PNG LNG PROJECT
UMBRELLA BENEFITS SHARING AGREEMENT

BETWEEN

THE INDEPENDENT STATE OF PAPUA NEW GUINEA
(Of the First Part);

AND

THE SOUTHERN HIGHLANDS PROVINCIAL GOVERNMENT

AND

THE GULF PROVINCIAL GOVERNMENT

AND

THE CENTRAL PROVINCIAL GOVERNMENT

AND

THE FLY RIVER PROVINCIAL GOVERNMENT
(Of the Second Part)

AND

SOUTH KOROBA LOCAL-LEVEL GOVERNMENT

AND

NORTH KOROBA LOCAL-LEVEL GOVERNMENT

AND

HAYAPUGA LOCAL-LEVEL GOVERNMENT
AND
KOMO LOCAL-LEVEL GOVERNMENT

AND
HULIA LOCAL-LEVEL GOVERNMENT

AND
LAKE KUTUBU LOCAL-LEVEL GOVERNMENT

AND
ERAVE LOCAL-LEVEL GOVERNMENT

AND
WEST KIKORI LOCAL-LEVEL GOVERNMENT

AND
WEST HIRI LOCAL-LEVEL GOVERNMENT

AND
NOMAD LOCAL-LEVEL GOVERNMENT
(All of the Third Part)

AND
THE PROJECT AREA LANDOWNERS AS LISTED IN SCHEDULE 1 TO THIS AGREEMENT
(Of the Fourth Part)
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[Signature]
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EXECUTION CLAUSE
PNG LNG UMBRELLA BENEFITS SHARING AGREEMENT

THIS AGREEMENT is made the ..........day of May 2009

BETWEEN:

THE INDEPENDENT STATE OF PAPUA NEW GUINEA ("the State") of the first part;

AND

The Provincial Governments ("PGs") listed in Schedule 1, Part A, to this Agreement (each a "Provincial Government" or "PG") of the second part.

AND

The Local-Level Governments (each a "LLG" and together are "affected LLGs") listed in Schedule 1, Part B, of the third part.

AND

The Project Area Landowners listed in Schedule 1, Part C, to this Agreement (each a "Project Area Landowner" or "landowner group") of the fourth part.
WHEREAS

A. The State signed the LNG Gas Agreement on 22nd May 2008 with the LNG Project Companies. This Agreement provides the commercial and fiscal terms for the LNG Project.

B. The PNG LNG Coordinated Development and Operating Agreement (CDOA) signed amongst the LNG Project Companies provides the essential commercial framework for the LNG Project. The CDOA defined the commercial concepts and the desire of the LNG Project Companies to jointly develop various gas fields and the associated gas from oil fields.

C. The parties recognize that the State has the stewardship for working with the LNG Project Companies to progress the LNG Project and bring it to fruition.

D. The parties recognize that Project Area Landowners, affected PGs and LLGs are important stakeholders for the success and stability of the LNG Project.

E. The parties recognize the need to adhere to the project schedule and to work cooperatively and expeditiously to this end.

F. The parties acknowledge that the signing of this PNG LNG Umbrella Benefits Sharing Agreement is an important milestone in the project schedule.

G. The Parties recognize that this project is of national importance and the benefits accruing to the State are for the collective benefit of the people of Papua New Guinea.
H. The Project Area Landowners, affected PGs and LLGs are entitled to certain benefits under existing policies, laws and agreements.

I. The Project Area Landowners, affected PGs and LLGs recognize that this is an integrated project and want to capture under this one Umbrella Benefit Sharing Agreement the basis for sharing those benefits and any additional benefits provided by the State.

J. This Agreement records the general and high level common principles of cooperation and sharing of benefits between the parties developed and agreed following a process of consultation culminating in the Kokopo Umbrella Benefit Sharing Agreement Forum and provides the basis for subsequent Licence-Based Development Forums, required under Section 48 of the Act, leading to the signing of the licence-specific benefit sharing agreements.

1. GENERAL

The parties recognize and expressly acknowledge that:

(a) The rationale and principles stipulated in the CDOA, especially the basis for cooperative development of underlying fields, energy contribution, basis of equity determination, provision for re-determination and the integrated nature of the LNG Project from upstream to pipeline to liquefaction plant are fundamental to commercial structure of the LNG Project;
(b) Cooperative development means that the timing of benefits accruing from equity is detached from the timing of actual development and gas production from a specific field/PDL;

(c) All benefits referred to in this Agreement are wholly dependent on the continuation of the production and sale of gas by the LNG Project, and if production and sale of gas is interrupted, suspended or discontinued, all benefits conferred by this Agreement and the Licence-Based Benefits Sharing Agreements shall be interrupted, suspended or discontinued until such time as gas production and sale is resumed by the LNG Project;

(d) Subsequent to the execution of this Agreement, the State will hold forums as required by the Act and parties agree to execute Licence-Based Benefits Sharing Agreements within the framework of this Agreement;

(e) Given the agreed two-phased approach to dealing with benefit sharing arrangements under the LNG Project, and in compliance with the Consent Orders dated 28th April 2009 in proceedings O.S. No.201 of 2009, the issues that would normally be covered in licence-based development forums and which issues have been raised through various position papers presented to the State at the Kokopo Umbrella Benefit Sharing Agreement Forum, will be addressed at those Forums;

(f) This agreement is contingent upon the LNG Project successfully progressing into final investment decision, financial close and commencement of commercial production; and
"Hides GTE Project" means the existing gas processing facilities in the Hides at Nagoli for supply of gas to Porgera mine and the gas supply in that facility.

"ILGs" means land groups incorporated under the Land Groups Incorporation Act (Chapter 17) by the Project Area Landowners.


"Kokopo Umbrella Benefit Sharing Agreement Forum" or "the UBSA Forum" means the consultative group meetings held over a period of three to four weeks from April-May 2009 leading to the execution of this Agreement.

"Kroton No. 2 Limited" or "Kroton)" means a company incorporated under the Companies Act 1997 and which is a wholly-owned subsidiary of IPBC.

