

Speech for Peter M. Graham
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Introduction

Firstly I want to say what a pleasure it is for me to come home to Queensland to tell you about how we are going with our PNG LNG Project up north. Not far up north mind you. In fact my office in Port Moresby is considerably closer to here than it is to Brisbane. Geographically Papua New Guinea and Australia are very close, but in many respects they are worlds apart.

I dream of the day when we differ only in our attributes – when for example, Australian tourists flock to Port Moresby in the same way that they do to Bali and when PNG businesses are competing on a regional and global scale.

I know my dream is shared by many in this room and by the PNG LNG Project team. I also know that with the support of the Government and the people of Papua New Guinea, we have an opportunity to help PNG realize, in a very tangible sense, the benefits from our project.

The PNG LNG Project is opening the door on an exciting new era for PNG. We recognise the responsibility that comes with creating this opportunity. By engaging with the citizens of Papua New Guinea as neighbours and community development partners, we can ensure the PNG LNG Project results in sustainable improvements and economic growth for the nation.

We've had a year of run time since we moved into full construction and today I would like to give you brief update on Project progress and talk about the success we're having at helping PNG realize some of the benefits of the project.

Energy Outlook for Asia Pacific

First let me put Papua New Guinea's potential into perspective. It's a resource rich nation in the fastest growing market in the world. Over the next 25 years, energy demand in the Asia Pacific Region is expected to rise by about 65 percent. That's roughly the energy equivalent of adding another Australia to the region every 18 months.

Developing ways and means to meet this increasing demand is essential for the livelihoods of people throughout the region. It ensures that economies can grow and nations can prosper.

It also presents a tremendous growth opportunity for energy producers and resource owners.

As the emerging economies of the region grow the demand growth for energy is matched with growth for most raw materials.

However, it would be foolish indeed for any nation to assume that having the resources meant a guarantee that they would be sharing this boom.

Asia Pacific Gas Outlook

There are two major barriers that can exclude resource owners from these booming markets: Competition and the capital-intensive nature of resource developments. Let me use gas, which is what we are developing, as an example here.

The world has an abundance of gas and recent advances in technology have significantly added to this. This is already at the stage where, apart from new coal seam methane export projects here in Australia, some are even floating the possibility of using tight gas from the US to provide export LNG.

So it would be very wrong to assume that the world can't do without PNG gas.

Gas projects require huge capital investments to build the required processing facilities and infrastructure – in our case US\$15 billion.

So we need investors who are prepared to put down these large sums up-front in order to reap an investment return over the lifetime of the project. These investors – whether they are direct shareholders of a developer or lenders – are also quite understandably looking for long-term stability and certainty.

This means a certain and reasonable fiscal regime, an effective judicial system, good governance and a safe, secure environment in which to live and do business. And we need to continue demonstrating success at delivering projects in a complex environment such as Papua New Guinea

Development Concept

PNG LNG is a pioneering gas export project in PNG. We are making good progress towards our planned start-up window of 2014. ExxonMobil has a long history of successful management and execution of complex, integrated, large-scale projects. Costs and schedules of project components often fluctuate throughout the life of a project and we are managing these as a normal part of our project operatorship.

I'll show a few photos later, but in summary, following site preparations and road and infrastructure development over the past year, we recently celebrated three key milestones with a ground-breaking ceremony for the construction of the process trains and the first concrete foundation poured for the LNG Plant, which will be a key Project facility. And most recently the first weld on the 700km pipeline.

Esso Highlands Limited – an ExxonMobil subsidiary – is working proudly with our joint-venture partners to deliver this project on time while balancing economic growth, environmental protection and social development.

We have long recognized that making the most of energy resources is about more than oil and gas production – it's also about developing people and capacity, and creating and delivering long-term benefits to local communities.

Through the PNG LNG Project, we are now very much a part of the PNG community and we are working hard to ensure we remain a valued member of the communities within which we operate. Let me now talk about how.

National Content

Through a focus on local skills development, empowerment and ownership, the Project can leave a lasting legacy that benefits future generations. Our commitment to National Content involves creating local jobs; educating and training national employees, contractors and suppliers; transferring knowledge and skills; buying local goods and services; and making strategic community investments. In short, our National Content Plan is important to our long-term success.

