FISCAL AND ECONOMIC TRENDS

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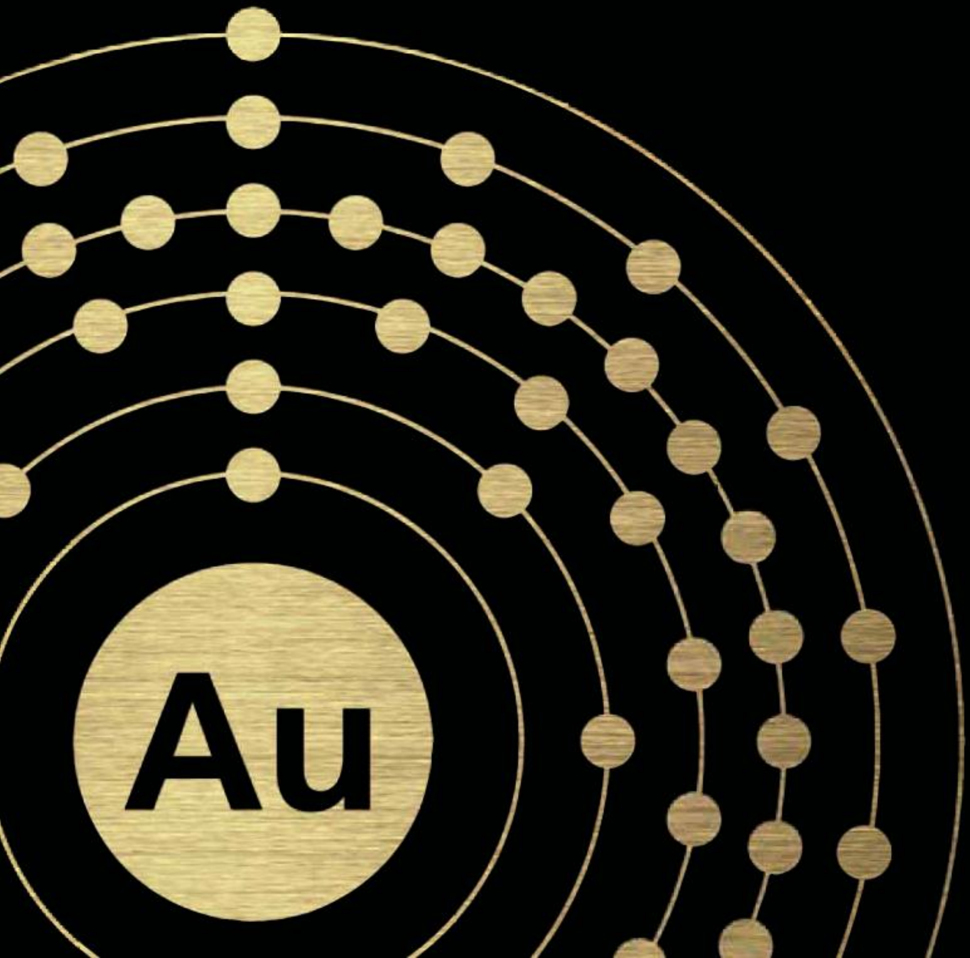


