of the Oil Search 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 PNG, Oil Search's Annual Meetings are held in Port Moresby. The meetings are webcast so shareholders located both within and outside PNG can participate. Oil Search's [Constitution](#) requires the Annual Meeting Chair 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 receive Company and registry communications electronically, and to communicate either through email or by using one of the website contact options. *(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 has developed 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 the Company's risk management framework. This review covers the process for reporting on the identification, assessment and management of material business risks, including Board and Board Committee reviews of material business risk reports prepared by management.

Oil Search has procedures for the oversight and management of material business risks arising within the oil and gas environment. These are based on managing the hazards and exposures inherent in the Company'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;
- Climate Change
- 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.

## 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 categories 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 the previous section on 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 climate change and other environmental exposures. Its role 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 2017, the Health, Safety and Sustainability Committee consisted of:

- A majority of independent Non-Executive Directors.
- An independent Chair.
- A minimum of three members.

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

The members of the Health, Safety and Sustainability Committee, their qualifications and attendance at meetings held during 2017, are detailed in the Directors' Report section of the 2017 Annual Report, together with the number of meetings held. (*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 2017, management regularly reported to the Board on these material business risks and the Board reviewed 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, which was 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 them. All material business risks that arise during the Company's activities have clearly defined management ownership and accountability for reporting to the Board and Board Committees in accordance with the respective Charters.

## Assurance and Compliance

Oil Search's Assurance and Compliance function is responsible 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, the Audit and Financial Risk Committee and the 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, with unfettered access to the Chair of the Audit and Financial Risk Committee, including regular private meetings. The Head of Assurance and Compliance is also required to attend and report at the Audit and Financial Risk Committee and the Health, Safety and Sustainability Committee meetings. The Assurance discipline is itself reviewed by external consultants on a five-year cycle. 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 these risks, is set out in the Operating and Financial Review section of the Directors' Report in the 2017 Annual Report.

Oil Search discloses the Company's social and environmental performance in its annual Social Responsibility Report, including its management of relevant material risks. The [2017 Social Responsibility Report](#) and [management approach](#) is available on the Company's website. Oil Search has disclosed its climate risk and climate management approach in a Climate Change Resilience Report, also available online. (*Recommendation 7.4*)

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Oil Search's remuneration approach is to ensure 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 earlier section about Principle 2, Oil Search has a People and Nominations Committee. Its composition, members' qualifications, the number of Committee meetings held during 2017 and attendance during 2017 are detailed in the Directors' Report section of the [2017 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 in the Directors' Report section of the 2017 Annual 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 gives the Board the flexibility to grant employees Performance 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 Chair and Non-Executive Directors are set at levels in line with the responsibilities of those Directors and the time they spend discharging their duties. When setting fees, the level of fees paid to directors of similarly sized companies is also considered. Non-Executive Directors are not entitled to retirement benefits.

Senior executive remuneration packages include short-term and long-term performance-based components. Rights granted to senior executives under the Performance Rights Plan are linked to the long-term return to shareholders from investing in Oil Search. Performance Rights only

vest if performance hurdles are satisfied. These 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 in the Directors' Report section of the 2017 Annual Report.

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

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