Developing a skilled workforce and reliable supply chain of local goods and services improves the local business environment, reduces costly delays and leads to local economic growth and improved standards of living in our communities.

National Content – Assisting PNG Companies

Supplier development is not only good for the Project but if done in a sustainable manner will provide a basis for future developments. For example, we're investing significantly in developing the capacity of Landowner companies (or Lancos) so that they can develop into long-term sustainable businesses.

Project contractors continue to use Lancos, with Project-related spend to date with Lancos now exceeding 280 million kina primarily on construction labour, catering and camp management, security, passenger transport and trucking on the Highlands Highway.

Where Lancos are not available or not able to provide the required services, where possible we engage local Papua New Guinea businesses. In just over a year we've spent more than 2 billion kina with local businesses.

And there's more. In that same time we established the Enterprise Centre, an independent organisation located within the Papua New Guinea Institute of Banking and Business Management, and tasked with helping local businesses through the provision of a range of services. Through the Enterprise Centre, the PNG LNG Project sponsors a range of business development activities and training for businesses wanting to grow and seeking to do business with the Project.

Allow me to share some statistics that demonstrate the demand for this business development training – 8500 entrepreneurs served; 2000 training days; 1000 business advisory days.

But what does this mean?

Well in tangible terms it means through our investments, we're helping build businesses that contract with the Project, and have the capacity to contract with others. Porebada Ahine Limited is a company owned and operated by 200 women in the Porebada village near our LNG Plant site. They sought training, business advisory and mentoring services through the Enterprise Centre. Working through another Lanco, this start-up company recently delivered its first order of camp supplies to the LNG Plant pioneer camp that houses the workers constructing the plant.

Another success story is HG Quarries Limited which last year, following a search and short listing effort of companies registered with the Enterprise Centre, was selected as the preferred provider of sand and gravel for the LNG Plant site, 20km north of Port Moresby.

These are both project-related commercial successes. But a recent activity provides an early indicator that long-term sustainable growth of the Enterprise Centre independent of the PNG LNG project is not only possible but becoming a reality. Earlier this year the Centre won its first training

contract for a company not related to the PNG LNG Project and the Centre sponsored the recent Papua New Guinea Indigenous Business Summit in Kokopo focussed on building local businesses.

National Content – Training Construction Workers

Our workforce includes employees, trainees and interns who are contracted or directly employed or seconded to Esso Highlands Limited, as well as employees contracted or directly employed by our EPC contractors in Papua New Guinea. Delivering a project the size of PNG LNG requires a large workforce and as the project progresses the workforce skill mix is also changing. At the end of March our Project workforce was more 7000. Papua New Guinean citizens number almost five and a half thousand, the bulk of which have been employed through Lancos.

Workforce development is scaling up in line with the rapidly growing workforce. We're training at all levels from immediate construction needs to the long-term needs for administrative staff, graduate professionals and operations and maintenance technicians. I'll talk more about these last two in a moment.

But first let me mention the effort it's taken to prepare more than 5000 Papua New Guinea citizens for construction support roles. It has involved more than 200,000 training hours – all accredited to the internationally recognised Australian Quality Training Framework. Supporting this effort is the PomTech Construction Training Facility which we opened late last year. A similar but somewhat smaller facility at Juni in the Southern Highlands will be ready to commence operations later this year. These facilities will continue to be valuable vocational training assets for businesses in PNG beyond the PNG LNG Project construction period.

National Content – Skilled workforce

We are also building a skilled workforce for Esso Highlands Limited. This workforce will be the foundation on which we build this new company to operate the LNG facilities into the future.

Our first intake of Operations & Maintenance technicians, a class that includes 20 women, is currently studying in Port Moresby. These outstanding individuals were selected from across PNG. Their training will include 12 months of Advanced Skills Training overseas.

We also have PNG graduates working overseas in Training and Development Programs. These include the first intake of graduate engineers who are currently working with an ExxonMobil affiliate in Melbourne. I'd encourage you to read about two of them – Jenny and Moses - in our latest quarterly report available on pnglng.com.