Analyst site visit

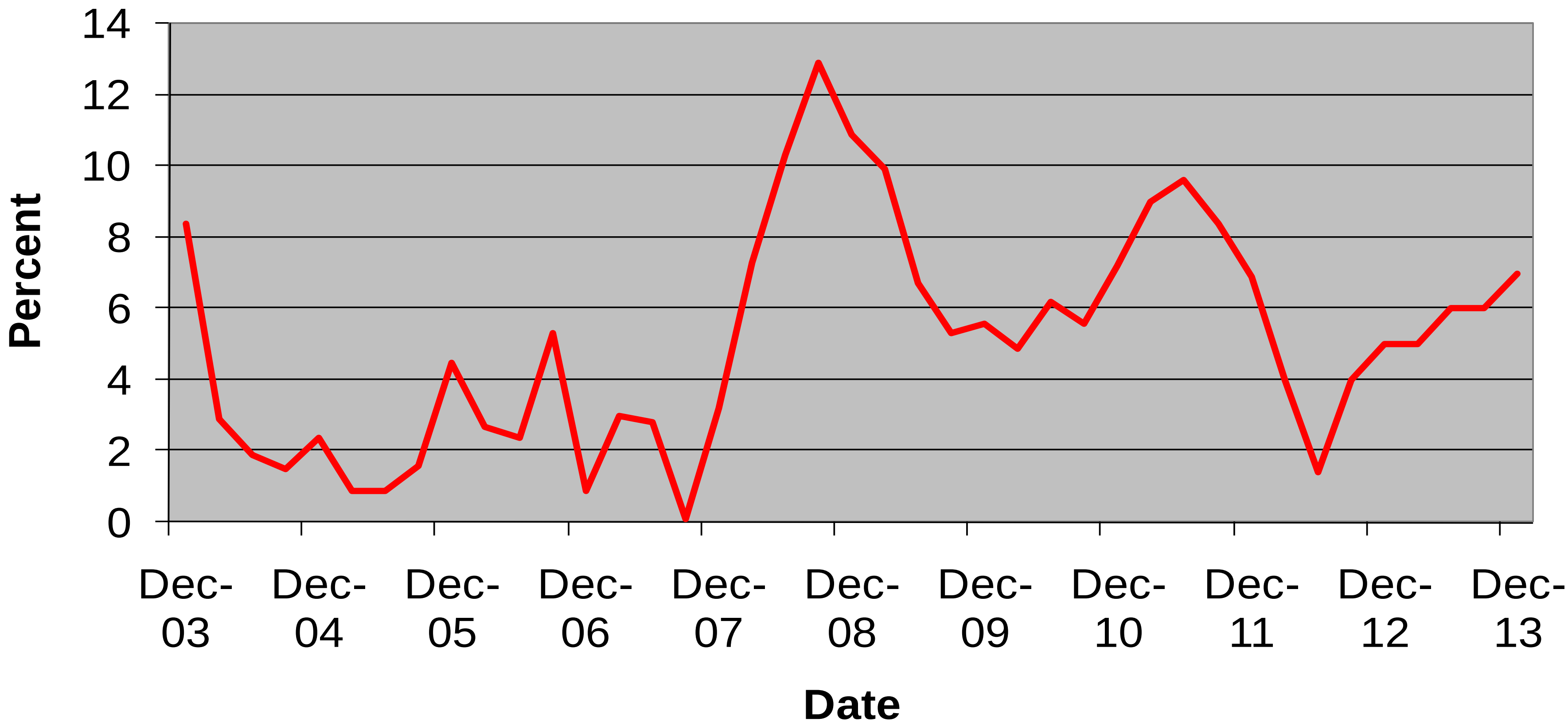
25 September 2012

Background and fiscal highlights

- Papua New Guinea (PNG) has seen solid GDP growth over the past decade (6% to 8%)
- Growth prospects*
  - Growth is expected to remain high as the construction of a large liquefied natural gas production facility (LNG) boosts economic activity
  - Exchange rate appreciation has helped reduce inflation, but domestic cost pressures remain elevated in particular in sectors facing capacity constraints
  - Risks are broadly balanced, with external risks on the negative side and the potential for new resource projects on the positive side
- After a large fiscal deficit in 2009, the budget returned to surplus
- Gross public debt has declined further, and PNG's risk of debt distress rating has been upgraded from moderate to low
- A move to 'tuition-fee free education' is a real positive step

* International Monetary Fund (IMF) 2012 Article IV report

Headline Inflation (Forecast)