"Licence-Based Benefits Sharing Agreement(s)" means the Benefits Sharing Agreements executed pursuant to the Act and Clause 15 of the LNG Gas Agreement and executed at the Development Forums convened for negotiation and sharing of benefits between the Project Area Landowners, Provincial Governments and Local Level Governments from each Licence Area.
(g) If LNG Project Companies abandon or suspend the LNG Project, this Agreement may be terminated or suspended at the option of the State. If this Agreement is terminated or suspended, the State will have no obligation to confer any of the benefits described in this Agreement.

2. DEFINITIONS

2.1 General

In this Agreement, the following definitions apply unless the context otherwise requires:

"Act" means the Oil and Gas Act 1998, as amended.

"Buffer Zone" has the same meaning given by the Act.

"CDOA" means the PNG LNG Coordinated Development and Operating Agreement signed between the LNG Project Companies on 13 May 2008 in relation to the LNG Project.

"DPE" means the Department of Petroleum and Energy or such other successor Department responsible for petroleum matters.

"FEED" means the Front End Engineering and Design phase of the LNG Project.

"Gas" means natural gas as defined in the Act.
"Minister" means the Minister for the time being responsible for administering the Oil and Gas Act or any preceding and succeeding Act, as the context so requires.

"MRDC" means the Mineral Resources Development Company Limited established under the Mineral Resources (Privatisation Act)

"PNG LNG Project Umbrella BSA" ("LNG UBSA"): means this Umbrella Benefit Sharing Agreement executed between the parties that forms the basis on which Licence-Based Benefit Sharing Forums will be held and which is referred to in Clause 15 of the LNG Gas Agreement

"LNG Gas Agreement" means the agreement signed on 22nd May, 2008 between the State and the LNG Project Companies to develop the LNG Project.

"Project area landowners, landowners or project affected landowners" has the meaning given in the Act and for the purposes of this Agreement and in relation to the LNG Project shall denote:

(a) those affected project area landowners of any part of a PDL which is an LNG Project Licence Area as described in clause 4.2 hereunder, or the PDLs granted in respect of PRL 12 (Hides 4), PRL 2 (Juha) and PRL 11 (Angore), to form part of the LNG Project and the Buffer Zones of those licence areas;
(b) customary landowners owning land located within any pipeline easement defined in any Pipeline Licence, or owning land which is the subject of a Petroleum Processing Facility Licence, in either case, forming part of the LNG Project Area; and

(c) the customary landowners of the area of a Petroleum Development Licence, a Buffer Zone, a pipeline easement or a Petroleum Processing Facility Licence, which area becomes part of the LNG project area.

"Project Area Landowner Representative(s)" means the representative(s) selected for the Kokopo Umbrella Benefit Sharing Agreement Forum (UBSA Forum) meetings.

2.2 Definition used in the LNG Project Gas Agreement

The following words when used in this Agreement have the meanings ascribed to them in the LNG Project Gas Agreement as in effect at the Agreement date:

"Affiliates"

"Conversion of Fields to LNG Project Fields"

"FEED"

"Field or gas field"

"Integrated project"
“LNG Project Fields”;

“LNG Project Gas Pipeline”;

“LNG Project”;

“LNG Project Area”;

“LNG Project Companies”;

“LNG Project Decision”;

“LNG Project Licensee”;

“LNG Project Licence”;

“LNG Project Liquefaction Plant”;

“LNG Project Operations”;

“LNG Project Petroleum”; and

“Upstream Facilities”.
2.3 Definition used in the PNG LNG Coordinated Development and Operating Agreement

The following words when used in this Agreement have the meanings ascribed to them in the LNG Gas Agreement:

"Value Determination"; and

"Value Re-Determination".

3 INTERPRETATION

The following rules of interpretation apply to this Agreement:

(a) the headings do not affect the interpretation or construction of this Agreement;

(b) references to an act or provision of an act includes the amendments to that act for the time being in force and also to any legislation or regulation passed in substitution thereof;

(c) a reference to a Party to this Agreement or Parties to this Agreement includes that Party's or Parties' successors, and permitted assigns and, where applicable, the Party's or Parties' legal personal representatives;

(d) references to a Recital, Clause, Schedule or Attachment are to a recital, clause, schedule or attachment of this Agreement;
(e) if there is any conflict between the body of this Agreement and the Schedules or Attachments, the body of this Agreement prevails to the extent of the inconsistency; and

(f) if there is any inconsistency between the provisions of this Agreement and the Act, the Act will prevail to the extent of the inconsistency.

4. SCOPE

4.1 Effective Date and Term

This Agreement commences on the date of its execution and will terminate on the earlier of:

(a) the date on which the LNG Project Gas Agreement terminates, or

(b) the date on which the LNG Project Companies decide not to proceed with the LNG Project.

4.2 LNG Project Licences

(a) The relevant Petroleum Development Licences to which this Agreement applies are:

(i) PDL1, which covers part of the Hides field and part of the Angore field;
(ii) PDL2, which covers the Kutubu Complex field, SE Hedinia field, and Agogo field (collectively referred to as the Kutubu fields) and part of the Moran field;

(iii) PDL4, which covers the Gobe Main field and the Gobe 2X field (collectively referred to as the Gobe Fields);

(iv) PDL5, which covers part of the Moran field; and

(v) PDL6, which also covers part of the Moran Field.

(b) The relevant Pipeline Licences that this Agreement applies to are the Pipeline Licences that the LNG Project Companies will apply for in connection with the LNG Project and such licences when incorporated into the LNG Project will also become "LNG Project Licences".

(c) The relevant Petroleum Processing Facility Licences that this Agreement applies to are the LNG Processing Facility Licence for the LNG Project Liquefaction Plant including the LNG export terminal and, in addition, where the LNG Project Companies intend to apply for further Petroleum Processing Facility Licences in connection with the LNG project such licences when incorporated into the LNG Project also become "LNG Project Licences".

(d) In addition to the licences mentioned in clause 4.2(a) 4.2(b) and 4.2(c) above, the LNG Project Licences will also include any variation to the listed licences, any new PDL granted in respect of
PRL 2, PRL 11 and PRL 12 and those licences described expressly or by implication elsewhere in this Agreement as being the LNG Project Licences.

