

**PNG Petroleum Seminar**  
**Port Moresby**  
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*“The PNG LNG Project”*

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Honorable Ministers, Distinguished Guests, Ladies and Gentlemen; Good Afternoon

It is a pleasure to be here today to talk about the PNG LNG Project.

"This is the largest and most complex resource development ever contemplated in Papua New Guinea."

I couldn't tell you how many times I have made that statement at forums such as this since I joined the quest to commercialize PNG's natural gas in late 2004. At that time we set out to progress a project involving a gas pipeline to customers in Australia. As you well know, the co-venturers ultimately decided not to proceed with that concept.

Since then we have invested significant resources and funds transitioning the project from pipeline sales to Australia to LNG exports to international markets. We entered Front End Engineering and Design on the PNG LNG Project in May 2008 and now find ourselves a few months away from a final investment decision.

So I would like to take this opportunity to providing a brief update on the status of the project before pausing and reflecting on the significance of what we are attempting here.

But first let me say how proud I am of what we have already accomplished.

I want to recognize those involved in getting us to this position:

- The FEED team, ExxonMobil staff and the FEED contractors who have contributed almost three million work-hours into the design and execution planning for the facilities to commercialize the petroleum resources in the Southern Highlands and Western Provinces.
- Project venturers who have already invested considerable sums in this endeavour before a final investment decision.
- The PNG Government and Provincial Governments, who have worked diligently to meet the project needs.
- The people of Papua New Guinea. We wouldn't be here today without the strong grass-roots support we have received from the communities in which we will be operating.
- And finally our gas customers for the confidence they have shown in our ability to achieve our goals.

Against this background, let me briefly bring you up to date on how we are proceeding towards a Final Investment Decision.

The project's preliminary engineering has been completed. We now know what facilities and infrastructure we need to construct and have formulated plans to execute the project. Decie Autin will provide more details on this subject in a few minutes.

The Project has completed evaluating bids for the major scopes of work – Hides Gas Conditioning Plant, Onshore Pipeline and Infrastructure, Offshore Pipeline, Shipping, and Drilling and is targeting contract awards around the time of the final investment decision.

We have approval of our Environmental Impact Statement, and the Department of Environment and Conservation has issued our Environmental Permit. Environmental Management Plans are under preparation and archaeological surveys are well underway.

License applications have been submitted to the Department of Petroleum and Energy for processing and offer.

We have secured access to land for the LNG Plant and marine facilities. In the Upstream, negotiations for land access and compensation agreements are well advanced for the pipeline right of way and sites for various facilities. Resettlement of families impacted directly by project activities around the site of the Komo Airstrip and Hides Gas Conditioning Plant is progressing following extensive consultation.

Early Works has commenced aimed at opening up critical infrastructure (roads, bridges, pioneer camps and site preparations) to ensure the efficient start of the main construction work next year.

We are also seeing progress in the benefits-sharing negotiations between the State and landowners. Following the successful conclusion of the Umbrella Benefits Sharing Agreement in May, the Department of Petroleum and Energy is now well advanced in conducting forums and negotiating Licence – based Benefit Sharing Agreements. While we are not a party to the agreements, we are keenly interested in the forum process and outcomes. These agreements are an important sign of support by project area landowners and provide comfort to the developers and lenders regarding investment security. The forums must be completed before the Department of Petroleum and Energy can offer licenses to the Project.

Also crucial to our final go-ahead is the finalisation of the LNG sales and purchase agreements for the full LNG plant capacity. Our gas marketers are progressing negotiations with LNG buyers in Japan, Taiwan and China towards fully termed sales and purchase agreements before a final investment decision. LNG sales will be a mix of ex-ship and FOB.

Project financing, led by ExxonMobil, involves parallel development of several sources of financing including potential funding from Export Credit Agencies, commercial banks, and the bond market.

For the ECAs, negotiations and lender due diligence kicked-off with a group of lead ECAs in December 2008. Negotiation of a Term Sheet for the ECAs and banks was concluded in June 2009 and definitive documents are expected to be finalized in October.

For the commercial banks, a Request for Proposal for lead arrangers was sent to over 40 banks in July 2009. Bids are due in mid-October and based on soundings by the Project's Financial Advisor, significant bank interest is expected.

For both the ECAs and Banks, written commitments are expected before a final investment decision.

For the potential of bonds, ratings negotiations with the three rating agencies (S&P, Moody's and Fitch) kicked off in April 2009. Encouraging preliminary ratings indications were received in August and work continues in the effort to obtain two investment grade ratings. If achieved, bonds will be offered to global investors in the first quarter of 2010.

Loan signing with the ECAs, banks and ExxonMobil facility lender is expected in December 2009 with clearing of final CPs and loan draws by February 2010.

So, we have accomplished a great deal since we signed the Gas Agreement with the State of PNG in May 2008. But the task ahead is huge. Passing the full funding milestone and financial close gets us to the starting line.