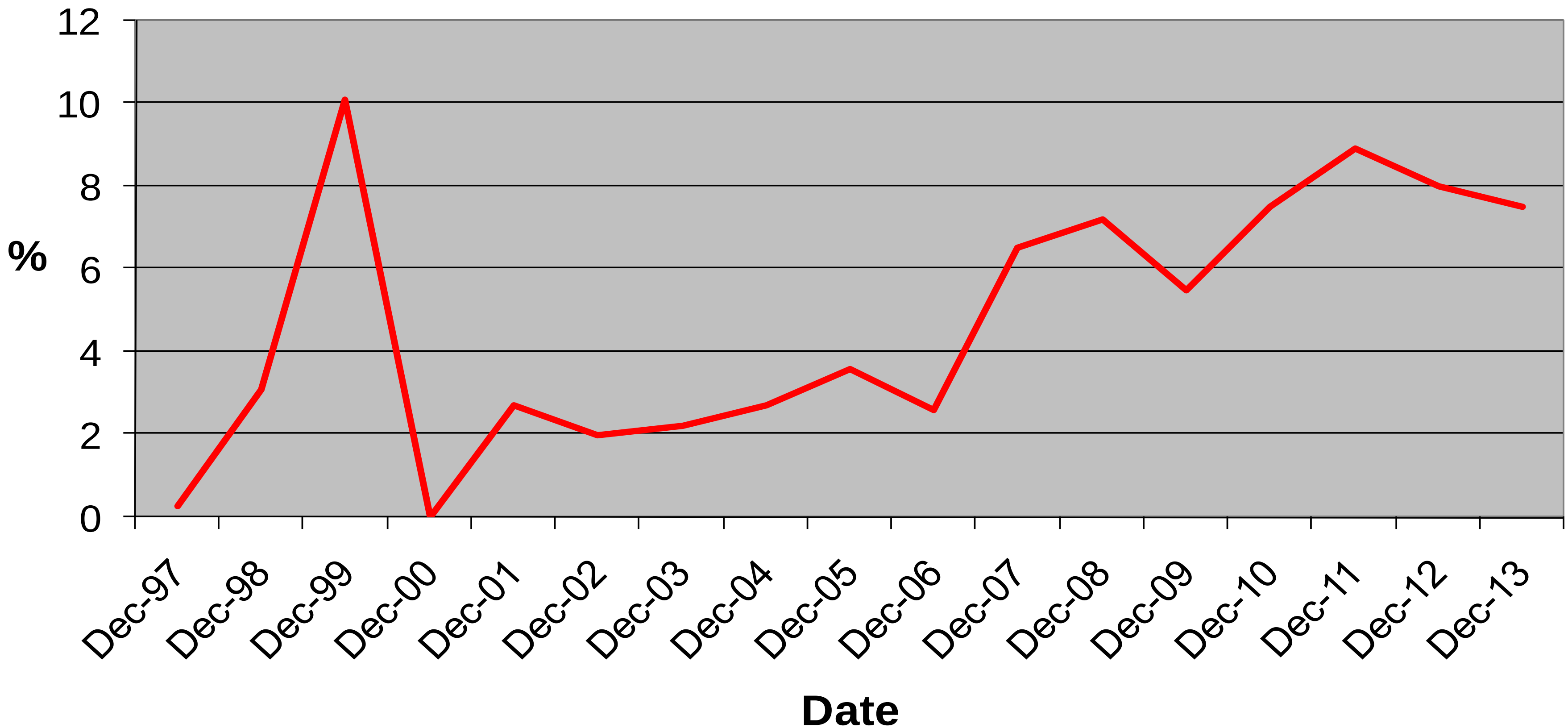


- PNG's budget Inflation forecast/outlook ranges between 7.5% to 8.5% over the next few years