(e) Other petroleum development licences, variations and extensions of licences, pipeline licences and petroleum processing facility licences may become LNG Project Licences from time to time subject to the requirements of the Act, the CDOA and in accordance with the LNG Gas Agreement. However, the project area Landowners, Provincial Governments and local level governments of such additional licence areas will not participate in the provisions of this Agreement but will have any benefits they may be entitled to accruing from such additional licence determined by a separate agreement in accordance with the relevant provisions of the Act.

(f) The parties recognise that PDL3 is currently not part of the LNG Project. Further, the Parties agree that as and when it is commercially conducive for PDL 3 to gain entry in the LNG Project, the benefits arising from PDL3, as a result of its entry into the LNG Project, will be pooled together with the benefits accruing to PDL4 under this Agreement. Subject to the outcome of the Alternative Dispute Resolution process currently underway, the PDL4 and PDL3 parties will mutually decide on how the combined benefits will be shared amongst themselves and include an agreed arrangement in the Licence-Based Benefit Sharing Agreement.

(g) The State acknowledges the importance of a resolution, prior to the Gobe Project Licence-based Development Forum, of commercial
and technical issues relating to the entry of PDL 3 into the LNG Project and undertakes to assist in the finalization of suitable commercial arrangement between the LNG Project Companies and PDL 3 partners.

(h) For the avoidance of doubt, Hides GTE Project is not part of the LNG Project Licences; hence it is outside the scope of this LNG UBSA.

5. FORUM PROCESS AND REPRESENTATION

5.1 Requirements of Forum Process (Prior Informed Consent)

The parties agree that this LNG UBSA has been developed following a process of consultation with landowners in all LNG Project Licence areas and the Kokopo Umbrella Benefit Sharing Forum organized for all beneficiaries in the LNG Project (covering upstream, mid-stream and downstream) which determined and considered all issues relating to the impact of the LNG Project on all the Project Area Landowners. Consequently, the Project Area Landowners have agreed to be represented by their representatives at the UBSA Forum to negotiate and to sign this LNG UBSA.

5.2 Project Area Landowners

(a) The parties acknowledge that:

(i) the Minister’s invitations to Project Area Landowner representatives were issued in accordance with the Act;
(ii) DPE has provided a quota for the number of clan leaders to be selected by the Project Area Landowners in meetings organized by DPE in the respective fields and clan leaders so selected are from clans identified in the Social Mapping and Landowner Identification Studies undertaken by the LNG Project Companies;

(iii) there was at least one woman representative from each licence area selected by Project Area Landowners at a meeting organized by DPE in the respective fields and the representative is from a clan identified in the Social Mapping and Landowner Identification Studies undertaken by the LNG Project Licencees; and

(iv) a number of prominent persons in each Licence Area were selected in meetings organized by DPE for the Project Area Landowners to select Project Area Landowner representatives to attend the LNG UBSA discussions.

(b) The parties further acknowledge that;

(i) the quotas set by DPE for numbers of representatives who were invited by the Minister from each Licence Area were appropriate to the availability of conference facilities for the UBSA Forum meetings;

(ii) the Project Area Landowner representatives at the Development Forums were authorized by Project Area
Landowners of each Project Licence Area, at the meetings organised by DPE to negotiate this Agreement on behalf of their Licence Areas;

(iii) the authorisation for these representatives to attend the UBSA Forum does not mean recognition by the State for them to perform other roles as the representatives of their Licence Areas and further the State is not responsible for any remuneration for the performance of any such roles on behalf of their Licence Areas.

5.3 Provincial Governments

Each PG shall be represented by its Provincial Governor or his delegate who shall sign on behalf of his PG.

5.4 Local-Level Government

(a) An LLG shall be represented by its President and in his absence by an authorized nominee, accompanied by a Ward Councilor or Councilors from the Licence Area;

(b) The President of an LLG is authorized to sign this Agreement for and on behalf of his LLG and in the absence of a President an authorized nominee may sign.

6. BENEFITS PACKAGE AND DISTRIBUTION

The Parties agree that the State shall provide to all the other parties to this Agreement an all inclusive total benefits package ("Total Benefits
Package") and its distribution among the Project Area Landowners (upstream, pipeline and plant), affected PGs and LLGs (collectively known as the "Beneficiary Group") in accordance with this Clause.

6.1 The Total Benefits Package

The Total Benefits Package consists of the following elements:

(a) Participating Interest (equity)

The Beneficiary Group will be entitled to the benefits of an estimated 7% equity participating interest in the LNG Project consisting of:

(i) an estimated 2.78% interest arising from entitlements by virtue of participating interests in the existing PDLs and by virtue of the 2% interest accruing to Project Area Landowners from the State’s 22.5% participating interest, provided for in Section 167 of the Act and relevant provisions LNG Gas Agreement in the new PDLs with respect to the PRLs included in the LNG Project ("CDOA Equity")

(ii) an estimated 4.22% interest by virtue of a commercial option ("Equity Option") for an undivided and fixed 25.75% shareholding in Kroton granted by the State ("Kroton Equity").
(b) Royalty

A royalty of 2% calculated as per the provisions of the Act and the LNG Gas Agreement.

(c) Development Levy

A development levy of 2% calculated as per the provisions of the Act and the LNG Gas Agreement.

(d) Infrastructure Development Grant

Subject to Clauses 13 and 14 an amount of Kina 1.2 billion allocated equally over two (2) five year periods, commencing 2010 or the date of the LNG Project Decision (whichever is later), for infrastructure development and maintenance in the affected Provinces, in accordance with Section 173 of the Act. The parties agree that the sharing of this amount amongst the Beneficiary Group will be decided by the NEC prior to the LNG Project Decision.

