

PNG LNG Quarterly
Environmental and Social Report

Third Quarter

2012



PNG LNG

*Energy for the World. Opportunity for Papua New Guinea.
Eneji Bilong Wol. Luksave Bilong Papua Niugini.*



Creating long-term benefits for Papua New Guinean communities

“The PNG LNG Project recognizes that making the most out of energy resources means not just developing oil and gas, but also people and capacity, so that sustainable benefits are delivered to local communities. That’s what our National Content Plan is all about.”



Peter Graham, Managing Director, Esso Highlands Limited

The Papua New Guinea Liquefied Natural Gas (PNG LNG) Project (Project) National Content Plan is a commitment, tailored to Papua New Guinea, to help develop human, social and economic capacity in a way that benefits people, communities and businesses over the long-term.

This eleventh PNG LNG Quarterly Environmental and Social Report describes how Esso Highlands Limited is delivering on the Project’s social, environmental, health and safety plans, and on the commitments made to the people of Papua New Guinea in the National Content Plan. As a subsidiary of Exxon Mobil Corporation, Esso Highlands Limited is responsible for the Project’s construction and operation and is developing the Project with co-venturers: Oil Search Limited, National Petroleum Company of PNG (Kroton) Limited, Santos Limited, JX Nippon Oil and Gas Exploration Corporation, Mineral Resources Development Company Limited and Petromin PNG Holdings Limited, and their affiliates.

Workforce development

By the end of the third quarter, almost 19,600 people were employed on Project activities – an increase of around 2,000 workers compared to the second quarter 2012. Papua New Guineans make up 46 percent of the total Project workforce, with approximately 70 percent of these workers sourced through Landowner Companies (Lancos).

~19,600 people make up the total Project workforce

To date, more than 10,000 Papua New Guineans have received training for construction and operation roles delivered through 6,000 courses in over 1.4 million hours of training. This includes training provided through dedicated facilities such as the Juni Construction Training Facility, where the third intake of trainees has just graduated with their Australian Quality Training Framework standard Certificate Level II in General Construction and Civil Construction.

This brings the total number of graduates for the Juni Construction Training Facility to 54, including 12 women.

The Project’s graduate program is also progressing well, with the original six engineering graduates from the 2011 program returning to Port Moresby in September to work as part of the Operations Technical team. Another ten graduate engineers recruited by Esso Highlands Limited earlier this year continue their progress in the program, with three based in Port Moresby, one based in Singapore and six based in Melbourne, Australia. Two graduate drilling engineers have also returned from training in Australia to work as part of the Project’s Drilling team.

The training provided to Papua New Guinean citizens not only prepares them for roles within the Project but also provides the skills and qualifications for other domestic and international opportunities.



Six of the Papua New Guinean graduate engineers from the second group at Long Island Point

Growing Papua New Guinean businesses

With construction activity at Komo Airfield, the Hides Gas Conditioning Plant (HGCP) and the LNG plant site increasing, the Project is relying on Lancos to supply services such as camp maintenance, catering, security, equipment hire and recruitment.

By the end of this quarter, over 5.7 billion Kina (US\$2.7 billion) was spent on Project activities with businesses in Papua New Guinea. Of this, more than 1.29 billion Kina (US\$620 million) was spent with Lancos.

Other milestones included the first asphalt laid on the Komo Airfield runway, the handover of the triethylene glycol unit at the Kutubu Central Processing Facility to the operations group, and completion of earthworks for the HGCP.

5.7+ billion Kina spent in Papua New Guinea to date

The Enterprise Centre continues to support the development of Lancos and other Papua New Guinea-based businesses. It completed 30 business assessments during this quarter, which brings the total to date to 228. The Centre also re-assessed eight of the original 12 representative Lancos to determine how they have progressed since their 2011 assessments. A highlight for the Enterprise Centre was the launch of their second annual assessment magazine, which profiles companies assessed throughout 2011.

Another important training development was the introduction of International Standards Organization (ISO) training. In a first for Papua New Guinea, the Enterprise Centre coordinated this three-day training course in partnership with International Standard Certifications Proprietary Limited of Australia. Two sessions covering modules such as Quality Management Systems and Occupational Health and Safety Management Systems were conducted.

Construction

Numerous construction milestones were achieved during this quarter, including the start of drilling on the first of eight production wells on the Hides Ridge.

Key construction highlights are outlined in Table 1.