Source: Westpac Papua New Guinea

Economic trends

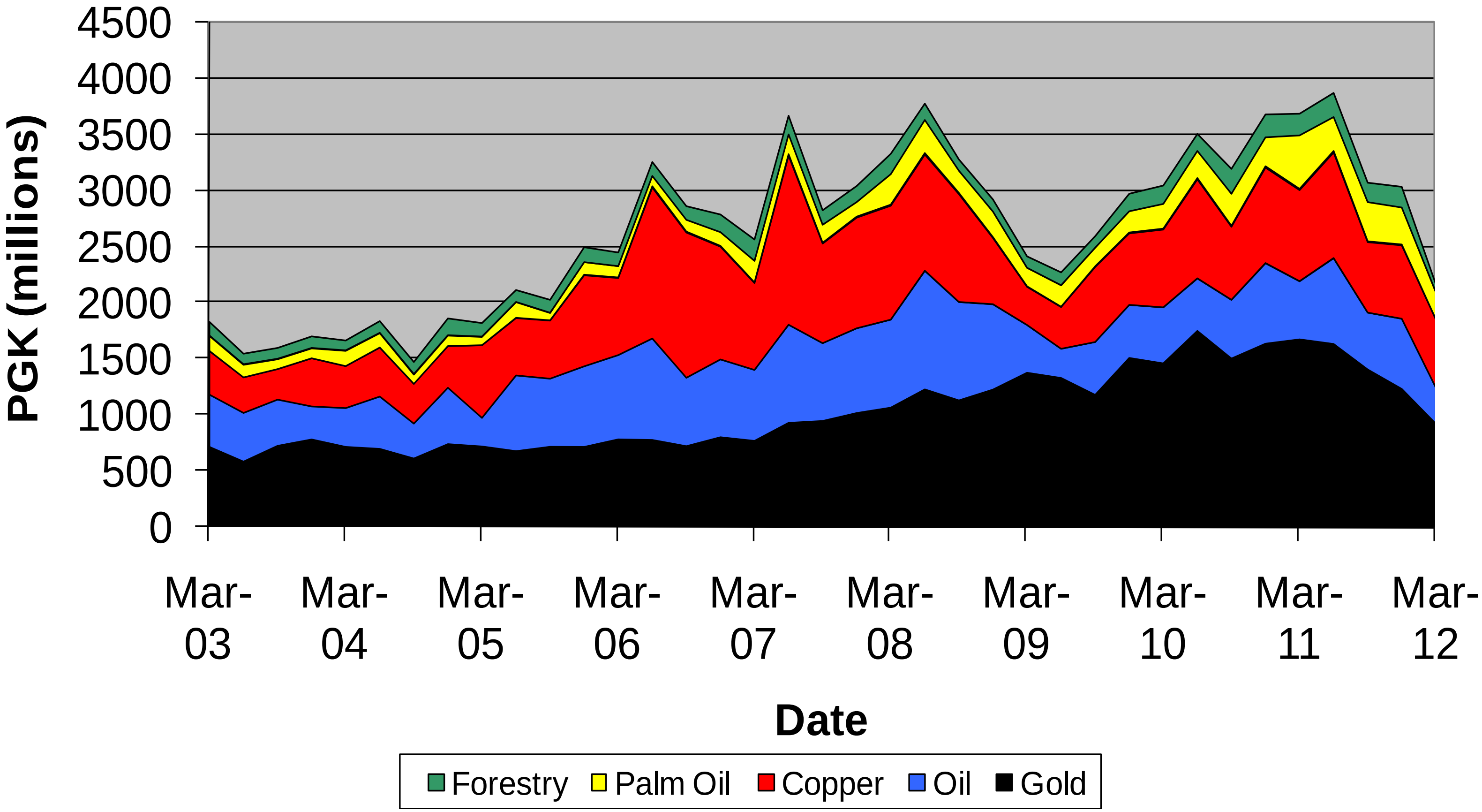
GDP (Forecast)



- Solid GDP growth over the last 10 years, despite GFC

Source: Westpac Papua New Guinea

PNG's Top 5 Exports (Quarterly Value)



