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PNG to Australia Pipeline Project

A Long Time Coming

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A Long Time Coming

PNG Project has taken a step change towards commerciality over the past 12 months

- Alignment of key stakeholders for risk mitigation and growth
- FEED entry a pivotal point
- Front End Engineering and Design almost 60% complete
- Now secured over 200PJ/a of conditional gas sales agreements
- Major customers in NT, Gladstone, Southern Queensland, NSW and SA
- APC (AGL/Petronas) entered FEED for Australian pipeline





A Generational Change

Gas Supply fundamentals for East Coast Australia are changing

➤ The Cooper Transition

- Maturity brings higher expense
- A struggle to remain competitively priced

➤ A healthy and growing CSM supply

- Significant growth in past 5 years

➤ A major supply source from PNG, with new pipeline network

A struggle for the next 30 year supply picture





The Impact of Change

- A change in the “power base”
- Gas pricing will remain highly competitive
- Ensures gas market growth and a larger pie for us all
- Delivers gas from NT to Sydney
 - Facilitates regional growth especially in North Queensland
 - Facilitates major resource projects





PNG Pipeline Project

PNG Project has had a number of iterations

- **Townsville supply from Pandora**
 - Too small
- **Townsville, Gladstone and Southern Markets**
 - Required : Kutubu and Hides reserves
 - Required : Joint Venture alignment
- Phase I – Fertile Ground**
 - Too much, too soon
- Phase II – Reality Check**
 - A timing problem





PNG Pipeline Project

PNG Project has had a number of iterations

Phase III – Lessons learnt from the past

- Revised development plan
- Flexible for smaller market thresholds
- Maximum liquids value

➤ The importance of Stakeholder Alignment

- Who can drive success?





Project Scope

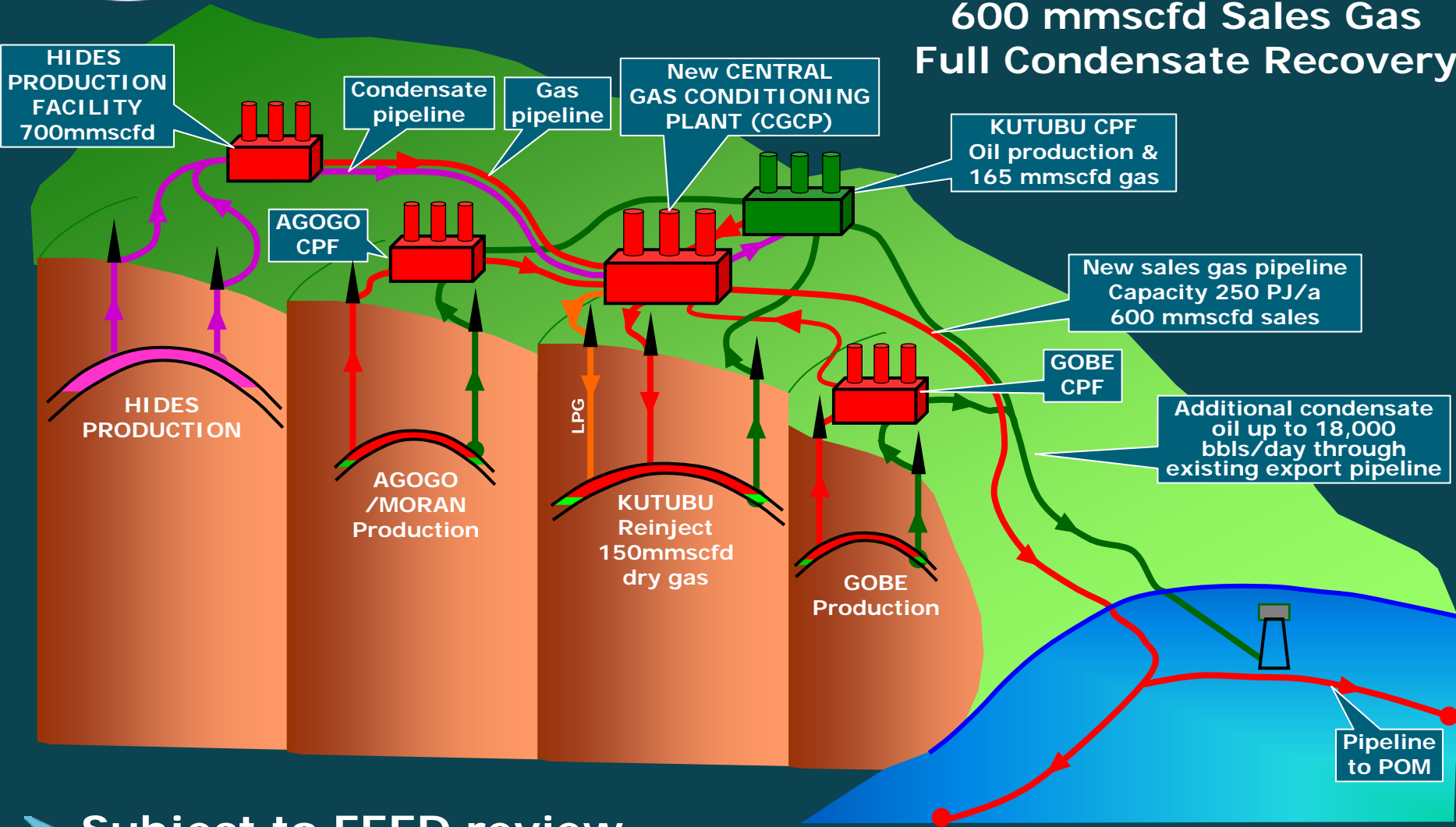
- Joint venture between
 - ExxonMobil 39.43%
 - Oil Search 54.15%
 - MRDC/State 3.02%
 - Merlin (JPP) 3.39%
- Gas Sales with condensate export
- Conversion of Kutubú oil fields to gas production
- Development of Hides Gas Field
- Facilitates integration
- Gas pipeline from Highlands to PNG border