Table 1 – Contracts and construction highlights

Contract	Contractor	Major activities during the third quarter 2012
Upstream Infrastructure (C1)	Clough and Curtain Brothers Joint Venture	Completion of all earthworks for the HGCP and handover of all work areas to the Hides Gas Conditioning Plant and Hides Wellpads contractor. Completion of Wellpad D earthworks and Wellpad C cellar.
Offshore Pipeline (EPC2)	Saipem	Installation of equipment for pipeline inspections. Hydrotesting and drying completed for the entire pipeline.
LNG Plant and Marine Facilities (EPC3)	Chiyoda and JGC Joint Venture	Installation of all 120 pipe rack modules on the LNG jetty. Completion of the twelfth and final inner shell tank ring on the north LNG tank. Completion of all heavy lifts.
Hides Gas Conditioning Plant and Hides Wellpads (EPC4)	CBI and Clough Joint Venture	Completion of piling in the process area. Installation of concrete foundations for main power generators and compressors.
Onshore Pipeline (EPC5A)	SpieCapag	Over 60 percent of the main pipeline welded. Hydrotesting conducted on approximately 145 kilometres of pipeline. Kutubu Central Processing Facility gas metering station earthworks completed.
Komo Airfield (EPC5B)	McConnell Dowell and Consolidated Contractor Group Joint Venture	First asphalt laid on the runway. Installation of all fuel storage tanks and energizing of lighting towers. The new Tamalia River Bridge opened to traffic.
Associated Gas Development	Various	Completion of start-up, testing and handover of the triethylene glycol unit and associated gas cooler to the Kutubu Central Processing Facility's operations group.
Drilling	Nabors Drilling International Limited	Start of drilling for the first production well at Hides Wellpad B. Commenced assembly of the second rig at Wellpad C.

First well spud on July 26 at Wellpad B



All 120 pipe rack modules now installed on the LNG jetty

Safety, health and security

The Project is greatly saddened to report two separate fatal incidents during this quarter and expresses deepest sympathies to the families and friends of the workers involved.

The Project immediately notified relevant authorities and conducted investigations into both incidents. As a result of these investigations, mitigation measures were implemented and key learnings were shared across all worksites.

The Project remains committed to promoting a culture of *Nobody Gets Hurt* at all its worksites. An example of this is the LNG Plant's successful Incident and Injury-Free® (IIF®) program, which aims to build the leadership capacity of supervisors and engage workers in ensuring the personal safety of themselves and others is paramount to how they approach their work every day. Over 10,500 workers have been inducted into the IIF program to date.

Another example is the Safety Champions initiative which recorded its 500th graduate this quarter. Although the initiative was originally designed for Papua New Guinean workers, its success and strong interest from contractors has led to the inclusion of workers from other nationalities. To cater for these workers, training materials are being translated into other languages including Tagalog, Tamil, Korean and Thai.

The Project's Ground Transport and Aviation teams have demonstrated their commitment to safety since inception. They have logged over 12,000 aviation hours, traveled over 10 million kilometres on roads and transported over 100,000 passengers and 2,000 tonnes of freight without a recordable incident.

Community safety is also a priority for the Project. With pipeline construction activities reaching the Moro and Kutubu areas, the Project's Security and Socioeconomic teams are proactively engaging with local communities to maintain a safe and secure environment for workers and residents. One example of the many community safety activities is an ongoing series of education seminars being conducted with local high school students at the LNG plant site. Focusing on a typical day at the site, these seminars highlight both Project and community-based mitigation measures for traffic, personal and worker safety.

During this quarter, the Project continued its support of medical research projects that have the potential to deliver long-term benefits to Papua New Guinean communities. For example, the Project is funding tuberculosis research at Kikori Hospital in the Gulf Province conducted through the Papua New Guinea Institute of Medical Research (IMR). Findings from this research are anticipated to significantly benefit public health in the Gulf Province and the overall tuberculosis control program in Papua New Guinea.



Redscar High School students receive an important lesson in safety at the LNG plant site

The Project is also funding an IMR-led bio-behavioral survey to investigate the epidemiology of Sexually Transmitted Infections (STIs). This study will provide the first ever data on human papilloma virus infection in Papua New Guinean women. Information gathered will be used to help prevent and treat cervical cancer, which is a leading cause of cancer-related deaths among Papua New Guinean women.

The Project was made aware of some localized disturbances in the Upstream North area and along the Highlands Highway this quarter as a result of the Papua New Guinea 2012 National Election. However, these were unrelated to Project operations and had minimal impact on Project personnel or work.

Social development

The Project's commitment to train and support Papua New Guinean women continued this quarter with a second \$US300,000 grant provided to the World Bank's Women's Self Reliance Program.

The Project also sponsored another five women to attend a Global Women in Management program in Jakarta, Indonesia. To date, the Project has sponsored 17 Papua New Guinean women to attend this program.

Meanwhile, in July, a women's group from Lea Lea officially opened a permanent community market with the support of the Project.

In addition, two women are among three biomedical technicians from Port Moresby General Hospital and two officials from the National Department of Health who are being sponsored for training in Dallas, Texas through the Biomedical Equipment Repair Training program.



To date, the Project has distributed more than 19,500 books and activity packs from the Toea series to over 80 schools in the Project area.

A highlight for LNG plant site communities this quarter was the opening of a small rural Bank South Pacific branch at the LNG plant site and the start of construction on a post office and commissary. These services will alleviate the need for local villagers and LNG plant site workers to travel to Port Moresby for banking and postal services.