Source: Westpac Papua New Guinea

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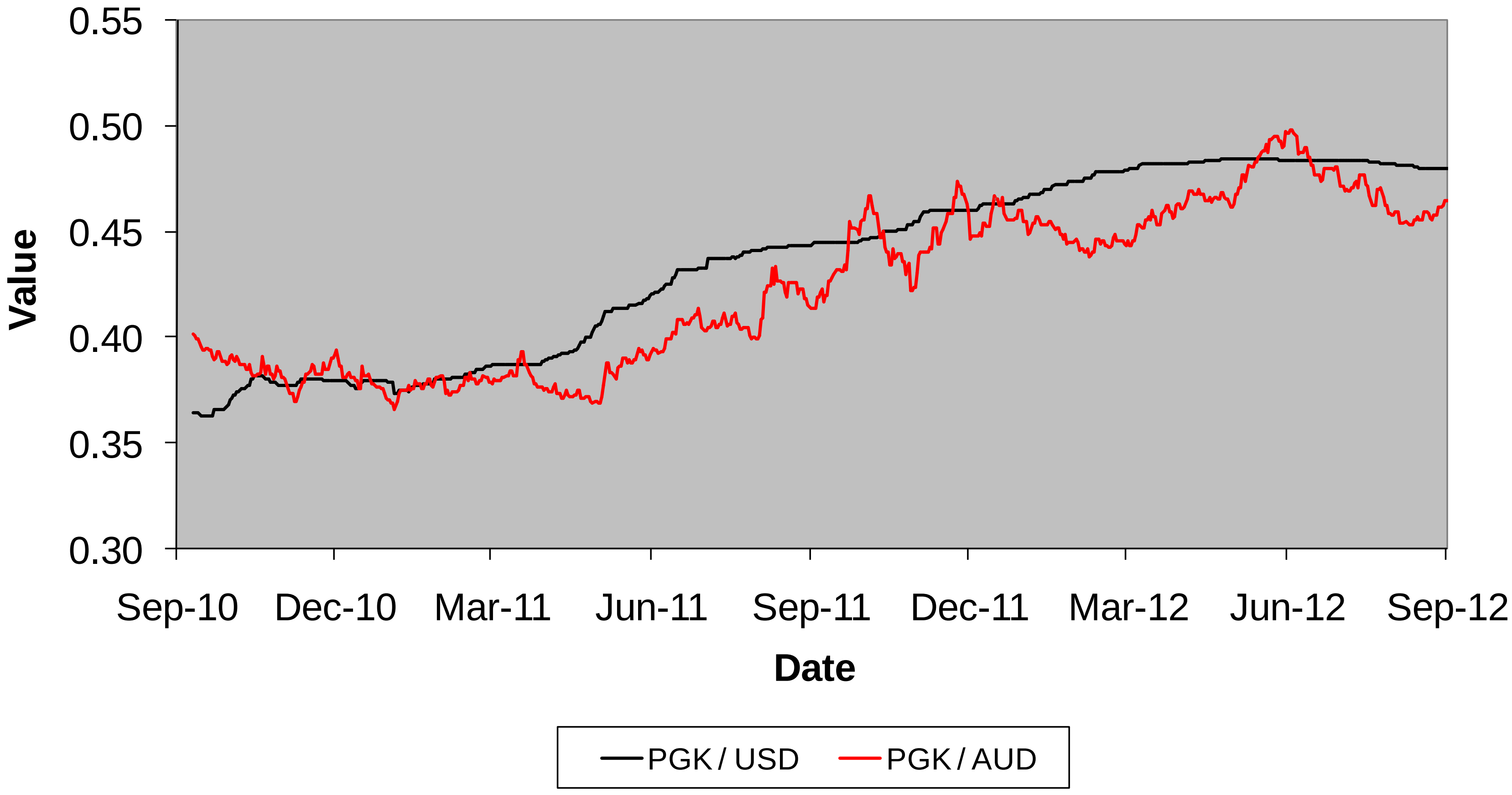


Source: Westpac Papua New Guinea

Government equity participation

The State reserves, subject to any agreement made under section 17 of the Mining Act 1992, "the right to elect at any time, prior to the commencement of mining, to make a single purchase up to 30% equitable interest, at a price pro rata to the accumulated exploration expenditure (total sunk costs to date) and then to contribute to further exploration and development in relation to the lease on a pro rata basis unless otherwise agreed"

Example of a current major project: PNG LNG Project (ExxonMobil)

US$15.7 billion construction costs are financed by a mix of 30% equity and 70% debt, with the government responsible for funding its share of costs (including cost increases)

- The largest private sector equity participants are ExxonMobil affiliates (33.2%) and Oil Search (29%). The PNG government owns a 16.8% stake, mostly through the Independent Public Business Corporation, and landowners own 2.8%
- The government also owns shares amounting to 15% of Oil Search, to fund initially estimated construction costs, these shares were pledged to Abu Dhabi's International Petroleum Investment Company through an exchangeable bond

Government equity participation | continued

- The shares pledged are due to be transferred in 2014, with additional compensation required if the shares are worth less than the initial borrowing of $A1.68bn
- The government's share of cost increases in 2011 was financed through domestic debt issuance.
- Project commissions 2015
- Revenue and fiscal distributions 2018 and 2022 respectively
- Sovereign Wealth Fund being established – objective
  - Key strategic infrastructure development

PNG Tax regulation

- PNG company tax rate = 30%
- PNG mining royalty = 2% of revenue less shipping and refining costs

Calculating taxable income for PNG mining companies (including specific deductions)

- Work out taxable income / (loss)
  Assessable income (tax adjusted revenue) – allowable expenses (operating)
- If result = taxable loss (expenses > revenue) – carry forward tax loss (indefinitely)
- If result = taxable income – following additional deductions are available in that order
  – Prior year losses brought forward
  – Up to 25% of AEE balance
  – Up to 25% of ACE balance
  – Lesser of 25% of S155N Pool balance or amount that reduces tax payable by 25%

AEE: allowable exploration expenditure
ACE: allowable capital expenditure

PNG tax regulation | continued

- AEE is exploration expenditure incurred on the mining area covered by a mining lease during the 20 years immediately prior to the issue of that Mining Lease
- ACE is capital expenditure incurred in developing the mine and further exploration expenditure incurred on the area covered by a mining lease after its issue
- S155N Pool is essentially double deduction available to a producing project on exploration expenditure incurred (post 1 January 2003) by other related companies
- Annual AEE and ACE deductions are limited to taxable income (cannot create a tax loss).