(e) Business Development Grant

Subject to Clauses 13.2 and 14, an amount of Kina 120 million made available by the State to assist landowner companies in business development activities, in accordance with guidelines to be approved by NEC and Section 171 of the Act.
(f) High-impact Infrastructure

Development of specified high-impact infrastructure projects in the Southern Highlands Province as outlined below:

a) Kikori-Kutubu-Tari-Koroba-Kopiago

    North Coast road (Tax Credit Scheme)  K100 million

(b) Komo to Tari road  sealing  K90 million

(c) Hela City Development (first phase)  K100 million

(d) International Airport at Tari (first phase)  K90 million

(e) Komo Township  K15 million

(f) Magarima Township  K15 million

(g) Kutubu Township  K15 million

(h) Koroba Township (including hospital)  K20 million

(i) Nagoli Growth Centre  K15 million

The actual amounts within these caps will be subject to design, scope and costing of these projects. For the avoidance of doubt, with respect to items (c) and (d) above, the State will not be liable to fund any subsequent under this Agreement.

6.2 Equity benefits: Definition and Distribution

6.2.1 The Equity Option is subject to the following conditions:

(i) The option is exercisable between 1 January 2016 and 30 June 2016 after which date the option expires,

(ii) A lump sum payment, at the rate of US$240 million per percentage point of Project Interest corresponding to Kroton
Equity percentage, by the Beneficiary Group to Independent Public Business Corporation (IPBC).

6.2.2 Of the total CDOA Equity, the equity arising from PDL1, PRL2, PRL12 and PRL 11 is Free Equity and the equity interest arising from PDL 2, PDL 4, PDL 5 and PDL6 is Paid Equity.

(i) Free Equity means that all costs and cash calls from the date of LNG Project Decision to the date of first LNG cargo in relation to this participating interest in the Project will be borne by the State.

(ii) Paid Equity means that the equity entitlement holder will be responsible for the payment of all costs and cash calls in respect of that equity.

(iii) In respect of the Free Equity, any payment of past costs or accumulated liability in respect of new PDLs will be borne by the State.

6.3 The Parties agree to the distribution mechanism of various elements of the Total Benefits Package as follows:

6.3.1 CDOA Equity:

(i) The CDOA equity will be shared by all Project Area Landowners (including the pipeline and plant area landowners) and the affected LLGs as per Clause 6.3.1.
(ii) The Free Equity will, in the first instance, be shared between the PDL areas, and pipeline and plant areas in the ratio of 72:28 respectively. The 72% part accruing to PDL areas will be further shared between the landowners and affected LLGs of the PDL area in the ratio of 90:10 respectively. Similarly, the 28% portion accruing to Pipeline and LNG Plant area will be shared between the landowners and affected LLGs of the area in the ratio of 90:10 respectively. The landowners of the Pipeline and LNG Plant area will share their benefits between themselves in the ratio of 48:52 respectively.

(iii) The Paid Equity will not be shared with Pipeline and LNG Plant Area Landowners or LLGs. However, with respect to PDL 5 and PDL 6, given the existing arrangements of the sharing of the equity benefits with LLGs with respect to oil projects, the same arrangements will be carried into and applied to the LNG Project.

(vi) To give effect to Clause 6.3.1(iii) above, the PDL Area Landowners from each PDL where the Free Equity applies, acting through the relevant Trustee Company, will:

(a) assign and transfer CDOA equity corresponding to a 28% of the underlying PDL interest in the subject PDL beneficially to the Pipeline and LNG Plant area landowners and affected LLGs;

(b) assign and transfer CDOA equity corresponding to a further 10% of 72% (i.e. 7.2%) of underlying PDL interest beneficially to the affected LLGs of their respective PDL areas.
6.3.2 Kroton Equity

(i). Kroton Equity (25.75% shareholding) will be shared among the members of the Beneficiary Group as follows:

(a) In the first instance, in the ratio of 76:24 between the PDL areas, and the Pipeline and LNG Plant areas respectively, and

(b) In the second instance, in the following percentages

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<th>PDL Area (76%)</th>
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<tr>
<td>Southern Highlands 19%</td>
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<td>Provincial Government</td>
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<td>PDL 1 Landowners 19.00% (Hides)</td>
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<tr>
<td>PRL 12 Landowners 9.00% (Hides 4)</td>
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<tr>
<td>PDL 2 Landowners 12.0% (Kutubu)</td>
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<tr>
<td>PDL 5/6 Landowners 3.00% (Moran)</td>
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<tr>
<td>PDL 4 Landowners (Gobe) 3.00%</td>
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<td>PRL 2 Landowners (Juha) 3.50%</td>
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<td>PRL 11 Landowners 6.50% (Angore)</td>
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<td>Fly River Provincial 1.00% Government</td>
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Pipeline and LNG Plant Areas 24%

Gulf Provincial Government 2.5%
Central Provincial Government 2.5%
Pipeline Landowners 8%
Plant Landowners 11%

(ii) For the avoidance of doubt, unlike the CDOA Free Equity, the Kroton equity is not further shared with affected LLGs.

(iii) The indicative Project Interests arising from Clause 6.3.2 are given in Schedule 2.

6.4 Re-Determination and Review

The Parties recognize and fully understand that the Project Interest is partly determined by the Project Substances contributed from each PDL and will undergo adjustments in line with the re-determinations under the CDOA. However, the principles agreed in this agreement will not change.

6.5 Sharing of Seed Capital

The Business Development Seed Capital agreed under Clause 6.1 (e) will be allocated among the project area stakeholders and will be spread between periods prior to and subsequent to LNG Project. The parties agree that 20% of the amount will be made available between the commencement of early works and LNG Project Decision. The balance 80% will be made available subsequent to the LNG Project Decision.
This amount will be shared between the PDL area landowners and LNG Plant and Pipeline area landowners in 72:28 ratio respectively. For the avoidance of doubt, none of the PGs or LLGs will be beneficiaries under this Clause 6.1(e). The State will give due recognition of the difference between a greenfield PDL and brownfield PDL while determining further apportionment of the funding under Clause 6.1(e) amongst the PDL area landowners.

6.6 Future Generation Fund Percentage

The Parties agree that in compliance with Section 176 of the Act:

(i) 30% equity and royalty benefits will be for future generation trust fund, and

(ii) a further 30% equity and royalty benefits will be for investment trust fund.