Environmental performance

A key achievement this quarter was the submission of the Project's Biodiversity Offset Delivery Plan to the Lender Group's Independent Environmental and Social Consultant (IESC) and the Lender Group for review.

The Project also recorded its lowest spill rate since substantial works began in early 2010. As part of a continual focus on spill prevention, spill kit audits were conducted at the Upstream Infrastructure, LNG Plant and Drilling worksites, and external spill response experts provided training for the Drilling and HGCP workers.

Wastewater management continues improving, with the HGCP main camp wastewater treatment plant commissioned to provide increased capacity and more effective wastewater treatment.

Meanwhile, shredding, crushing and bailing activities at the Onshore Pipeline contractor's waste management facilities at Kopi Shore Base, Gobe Camp 3, Tamadigi Camp 4 and at Moro Camp 5 have already reduced waste volumes by approximately 70 percent.

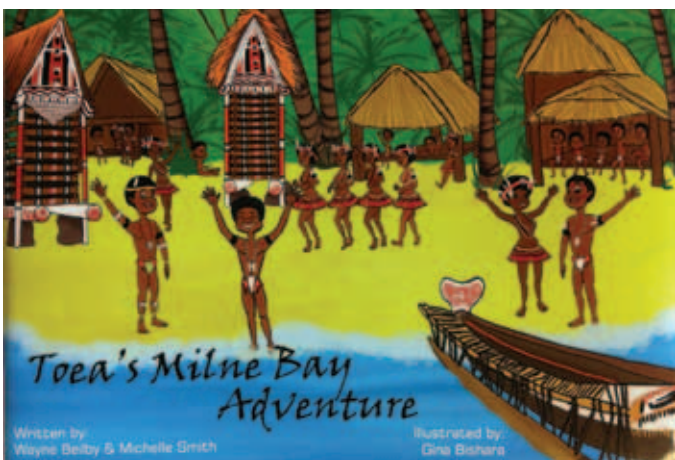
Reinstatement works continue to progress across Project work sites. This includes planting of locally sourced stock and spreading of Japanese Millet and Carpet Grass seeds at the HGCP site, as well as reinstatement activities in the LNG plant site area and along the onshore pipeline Right of Way.



Official opening of the Lea Lea community market

The Toea series of books continues to play a vital role with delivering important cultural, health and safety messages to school-aged children. This quarter, the sixth Toea book titled: *Toea's Milne Bay Adventure* was released in conjunction with the launch of the *Toea Money Management Game Board*.

The game is similar to the famous MONOPOLY board game but uses Kina as the currency and teaches children money management skills through scenarios related to everyday Papua New Guinean household expenses.



The sixth book in the Toea series



Hundreds of indigenous plants being grown at the Komo nursery for reinstatement works

The Komo Airfield contractor also reinstated 4.6 hectares, while preparing extensive planting stock at the Komo Main Camp and Timalia nurseries for rehabilitation activities.

Stakeholder and community engagement

Following the Papua New Guinea 2012 National Election, stakeholder engagement activities returned to previous levels and included the Project's participation in numerous advocacy workshops with key incoming Government ministers, departments and agencies.

As drilling activities commenced this quarter, the Project conducted extensive stakeholder engagement with community leaders, schools, women's groups, churches, health facilities and Government. These engagements were designed to provide information about what to expect during drilling operations, such as noise and light from the rigs; as well as foam drilling operations. Engagements were conducted prior to the start of drilling operations and provided an opportunity for community members to ask questions and provide feedback about the planned drilling activities.

During this quarter, Papua New Guinea's National Road Safety Council completed the first phase of a Project-sponsored Road Safety Awareness campaign in communities between Goroka and Mount Hagen. In addition to the National Road Safety Council's campaign, the Project is delivering its own comprehensive pedestrian and road safety awareness program. This includes visiting schools to highlight the need for safety on the road, visiting communities to explain the importance of pedestrian road safety and conducting informal engagements along roadsides.

**More than 29,400
participants in engagement
activities to date**

Grievances increased slightly this quarter, with 108 recorded compared to 100 last quarter. Ongoing training is being provided to Project teams to reinforce the importance of recording and resolving grievances in a timely manner. Because of this increased attention, only 15 cases remained open at the end of the quarter.

Meanwhile, the Project continues providing water tanks and tarpaulins to communities as part of goodwill assistance. During this quarter, five new water structures were provided. This brings the total number of water structures built for communities in the Hides and Komo areas to 66.

In addition, the Project's Livelihood Restoration Program distributed nearly 3,500 sweet potato cuttings to 22 households; 58 kilograms of corn seed to 199 households; 180 kilograms of peanut seed to 102 households; and 1 kilogram of temperate climate vegetable seeds to 47 households. Crossbred chickens and breeder ducks were also supplied to more than 80 households. Villagers are being trained in propagating high yielding crops and raising chickens, ducks and pigs.

As the Project progresses, it will continue working together with Government and local communities to ensure opportunities to achieve common goals are maximized and sustainable so they become part of the Project's legacy.





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Santos
We have the energy.