AEE: allowable exploration expenditure
ACE: allowable capital expenditure

Illustrative example

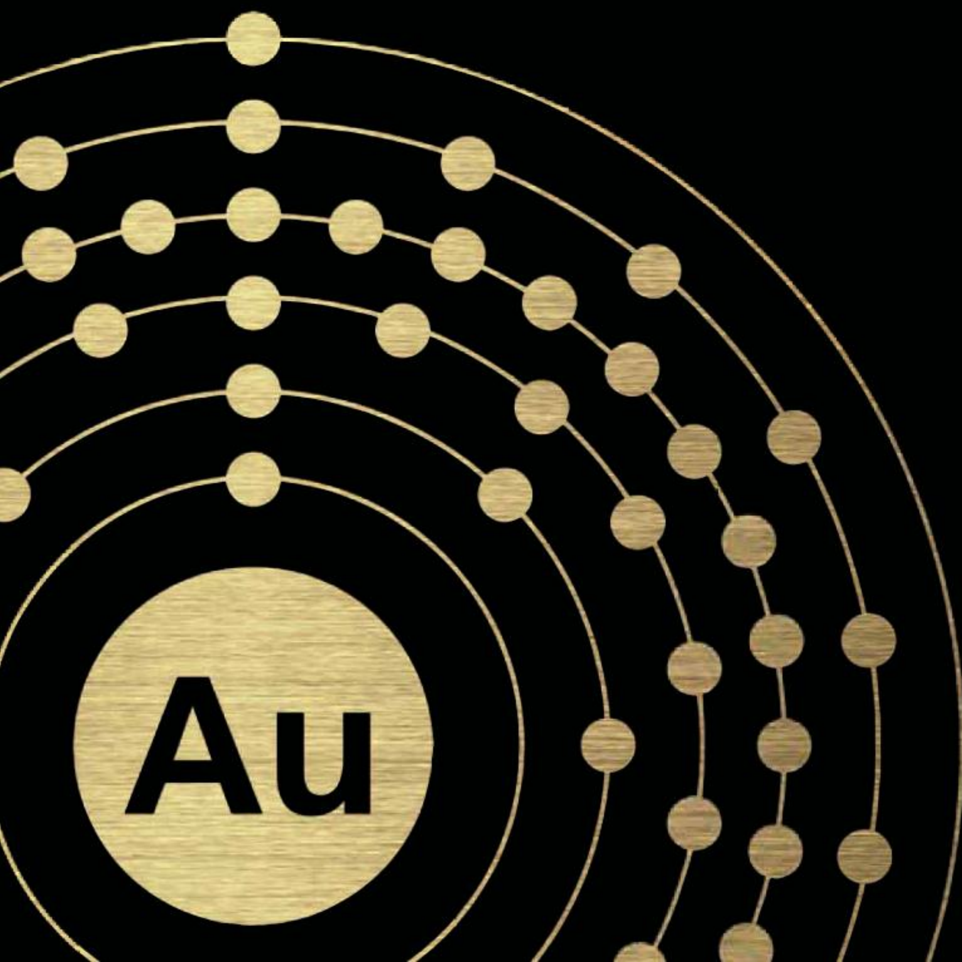
Balances used in calculations (K'000)

- Taxable income (TI) K150 000
- Losses brought forward K8 000
- AEE K180 000
- ACE K300 000
- S155N Pool K85 000
  (Deduction = lesser of 25% pool bal
  (K21,250) or 25% of Tax Payable (TP)
- Resident tax rate = 30%

Workings (K'000)

• TI	150 000
• Less:	
– Losses	(8 000)
– 25% AEE	(45 000)
– 25% ACE	(75 000)
• TI after Dedns	22 000
• Tax @ 30%	6 600
• Less: 25% TP	1 650
• Net tax payable	4 950

AEE: allowable exploration expenditure
ACE: allowable capital expenditure



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