6.7 Future Generation Fund: Management

The Parties agree that, subject to an NEC decision on this matter and the review provisions under Clause 9, the amounts assigned for future generation and community investment will be managed by a corporate trustee managed by MRDC. Proper governance mechanism for transparency, accounting, audit and management representation will be put in place before the LNG Project Decision.
6.8 Royalty benefits: Definition and Distribution

a) Pursuant to Section 168 of the Act, the State grants to the Project Area Landowners, affected PGs and LLGs royalty benefit at 2% of the wellhead value. The well-head value will be calculated in accordance with the Act and the LNG Gas Agreement.

b) The parties recognise that the Act requires the sharing of royalty benefits amongst PDL, Pipeline and LNG Plant Project Area Landowners, affected PGs and LLGs. The parties agree to the following basis for sharing:

(i) In the first instance, in the ratio of 72:28 between the PDL Area, and Pipeline and LNG Plant Area (PDL Area 72%, and Pipeline and LNG Plant Area 28%).

(ii) The 72% portion will then be shared between PDL Area landowners, and affected PGs and LLGs of the PDL areas in the 70:30 ratio respectively (landowners getting 70% of 72%, and affected PGs and LLGs getting 30% of 72%)

(iii) Similarly, the 28% portion will be shared between Pipeline and LNG Plant area landowners, and the affected PGs and LLGs of the area in the 70:30 ratio (landowners getting 70% of 28%, and affected PGs and LLGs getting 30% of 28%).

(iv) The sharing of royalty benefits to be negotiated and agreed between the affected PGs and LLGs.
(v) Without prejudice to the sharing mechanism under this Clause 6.8, for the avoidance of doubt, Royalty calculations are to be done separately for each PDL.

6.9 Development Levy: Definition and Distribution

(a) The LNG Project Companies shall pay in accordance with Section 98 of the Organic Law on Provincial Governments and Local-Level Governments 1995 and the provisions of the Act, to the affected PGs and LLGs, development levies at the rate of 2.00% of the wellhead value of all petroleum produced from the licence area calculated in accordance with the provisions of Section 160 of the Act.

(b) The Parties recognize that under the Act, all affected PGs and LLGs of the LNG Project are entitled to share the development levies granted pursuant to the LNG Project. The parties agree to the following basis for sharing of the development levies between upstream and downstream:

- 72% in favour of the PDL Area LLGs and affected PGs
- 28% in favour of the Pipeline and LNG Plant Area LLGs and affected PGs

(c) The affected PGs and LLGs will negotiate further sharing amongst themselves before the end of September 2009 and advise the Minister in writing of the agreement reached.
(d) The Parties agree that, subject to Clauses 13 and 14, Development Levy and the Infrastructure Development Grant under Clause 6.1 (d) will be disbursed in accordance with the trust accounts established pursuant to Section 160 and 178 of the Act respectively.

6.10 Notwithstanding Clause 6.9, the parties agree that Southern Highlands Provincial Government has a different interpretation regarding the distribution under the LNG Project ("the Project") of the Development Levy to that of the State, Gulf Provincial Government and Central Provincial Government (collectively referred to as the "Others" in this Clause). The Others' interpretation is that Development Levy under the Project is payable to all four (4) provinces covered by the foot-print of the Project.

6.11 In view of the differing interpretation of the legislative provisions dealing with Development Levy, the parties agree that in the event that Southern Highlands Province obtains a conclusive judicial interpretation of the legislative provisions dealing with the distribution of Development Levy under the Project that is contrary to the Others' interpretation, the Parties shall meet, in good faith, to review the provisions of this Agreement that would be necessitated by such judicial interpretation. Pending a conclusive judicial resolution, the Development Levy will be kept in an escrow account controlled by the State.

7. PRESERVATION OF BENEFITS UNDER THE OIL PROJECTS

The quantum or distribution of existing equity benefits, royalty benefits, development levy benefits and any other benefits for the oil projects are not affected by this Agreement.
8. **TAX CREDIT**

(a) The State will ensure that the operator of the LNG Project manages the implementation of the tax credit projects in accordance with Section 219C of the Income Tax Act 1959 (as amended).

(b) The tax credit projects must be approved expeditiously by the tax credit committee to avoid lengthy delays.

9. **MANAGEMENT OF BENEFITS**

9.1 **Trustee Arrangements for Equity**

In accordance with Section 176 of the Act, the CDOA Paid Equity arising from existing PDLs will be held by a corporate trustee managed by MRDC. The benefits arising under the LNG Project will be kept separate from the existing oil project interests and will be separately accounted for each group of beneficiaries in accordance with the distribution percentages/basis agreed in this Agreement.

The State undertakes to conduct, through the Minister for Petroleum and Energy, a review of the current arrangements under this Clause. The findings of such a review will be taken to the National Executive Council (NEC) and will form the basis on which NEC may determine any amendments, as may be necessary, to such arrangements, taking into consideration Section 179 of the Act. The review shall be conducted prior to September 2009. The parties agree to abide by the decision of the NEC following such review.
The CDOA Equity arising from new PDLs (including PDL 1 variation) and from the allocations made under this Agreement under clause 6.3.1 (iii) will be managed by a separate corporate trustee with representation from the stakeholders. Kroton No. 2 Limited shall be a clearing house and benefits to be paid direct to beneficiaries.

The trustee companies, both under MRDC and newly established trust and the royalty trust under Clause 9.2, will be subject to a proper trust deed. In particular, the terms of the trust shall, at a minimum prescribe the following:

(i) 6 monthly audit by an independent firm of accountants;

(ii) Regular rotation of trustee directors and inclusion of at least two professional directors on the board;

(iii) Publication of half year and full year financial statements for the project area community;

(iv) The publication of the investment policy of the corporate trustee;

(v) The publication of the dividend policy of the corporate trustee; and

(vi) filing of full financial statements with the annual returns filed with the Registrar of Companies

9.2 Trustee Arrangements for Royalty

Subject to clauses 6.6, 6.7, 6.8 and 14, the royalty entitlements of the Project Area Landowners, the affected LLGs and PGs shall be managed by
nominated trustee companies which are subsidiaries of MRDC. The trustee companies shall execute formal deeds of trust in favour of named beneficiary Project Area Landowners and affected LLGs. The LNG Project companies will pay royalty directly to the trustee company.

