PAPUA NEW GUINEA (PNG) EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

SCOPING STUDY FOR FIRST EITI REPORT

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Limitations

The Services provided are advisory in nature and do not constitute an assurance engagement in accordance with International Standards on Review or Assurance Engagements or any form of audit under International Standards on Auditing, and consequently no opinions or conclusions intended to convey assurance under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by members of the PNG MSG and the World Bank for their full commercial impact before they are implemented. This document should be read in conjunction with the referenced material where applicable.

No warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by representatives of the Republic of Indonesia, Civil Society, Companies, Industry bodies, the Reconciler, the World Bank and other parties who contributed to the EITI process. We have not attempted to verify these sources independently unless otherwise noted within the report.

Limitation of Use

This report is intended solely for the information and internal use of members of the PNG MSG and the World Bank. We do not accept or assume responsibility to anyone other than the World Bank for our work, for this report, or for any reliance which may be placed on this report by any party other than the World Bank.

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1 Acknowledgements

We would like to thank the National Co-ordinator of the PNG EITI and members of the PNG EITI Multi-Stakeholder Group (MSG) for their assistance and participation with the scoping study.

2 Key Assumptions and Objectives

Under the Terms of Reference the key objectives of this engagement are to undertake an analysis and provide a report and briefing to the PNG EITI MSG that will guide the group's implementation of the PNG EITI work plan and publication of PNG's first EITI report, including observations relating to:

- Contextual information based on our understanding of the PNG MSG's objectives, the PNG MSG Memorandum of Understanding (MoU) and work plan, and the EITI's requirements as per the EITI Standard
- Payments and revenue streams to be reconciled, including appropriate materiality thresholds, where applicable
- Additional benefit streams from the extractive sector to be reported
- The companies, state-owned enterprises and government entities expected to report
- An overview of the auditing practices and the assurances to be provided by the reporting entities, and
- Addressing any barriers to disclosure of the requisite information, and potential means to address these.

The contextual information provides a platform for the scoping study and is not a comprehensive study on the complex cultural, institutional, environmental, political and individual factors that impact on the extractive sector and the potential success of the EITI Initiative in PNG.

Legislation and policy impacting on extractive industries in Papua New Guinea are subject to change. Significant proposals on legislation, institutional restructuring and investment are currently subject to approval. Accordingly, this may impact on PNG EITI scoping following the issuance of this report.

In certain instances 2014 data was used in this report, as 2013 data was not made available. If the MSG decides that its first reporting period is the year ended 31 December 2013, all relevant 2013 data will need to be compiled. We understand that the Government does not receive payments of resources in kind. Quarrying activities are not included in the scope of this report. Extractive industry companies pay various amounts to State Owned Enterprises in PNG. Only payments made to State Owned Enterprises operating in the extractive sector are included in the scope of this report. Amounts received in trust such as mine closure and environmental bonds are not considered revenue streams for the purpose of this report.

We were informed by the IRC that Royalty Withholding Tax, Management Fee Withholding Tax and Dividend Withholding Tax received from the Mining industry were not material but we have not received data to support this.

This report must be read in its entirety. The Summary Report must not be read in isolation to the appendices.

3 Summary Report

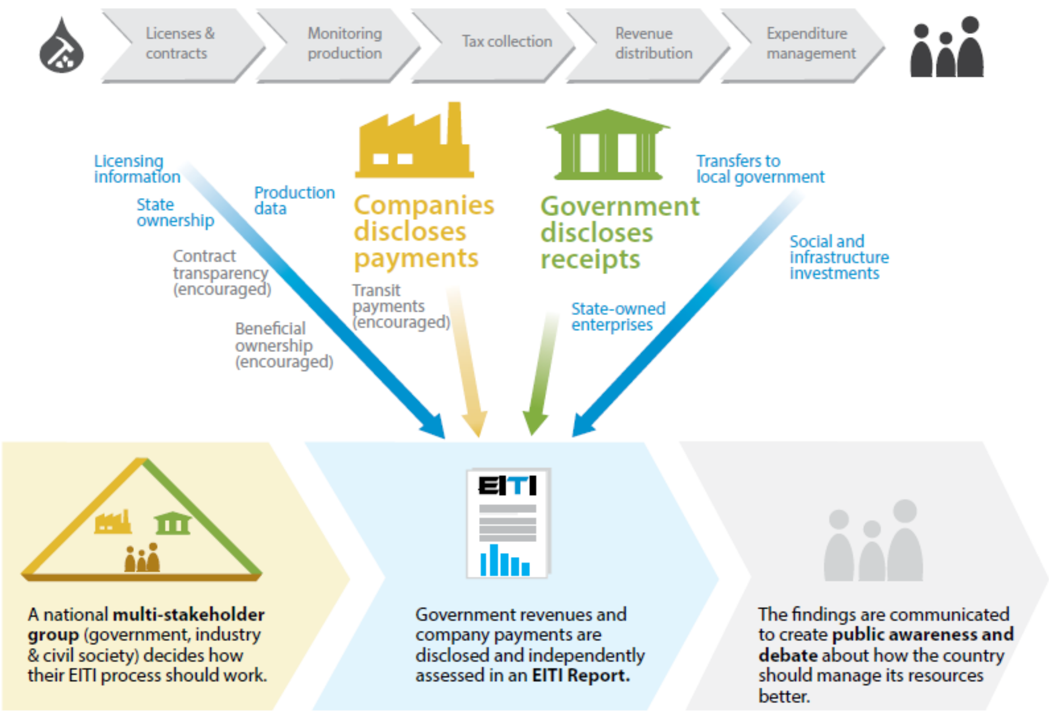
3.1 Background, Objectives and Requirements