PNG Gas Project Configuration

600 mmscfd Sales Gas
Full Condensate Recovery



➤ Subject to FEED review



Project Scope

- Final pipeline configuration and route being determined by customer demand
- Abundant competitively priced gas to NT, Queensland and southern markets
- Interconnected pipeline system promoting competition and enhanced security of supply





Project Activities

Focus on Successful Project Delivery

➤ FEED

- Final design and facilities configuration
- Pipeline design
- Cost optimisation
- Operating parameters

➤ Government and Fiscal

- Licencing submissions and regulatory approvals
- Landowner benefits distribution and business development





Project Activities

Focus on Successful Project Delivery

➤ Marketing

- Focus on confirming gas sales agreements
- Present indicative agreements for 190 to >200 PJ/a, with further markets targeted
- Possible integration of in-country activities

➤ Financing

- Coordinated approach from all stakeholders
- Positive bank and insurer response





Project Timetable

- **FEED activities due for completion late '05**
 - Early works decision by year end
- **Project Sanction 2Q '06**
 - Commitment to long lead items etc.
- **Financial Close 2H '06**
 - Major construction commences year end
- **First Gas 2009**





So What is Different Now?

The Easy Stuff

- Simple design configuration optimises oil facilities whilst accelerating liquids production
- Capital efficient design
- Established market threshold with upside volumes. Focus on moving conditional to firm agreements
- Economics impacted by higher oil prices and exchange rates balanced by capital costs





Stakeholder Alignment – The Key to Project Success

So What is Different Now – Lessons Learnt from the Past?

- PNG Project is complex with over 30 stakeholders
 - Governments
 - Upstream Companies
 - Customers
 - Downstream
- Complex energy and infrastructure environment on East Coast
- Targeted alignment essential in Project success





Stakeholder Alignment – The Key to Project Success

➤ Likely Post Sanction Interests

– ExxonMobil	25.67%
– Oil Search	37.18%
– PNG Gov't/Landowners	14.27%
– Nippon Oil	3.39%
– AGL	10.00%
– Santos*	9.49%

*Subject to negotiation



Targeted Alignment – The Key to Project Success

- **Deliberate strategy to achieve stakeholder alignment**
 - Project FEED Decision – Joint Venture Alignment
 - Market / Customer and Downstream Alignment
 - The importance of AGL
 - Largest east coast energy retailer
 - Major gas customer
 - Pipeline and infrastructure
 - Downstream development potential
 - Santos ?
- **Powerful Combination for Next Generation of Supply**





Targeted Alignment – The Key to Project Success

➤ Landowners in PNG

- Excellent production reliability in oil projects, based on oil equity ownership and business development partnerships
- Mature process for ownership

➤ Lessons for Australia?