9.3 Representation at LNG Project Joint Ventures Meetings

(a) Subject to Clause 9.1, the interests of the Project Area Landowners, affected LLGs and PGs in the LNG Project with respect to CDOA Paid Equity will be represented by MRDC.

(b) The interest of the Project Area Landowners, and PGs in the LNG Project with respect to Kroton Equity will be represented by Kroton No.2 Limited.

10. LOCAL SUPPLIES AND BUSINESS DEVELOPMENT

10.1 Local Supplies and Business Development

(a) The parties acknowledge that in accordance with the LNG Gas Agreement, the LNG Project Companies are required to prepare a local business development program in respect of the local supply and business development provisions in section 129 of the Act.

(b) The State will use its best endeavours to ensure that the LNG Project Companies fulfill their obligations under Section 129 of the Act in developing and implementing a local business development program so that opportunities are provided to Project Area
Landowners and other Papua New Guinea citizens to participate in business spin-off activities provided by the LNG Project.

(c) The State will ensure that the local business development program prepared by the LNG Project Companies for the purposes of the LNG Gas Agreement will include proposals which:

(i) facilitate the business opportunities of experienced service providers currently providing services within the LNG Project Area or for the Project in reference to project dedicated facilities;

(ii) create business opportunities for project area landowners who do not currently conduct business within the gas project area;

(iii) create business opportunities for any umbrella project area companies involved in providing services to the LNG Project.

(iv) so far as practical, the LNG Project Companies shall give first preference to service providers whose place of origin is in the LNG project area provided that they have the requisite experience, managerial and trade skills, and business capacity to perform the work.
10.2 Consultation on the National Content Plan

The State will use its best endeavours to encourage the LNG Project Operator to convene a series of meetings in order to consult the landowners on the development and finalization of a national content plan to enable them to participate in early works.

10.3 Landowner Companies

(a) The landowner companies that provide services to the LNG Project:

(i) must be financially and technically capable of the work they propose to perform;

(ii) must be able to provide their services competitively with international service providers on quality and price.

(b) In accordance with the LNG Project operator business development plan, existing local companies must pre-qualify as to skills and business abilities to be able to provide their services to the LNG Project.

10.4 Regulation of LNG Project Related Business Development

(a) From the date of commencement of the LNG Project, the LNG Project Companies shall consult with DPE, Department of Commerce and Industry, and the Department of National Planning and Rural Development in relation to local procurement of goods
and services, and the progress of the local business plan developed by the operator for the LNG Project.

(b) The Department of Commerce and Industry shall provide a detailed annual report of the activities of the landowner companies and a review of the LNG Project Operator business plan for the forthcoming calendar year and review the performance and success of each of the service providers which provide services to the LNG Project.

11. EMPLOYMENT AND TRAINING

(a) The parties acknowledge that the LNG Project Companies are required to prepare training and development programs to be approved by the Department of Labour and Employment or a Department responsible for training and employment matters and in accordance with that plan will, where foreign personnel are employed, progressively replace such foreign personnel with PNG citizens as expeditiously as possible.

(b) The State will endeavor to obtain from the LNG Project Companies, alternative or revised plans, where the training and development programs are disrupted by circumstances or events which make it difficult or impractical to comply with the obligations under those programs to achieve the objects of that part of the training and development program which is affected.

(c) The State shall provide to the LNG Project Companies such assistance as required in the formulation of the training and
development programs and the recruitment of citizens and shall make available its facilities for vocational and technical training.

(d) The State may, after consultation with the LNG Project Companies, require those companies or any of their contractors, to take such numbers (considering the scale and nature of the LNG Project Operations) of the State’s employees or the employees of a State nominee at any time for managerial, professional or technical training as is appropriate for the qualifications and experience of the employees.

(e) The State may, after consultation, require Affiliates of the LNG Project Companies to carry out training of Papua New Guinea citizen employees on behalf of the LNG Project Companies and shall assign such employees to suitable training positions, whether in Papua New Guinea or overseas.

(f) The parties acknowledge that the LNG Project Companies will not be obliged to retain any such assigned employees undergoing training who fail to perform duties appropriate to the assignment.

(g) So far as practical, the State will use its best endeavors to ensure that the LNG Project Companies give first preference in employment to citizens whose place of origin is in the LNG Project Area provided that they have the requisite skill and capability to perform the work.

(h) The State will use its best endeavors to ensure that, prior to the commencement of the LNG Project, the LNG Project Companies
consult with the Department of Labour and Industrial Relations and provide annually reports concerning training and localization and the progress of the training and localization plan as part of the LNG Project.

12. SUPPORT FOR LAND PROCUREMENT AND ACCESS

(a) The State shall procure all land needed for the infrastructure proposals provided herein and customary landowners will give full cooperation in ensuring full, uninterrupted, and free access to officials of the State and to representatives of the LNG Project Companies and their contractors in undertaking all tasks relating to the survey, acquisition, construction and use of such infrastructure.

(b) Project Area Landowners, affected PGs, and LLGs agree not to impede or otherwise take any action that could endanger any individual, property or the process of infrastructure construction and will extend support and assistance to facilitate the expeditious and cost effective construction of all infrastructures.

(c) Project Area Landowners, affected PGs and LLGs recognize that fair land compensation will be made for the acquisition of such land from the Project Area Landowners. The construction of the roads and other infrastructure will bring considerable benefits to the provinces, local areas and will enhance the standard of living, business opportunities and facilities for Project Area Landowners.

(d) Project Area Landowners, affected PGs and LLGs acknowledge that LNG Project Companies will not be liable for any loss, damage,
injury or death or such liability for claims which may arise from or be incidental to the use of the roads or other infrastructure by any person in any way whatsoever.