I would now like to reflect briefly on what we are trying to achieve – we are developing Papua New Guinea into an international gas supplier. It's a little like the Kumuls (*PNG National Rugby League team*) joining the world rugby league competition in the '70s. With the PNG LNG Project, PNG is not just becoming a significant international player it is joining the highly competitive international energy market – the gas market. As Emma Cochrane pointed out earlier, it's also one of the fastest growing energy markets.

If you like, PNG is preparing to enter the energy industry's "World Cup". The PNG LNG Project is competing against a long list of LNG projects in Australia, Asia, Africa, the Caribbean and the Middle East and many of our competitors don't face the same project execution challenges (terrain, weather, access to infrastructure), and some have the advantage of greater project scale. However, in this business timing is of utmost importance. PNG has an opportunity to deliver the right project at the right time.

The growth in the global gas market is primarily driven by the growing demand for gas in power generation. We will contract to deliver LNG to electricity generators, who in turn contract to deliver electricity to customers. As the first in the chain of capital investments, if we fail to meet our timetable the effects cascade down the line. It would be like the Kumuls turning up 10 minutes late for the opening World Cup match – if you come late, you come last.

One of our strengths is that ExxonMobil has been in the energy supply business for a very long time and has a well-earned reputation for completing our major projects on budget and on schedule.

A vital part of the work we have completed during the FEED phase of the project has involved choosing our players. We are making sure that we contract the best companies for supply of materials, equipment, services and for construction and that the workforce available in PNG is well trained for both the construction phase and future operations. Later on Miles Shaw will explain how the Workforce Development and Supplier Development components of our National Content plan will help to achieve this in PNG.

Success in the construction phase will get us onto the world stage; success in the operations phase will determine whether or not we are long – term winners.

One of our key measures of success is safety performance. Anyone who has worked closely with ExxonMobil will testify to the time and effort we devote to maintaining safety.

We operate in all kinds of environments and all kinds of conditions around the world. Our total recordable injury rate is 0.3 per 200,000 work hours. That's the equivalent of one person working safely for more than 300 years.

Well we are aiming to do better than that with this project. Our goal is to ensure that nobody gets hurt and we are already working very hard on building the culture and processes to support achievement of that goal. Experience has shown us that excellence in safety performance is reflected in flawless execution in all aspects of our business.

This project offers an exceptional opportunity to show the world – particularly the investment world – exactly what Papua New Guinea is capable of.

The potential benefits are large since the economic impacts will reach well beyond the direct investment in country and the tax and equity returns to the stakeholders.

The project has the potential to materially impact the economy of PNG, boosting GDP and export earnings, providing a major increase in government revenue, royalty payments to landowners, creating employment opportunities during construction and operation, and providing a catalyst to further gas exploration and developments as well as flow-on to other industries. Spending by direct beneficiaries – employees, governments and landowners – will lead to multiplier effects impacting on the broader economy.

One thing is clear; this project is bringing change to Papua New Guinea. We all have a responsibility to assist in ensuring that it is change for the better.

As, the ACIL Tasman study made clear, aside from the benefits there are potential pitfalls for the economy if the impacts of the project are not carefully managed.

Let me give you a simple example. During construction the project will need about 1000 truck drivers. Their work, as they go about moving equipment and supplies around the country, represents a significant safety challenge for the project.

So, in order to meet our demand for skilled drivers and our goal of ensuring nobody gets hurt, we will recruit and train drivers to a standard consistent with attainment of this goal. We are devoting part of our new training facility at PomTech towards this end. Drivers will have Australian standard accreditation.

We are required to hire all of our truck drivers inside PNG, but it is not our intention to create a temporarily inflated market for truck drivers that would negatively impact other industries in this country.

What we would like to do is to take driver training in PNG to the next level. But this is something we can't do on our own. This will require support and

cooperation from all stakeholders – businesses, government and the community. On Wednesday next week [*NOTE: November 4*] we are hosting a forum of stakeholders here in Port Moresby in the hope of finding a way to achieve this goal.

In the same way we don't want our new training facilities to have a detrimental impact on PNG's existing training institutions. So apart from building new facilities, we will also bring the accreditation of four other Port Moresby teaching institutions up to Australian-recognized standards.

These are just a few examples of how we can work with the Government and the community to maximize the value of the gas resource and provide long-term sustainable benefits for PNG.

"Long-term" is the key word here. The delivery of this project is not like winning a lottery. Reaping the rewards offered by this project will require a great deal of hard work, planning and dedication in order to meet our commitment to the customers to deliver the gas on time and then to maintain safe, efficient supply operations for decades into the future. The government for its part will need to continue its work to capture and wisely apply the benefits derived from the project to meet the nation's medium and long term development goals

Success with this project will contribute significantly to an improved outlook for PNG, and particularly for young Papua New Guineans.

So as robust negotiations continue at many levels in PNG and elsewhere in the world to determine whether or not we finally make it into the World Cup of energy markets, I think we can be proud of what we have already achieved. So many individuals and organisations have put in outstanding work in order to get us to this point.

We have enjoyed tremendous support and encouragement from government and from the community and we are on target with our preparations for a final decision before the end of this year.

It's our hope that the PNG LNG Project shows the world what this great nation is capable of.

Thank you.