Our strategy of transferring knowledge by bringing experts into the country to mentor national staff and selecting high-quality national candidates to work with experts overseas is an efficient means of rapidly building a world-class workforce in PNG.

The high quality of the PNG national candidates for these training positions has been a huge advantage in this effort.

National Content – Strengthening community relationships

Through this Project we are becoming very much a part of the PNG community and we are striving to ensure that we remain a valued member of the communities within which we operate. We are working

collaboratively with the government, businesses and members of these communities to make sure we achieve our shared goals.

Being a valued member of these communities means conducting our business in a manner that respects the land, the environment, people's rights and the rich PNG culture. We have a formal consultation process so that anyone who has a grievance is heard and understood. We have employed experts to help us protect the Cultural Heritage of the areas in which we operate. Yes, there are challenges. But we're working collaboratively with the Government, landowners and the communities to deliver this Project.

Being a valued member of the community also means contributing directly. The Project is promoting economic growth and creating positive, sustainable impacts in the Project Impact Area in areas such as health, education, agriculture, local economic development, women's economic empowerment, and capacity building of individuals and community institutions through a number of strategic community investments.

The examples are too many to illustrate so I encourage you to read our quarterly report of over 70 pages detailing not just our construction efforts but the focus we're bringing to the environmental and social aspects of this Project. For illustrative purposes let me focus on just one example that demonstrates long-term sustainable economic development.

Working with local village leaders from around the LNG Plant site and with agricultural advisors, we determined that the prevailing agricultural conditions were conducive to producing fruit and nut trees. So we teamed with Cashew International Limited to support cashew production. Our project involves ten trees being provided to each household to encourage the development of small cashew orchards. The harvested nuts are anticipated to bring much needed income to households at a time when school fees are due and assist economic development in the community for many years to come.

Now let me finish off with a quick update on how PNG LNG Project construction work is going.

LNG Plant

As I mentioned we recently achieved several milestones. A ground-breaking ceremony marked the handover of the process area at the LNG Plant site to the subcontractor who will construct the process trains. This was followed by the first concrete foundation being poured for the Plant too. And piling work has commenced on the LNG ship loading jetty.

Hides Plant & Well Pads

Site preparation and construction of camps at the Hides Gas Conditioning Plant and well pads are well underway now.

The drilling rigs are being built in the US and comprehensive safety training procedures and the well designs are being finalized in Melbourne and Houston.

Komo Airfield

Bulk earthworks continue on the main runway despite heavy rainfall. Phases 1 and 2 of the main worker camp were completed and agreement was reached with a local landowner company for construction of a footpath around the airfield perimeter to improve community travel and access to local services.

Pipeline

We have put a great deal of work into the finalization of the onshore pipeline route. We have avoided a number of inhabited areas, sacred areas, archaeological sites and critical wildlife habitat, while also choosing a route that provides long-term integrity in this challenging terrain. We're continuing to work on stringing the pipeline along the right-of-way and we recently completed the first pipeline weld.

Detailed engineering and execution planning for the 450 km offshore sub-sea gas line continues, and the pipe lay vessels and support vessels organized. We are also working with Papua New Guinean Department of Environment and Conservation on fishery and community engagement plans.

Conclusion

Importantly, I want you all to take away today that we're making progress through the planned four-year construction phase of this important project.

Our objective is to develop the PNG LNG Project on time and in compliance with the highest standards for health, safety, environmental and social safeguards and business ethics. International gas customers, partners, shareholders and lending institutions have shown confidence in our abilities and potential. Now, we recognize that it's up to us to deliver.

It's a Project that can underpin the future economic and social aspirations of PNG people and will encourage new exploration and development in the country. We are working with partners, Government, landowners and communities to develop a safe, secure, efficient business environment.

In short, as we develop the PNG LNG Project we are also facilitating the growth of the energy sector in PNG, bringing new opportunities to local businesses and national citizens, and directly and indirectly helping PNG to grow as a nation.

Thank you.