(e) The parties recognize that certain roads and infrastructure to be constructed by the LNG Project Companies are solely for use associated with the LNG Project for the duration of the LNG Project and that there will be no public access to such roads and infrastructure until the LNG Project ceases to operate.

13. IMPLEMENTATION MECHANISM

13.1 EXPENDITURE IMPLEMENTATION COMMITTEE ("EIC")

(a) The parties acknowledge the important role of the EIC in implementing socio-economic and infrastructure projects in compliance with the requirements of the Public Finances (Management) Act 1995 and the Act.

(b) The parties agree that the EIC Guidelines are important in the implementation of the infrastructure projects either agreed under the Licence Based Benefits Sharing Agreements or any other infrastructure projects.

(c) The EIC will process and oversee the implementation of BSA infrastructure projects approved under each Licence-Based Benefits Sharing Agreement.
(d) The project proposals submitted for funding under EIC Budget will only be approved by the EIC for expenditure when they are compatible with the EIC Guidelines and the Medium Term Development Strategy that is administered by the Department of National Planning and District Development and DPE.

(e) The parties hereto agree that the EIC will be the authority responsible for the implementation of BSA infrastructure projects and that all projects to be undertaken are subject to the availability of funds.

(f) Where there is a change in law in relation to the EIC or as a result of a review under Clause 9, the parties agree to work with and support any alternative implementing agency appointed by the State to succeed the EIC. The State will ensure that this alternative implementing agency complies with the requirements of this Clause.

13.2 ECONOMIC CORRIDOR IMPLEMENTATION AGENCY (ECIA)

The parties acknowledge that the process to establish the ECIA has commenced in accordance with NEC Decision 59/2009, and when formally established the ECIA will succeed the EIC and will be responsible for implementing the projects approved for funding under this Agreement. The ECIA will have a broader role than the EIC and will also be responsible for project coordination under Clause 14.
14. GOVERNANCE, ACCOUNTABILITY AND COORDINATION OF PROJECTS AND PROGRAMMES

14.1 The parties agree that the benefits made available by the State under this LNG UBSA are to be applied for the good of the present and future generations and are to be used to create a development base for the future.

14.2 The parties agree that sound governance principles will be put in place for proper accounting and use of benefits moneys.

14.3 The parties agree that the development efforts by various agencies- the National Government, donor agencies, LNG Project Companies, affected PGs and LLGs- will be coordinated to deliver economic infrastructure, social infrastructure and empower people to carry out gainful economic pursuits.

14.4 The State, in consultation with the representatives of the Beneficiary Groups will draw up an integrated development programs and projects and will get professional assistance in drawing up business plans and budgets both for capital spend and operating and maintenance costs. The benefits under Clauses 6.1 (d), (e) and (f), 6.9 and 8 will be integrated and coordinated with Government’s Medium Term Development Strategy (MTDS) and Long Term Development Strategy (LTDS).

14.5 The State with the approval of the NEC will draw up allocation, approval and governance process for moneys granted Clause Clauses 6.1 (d), (e) and (f), 6.9 and 8.
15. SOUTHERN HIGHLANDS PROVINCIAL GOVERNMENT (SHPG) UNDERTAKINGS

15.1 Representation

SHPG will be represented by its Governor or his delegate for all purposes required by this agreement.

15.2 Support for Project

(a) The SHPG affirms that it will support the LNG Project and this Agreement and the Licence Based Benefits Sharing Agreements and use its best endeavours to ensure support for the LNG Project and the Benefits Sharing Agreements by the Project Area Landowners and other people of Southern Highlands Province whether or not such people are direct beneficiaries, or indirect beneficiaries through infrastructure development throughout the Southern Highlands Province.

(b) The SHPG agrees to collaborate with the EIC to apply development levies that may be available to the Southern Highlands Province to implement projects approved through the Southern Highlands Province annual Budgets infrastructure commitments by SHPG under this Agreement and the Licence Based Benefits Sharing Agreements.
15.3 Project Security

The SHPG shall assist the National Government in addressing threats from Project Area Landowners and non-project area landowners against the LNG Project personnel and property.

16. GULF PROVINCIAL GOVERNMENT (GPG) UNDERTAKINGS

16.1 Representation

GPG will be represented by its Governor or his delegate for all purposes required by this Agreement.

16.2 Support for Project

(a) The GPG affirms that the GPG will support the LNG Project and this Agreement and the Licence Based Benefits Sharing Agreements and use its best endeavours to ensure support for the LNG Project and the Benefits Sharing Agreements by the Project Area Landowners and other peoples of Gulf Province whether or not such people are direct beneficiaries, or indirect beneficiaries through infrastructure development throughout the Gulf Province.

(b) The GPG agrees to collaborate with the EIC to apply development levies that may be available to the Gulf Province to implement projects approved through the Gulf Province annual Budgets infrastructure commitments by GPG under this Agreement and the Licence Based Benefits Sharing Agreements.
16.3 Project Security

The GPG shall assist the National Government in addressing threats from Project Area Landowners and non-project area landowners against LNG Project personnel and property.

17. CENTRAL PROVINCIAL GOVERNMENT (CPG) UNDERTAKINGS

17.1 Representation

CPG will be represented by its Governor or his delegate for all purposes required by this agreement.

17.2 Support for Project

(a) The CPG affirms by execution hereof that the CPG will support the LNG Project and this Agreement and the Licence Based Benefits Sharing Agreements and use its best endeavours to ensure support for the LNG Project and the Benefits Sharing Agreements by the Project Area Landowners and other peoples of Central Province whether or not such people are the direct beneficiaries, or indirect beneficiaries through infrastructure development throughout the Central Province.

(b) The CPG agrees to collaborate with EIC to apply development levies that may be available to Central Province to implement projects approved through the Central Province annual Budgets
infrastructure commitments by the CPG under this Agreement and
the Licence Based Benefits Sharing Agreements.

17.3 Project Security

The CPG shall assist the National Government in addressing threats from
Project Area Landowners and non-project area landowners against LNG
Project personnel and property.

18. FLY RIVER PROVINCIAL GOVERNMENT (FRPG) UNDERTAKINGS

18.1 Representation

FRPG will be represented by its Governor or his delegate for all purposes
required by this Agreement.