➤ Government in Papua New Guinea

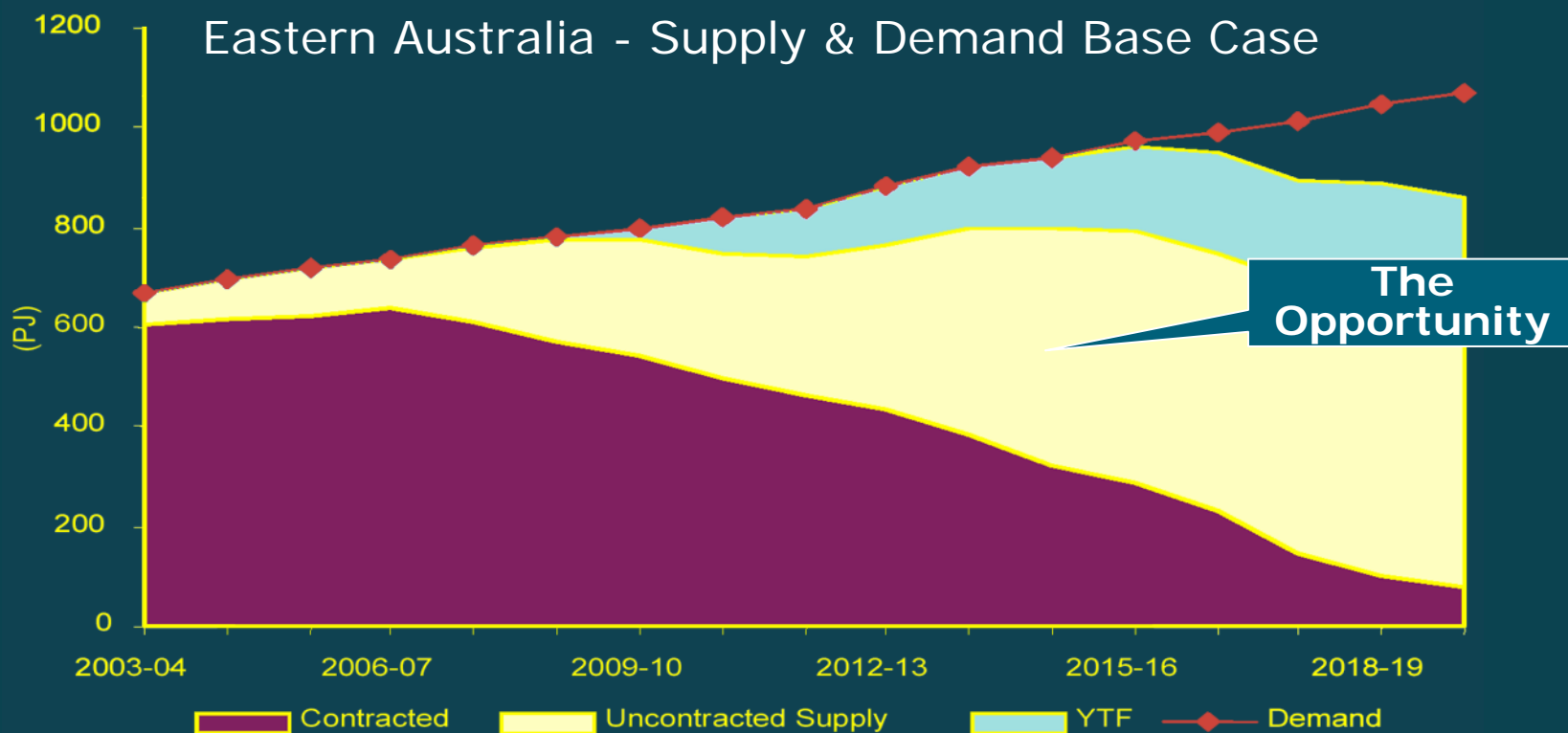
- Strongly motivated to deliver
- Committed to in-country development after core Pipeline Project delivered





Clear need for gas in Eastern Australia

- Wood Mackenzie analysis suggests even with PNG, Coal Bed Methane & Yet-to-Find (YTF) gas there is a clear need for new sources of gas supply to meet demand





A Long Time Coming

But we are Coming

- Focus on all aspects of Project Delivery
- FEED activities proceeding well
- Design criteria fit for purpose, maximising value of liquids
- Underwriting customer base to be converted to firm agreements
- Further marketing activity a focus
- Pipeline FEED underway
- Regulatory issues being actively addressed

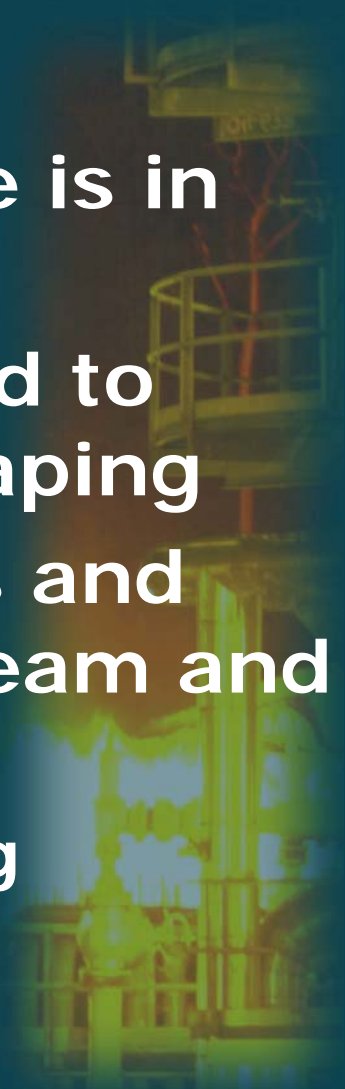




A Long Time Coming

But we are Coming

- The east coast gas supply picture is in generational change
- The PNG Gas Project is positioned to play a significant role in its reshaping
- Participation of key stakeholders and alignment of upstream, downstream and key customer base
 - A key strategy for Project Derisking





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