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PNGLNG marred by unfulfilled promises: Shareholder concerns over royalties owed to landowners and payments to military a focus at Oil Search AGM

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FOR IMMEDIATE RELEASE**

The Australasian Centre for Corporate Responsibility (ACCOR) attended the Oil Search AGM in Port Moresby, Papua New Guinea, this morning. Oil Search, an Australian Stock Exchange-listed company, is PNG's largest company and largest investor. Its joint venture with Exxon Mobil, a liquefied natural gas pipeline running from the highlands to the coast known as PNGLNG, is the company's largest revenue stream.

Shipments of LNG have been happening for three years, but landowners have not yet been paid royalties owed to them under benefit sharing arrangements. Tensions among landowner groups have been high in Hela province, in particular, in the past six months, resulting in a military deployment in December 2016.

ACCOR has engaged with the company leading up to the AGM, together with Australian non-profit organisation, Jubilee Australia, around human rights concerns. Progress was made over the engagement period, and ACCOR Executive Director Brynn O'Brien, who addressed the meeting, congratulated Oil Search on its efforts in this regard.

But questions remained about the the company's payments to military and police for callouts in Hela province. Ms O'Brien specifically asked that the legal basis for these payments be identified. Stephen Gardiner, the Company Secretary and Chief Financial Officer of Oil Search, was unable to answer Ms O'Brien's question, and undertook to come back to shareholders with an answer.

"I find it quite surprising that senior executives at such a large company are unable to provide what should be an obvious answer to a question about the legal basis and legitimacy for payments made to state security forces. This is a serious issue for the company and needs to be addressed as a matter of utmost priority," Ms O'Brien said.

Ms O'Brien also raised the issue of unpaid royalties owed to landowner communities, saying that this issue posed a real risk to the company and its shareholders: "The public perception of our company's joint venture is marred by unfulfilled promises, shifting goalposts and failed expectations." Ms O'Brien called for more regular communications with the company about the human rights risks associated with the PNGLNG project, emphasising that "because of the issue of unpaid royalties, and the lack of a reliable timeframe for owed moneys to be paid, this is a project on the edge of crisis."

Jubilee Executive Director, Luke Fletcher, said: "Jubilee has long predicted that, due to the manner in which the benefits agreements were rushed through in 2009, the human rights risks associated with landowner discontent could surface at this stage of the project. The conversation at today's AGM, especially on the

subject of payments to security forces, has not allayed any of these concerns, especially given the troubled history of interactions between security forces and landowners in other parts of PNG. If the situation in Hela deteriorates from here, all of the parties to the PNG LNG joint venture, as well as their financiers (including Australian agency EFIC) will have to answer for their role dragging an already fragile country into chaos for the sake of profits.”

Ms O’Brien said that she was pleased that ACCR’s resolution received about 7% support of votes cast before the meeting, and telling that, in a show of hands in the room after her statement, the level of support seemed higher, estimating that it was in the range of 30-40% of voting shareholders present in the room.

The full text of Ms O’Brien’s question in relation to payments and her statement in support of ACCR’s resolution can be found below.

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Question by Ms O’Brien

I understand that two types of payments are made by our company for military and police for call outs:

- one for deployments; and
- one paid directly to officers as a field allowance.

I understand that the rate of payment is set by the police commissioner’s circular, but as yet I do not understand the legal basis for payment.

I have the following questions:

- is an invoice/request for payment issued by the government or the Police Commissioner to the company?
- Or is there a legislative/regulatory obligation to pay?
- What are the consequences of not paying? Does the company obtain some business advantage as a consequence of this payment which wouldn't accrue if it wasn't paid?

Specifically in relation to accounting:

- How does the company book these payments in its accounts?
- Are they treated as a tax, a levy, a payment for services or something else?

Statement of Ms O'Brien in support of resolution 8 on human rights

Our company has made reasonable efforts to address the methodology and consultation aspects of our resolution, and we commend the company for these efforts. We note in particular the new human rights statements released by the company over our engagement period with them this year, and we are pleased with this result.

The company has, however, resisted our proposal to commit to a reporting date, in advance of next year's AGM cycle, on human rights and security risks. This is a missed opportunity.

In a volatile environment where, in respect of benefits promised to landowners, it is an understatement to say that things have not gone according to plan, having strong commitments, accountability processes, and channels of regular communications with shareholders about risk are in our company's interests.

And this is why:

The whole country has an interest in the PNG LNG project, our JV with Exxon. So much was promised to the people of PNG for the right to mine their land. If you mention PNG LNG in PNG, people say, "no one has been paid," they say "they will never be paid," they say "there is no benefit to the people," they say "there is no benefit to the country." The public perception of our company's joint venture is marred by unfulfilled promises, shifting goalposts and failed expectations.

PNG LNG has this week seen its 300th shipment leave the country's shores. The chair today has spoken about the excellent delivery of the project to the company and shareholders. The CEO Mr Botten has spoken about record production levels. But landowners have not been paid a cent.

It is not difficult to imagine that a time will come when the patience of landowners with legitimate grievances is exhausted.

These risks have been foreshadowed in numerous reports. They are clearly foreseeable risks, but there appears to be no plan B.

Because of the issue of unpaid royalties, and the lack of a reliable timeframe for owed moneys to be paid, this is a project on the edge of crisis.



It is in our company's interests to ensure that, before the next AGM cycle, shareholders have regular access to detailed information on human rights risks, gaps in our company's performance, and mitigation strategies associated with our company's operations and business relationships.

I therefore encourage shareholders to vote in favour of resolution 8.

END