18.2 Support for Project

(a) The FRPG affirms that the FRPG will support the LNG Project and
this Agreement and the Licence Based Benefits Sharing Agreements
and use its best endeavours to ensure support for the LNG Project
and the Benefits Sharing Agreements by the Project Area
Landowners and other peoples of Western Province whether or not
such people are the direct beneficiaries, or indirect beneficiaries
through infrastructure development throughout the Western Province.

(b) The FRPG agrees to collaborate with EIC to apply development
levies that may be available to Western Province to implement
projects approved through the Western Province annual Budgets
infrastructure commitments by FRPG under this Agreement and
the Licence Based Benefits Sharing Agreements.

18.3 Project Security

The FRPG shall assist the National Government in addressing threats
from Project Area Landowners and non-project area landowners against
LNG Project personnel and property.

19. LOCAL-LEVEL GOVERNMENT UNDERTAKINGS

The following commitments have been accepted by the affected LLGs of:-

(a) South Koroba;
(b) North Koroba;
(c) Hayapuga;
(d) Komo;
(e) Hulia;
(f) Kutubu;
(g) Erave;
(h) West Kikori;
(i) West Hiri; and

(j) Nomad

19.1 Representation

(a) The affected LLGs will each be represented by their Presidents or his delegate and by the female nominated member of the LLG, for all purposes required by this Agreement.

(b) Where a LLG has not nominated a female member to the LLG or where nominated female member of a LLG is unavailable, the LLG will be represented by its President, for all purposes required by this Agreement.

19.2 Support for Project

(a) The affected LLGs affirm that the affected LLGs will support the LNG Project and this Agreement and the Licence- Based Benefits Sharing Agreements and use their best endeavours to ensure support for the LNG Project by the Project Area Landowners and other peoples of the LLG area whether or not such people are direct beneficiaries.

(b) The affected LLGs agree to cooperate with the State to apply development levies that may be available to all or any of the affected LLGs to implement approved projects.
19.3 Project Security

The affected LLGs shall assist the Provincial and National Governments in terms of dialogue with the local communities and project monitoring of landowner activities in addressing threats from Project Area Landowners and non-project area landowners against LNG Project personnel, property and operations.

20. PROJECT AREA LANDOWNER UNDERTAKINGS

(a) Access to land for project development shall be provided by landowners in accordance with the Section 122 of the Act and other relevant laws and shall not obstruct or interfere with lawful project development activities.

(b) The Project Area Landowners acknowledge the rights of the Developer and Operator as conferred under the Act and undertake to respect the tenure and rights conferred to the respective LNG Project Licences.

(c) The Project Area Landowners acknowledge the significance of the uninterrupted project operations and pledge to support the advancement of the LNG Project, assist the LNG Project Companies in controlling any obstructive elements inside and outside their communities or provinces who might attempt to hinder development or production and, where necessary, assist in the removal of any obstructions or blockades or assemblies formed to obstruct or blockade project equipment or facilities.
21. COMMUNICATION

All communication between the parties hereto will be in writing to the respective business addresses.

22. GOVERNING LAW AND JURISDICTION

The validity and interpretation of this Agreement shall be governed by the laws of the Independent State of Papua New Guinea, and the parties hereto expressly agree to submit disputes arising hereunder to the exclusive jurisdiction of the Courts of the State.

23. SEVERABILITY PROVISIONS

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction is ineffective as to that jurisdiction to the extent of the prohibition or unenforceability under the Act as amended. That does not invalidate the provisions of this Agreement nor affect the validity or enforceability of any provision of the Act or any other applicable law as prescribed in this Agreement.

24. PROVISIONS RELATING TO HELA

24.1 The Parties acknowledge that Constitutional and Legislative processes concerning Hela have yet to be implemented. The parties recognize that there are existing Legislative provisions that would facilitate appropriate transitional arrangements for Hela should it gain political and legal status as a Province.
24.2 The Parties agree that in the event a system of Provincial Government and Local Level Government is legally established in respect of Hela, the benefits given to the Southern Highlands Provincial Government under this Umbrella Benefits Sharing Agreement will be equitably shared between the new Hela Province Provincial Government and the Southern Highlands Provincial Government. The terms of such a sharing will be stipulated in a Deed of Amendment to this Agreement to be executed between the Parties and the new Province should it gain political and legal status.

24.3 The Parties acknowledge that Local-Level Governments in the LNG Project area especially those in the Hela region of the Southern Highlands Province, may if they so wish, enter into a co-operative agreement pursuant to Section 41 of the Local Level Administration Act, for the benefit of their respective constituents.

24.4 The Parties acknowledge further that the State undertakes to use its best endeavours to facilitate and introduce appropriate Constitutional and Legislative process for a declaration of a “free trade” status for Hela City in the event that Hela City is established.

25. EXECUTION AND COUNTERPARTS

This Agreement may be executed in counterparts, each of which is deemed an original but all of which together constitute one and the same instrument. Any copy of this Agreement, which has been transmitted by facsimile, shall be deemed to be a counterpart original if such transmitted copy bears the signature of an authorised representative of the Party.
Schedule 1

Part A

1. Southern Highlands Provincial Government
2. Gulf Provincial Government
3. Central Provincial Government
4. Fly River Provincial Government

Part B.

1. South Koroba LLG;
2. Hayapuga LLG
3. Komo LLG
4. Hulia LLG
5. Lake Kutubu LLG
6. Erave LLG
7. West Kikori LLG
8. West Hiri LLG
9. Nomad LLG
10. North Koroba LLG
Part C

1. Hides PDL 1 Project Area Landowners
2. Hides PRL 12 Project Area Landowners
3. Kutubu PDL 2 Project Area Landowners
4. Angore PRL 11 Project Area Landowners
5. Juha PRL 2 Project Area Landowners
6. Moran PDL 5 Project Area Landowners
7. Moran PDL 6 Project Area Landowners
8. Gobe PDL 4 Project Area Landowners
9. LNG Pipeline Project Area Landowners
10. LNG Plant Project Area Landowners