The PNG MSG's mandate is set out in the MoU. The PNG MSG Memorandum of Understanding and work plan is located at: http://www.treasury.gov.pg/html/misc/PNGEITI.htm

All members of the PNG MSG should be familiar with the EITI Standard. The Standard is located at http://eiti.org/document/standard

At a high level, the Standard is about matching government receipts with company payments as outlined on page 8 of the EITI Standard, and providing appropriate information to give context to the data:

The EITI Standard



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3.2 Executive Summary

PNG is a leading producer of minerals and has one of the world's most prospective geological structures. PNG ranks among the top 20 world gold and copper producers, and revenues from the extractive industries are a critical part of PNG's economy. In 2014, extractive industries are projected to be 84% of PNG's exports and 18% of GDP. In 2011 they contributed 23% of the central government's internally sourced revenue. Further more detailed and recent economic analysis is included below.

The PNG LNG project, which produced its first shipment of LNG in May 2014, is expected to have a major impact on the economy: in 2015 PNG's GDP is forecast to grow by 15.5% driven by the first full year of LNG production. PNG is also moving towards hosting the world's first commercial deep sea mining operation with the licensing of the Solwara 1 project in the Bismark Sea. There is an artisanal and small-scale mining sector occupying some 60,000 miners and producing an estimated 4 metric tons of gold annually.

PNG came 144th out of 177 countries assessed on in TI's 2013 Corruption Assessment Index. The Natural Resource Governance Index, which measures the quality of governance in the oil, gas and mining sectors of 58 countries ranked PNG 39th with the biggest issues noted in sector reporting practices and the enabling environment. Similarly, the Fraser Institute survey of mining company representatives, ranked PNG 3rd out of 96 jurisdictions in terms of mineral potential but 77th in terms of perceptions of management of the mining sector, 75th for corruption and 91st out of 96 for uncertainty due to disputed land claims.

The key objective of this engagement was to undertake a detailed review and provide a report and briefing to the PNG EITI MSG to guide the group's implementation of the PNG EITI work plan and publication of PNG's first EITI report.

3.2.1 The Engagement and Deliverables

The scope of this engagement addressed by this report has been set out in the section above but broadly includes the following:

- A descriptive overview of the resources sector in PNG together with a summary of the contribution of the extractive sector to the PNG economy
- A review of the legal framework surrounding the extractive industries including policies governing exploration and details of any reforms planned or underway
- An overview of the capacity of key government departments and ministries, industry and civil society organisations to integrate into EITI.
- Investigate and suggest an approach for dealing with State owned entities in the sector
- Identify, assess and report on sources of data and information required for EITI disclosure together with analysis of the quality of that data and any recommendations to address issues within that data
- Subject to materiality considerations, identify companies that make payments and government entities that will be required to report revenue
- Identify issues that require specific attention in addressing any barriers to the comprehensive disclosure of EITI information and make recommendations to address these barriers.

This report sets out a preliminary scoping of revenue flows subject to MSG approval and recommends the inclusion of the APT from the PNG LNG project as this is likely to be a significant future source of revenue for the government.

The report also sets out an analysis of mandatory social payments to be included in EITI reporting.

The report suggests a materiality threshold for receipts to be included in the EITI process including a number for which data is available at present.

The report lists government entities, state owned enterprises and industry participants and suggests the exclusion of exploration entities from the report for materiality reasons. It should be noted that the collation of data for the Papua New Guinea context is quite challenging due to the significant number of entities receiving petroleum revenues on behalf of the Government. This differs significantly to other EITI compliant countries such as Norway or Timor-Leste where most royalty and taxation receipts are received via a sovereign wealth fund.

The report makes a number of key recommendations to allow compliance with EITI requirements and a brief summary of these is set out immediately below:-

- Analysis and reconciliation of receipts from projects not currently received by the government but presently directed to other stakeholders such as landowners and provincial governments
- Involvement of additional entities in the MSG process such as the MRDC, landowner entities and sub national entities
- Recommendations around additional data collection procedures and reconciliations required to comply with the standard including dealing with legislative impediments to collection of same
- The report makes a number of further recommendations to assist stakeholder engagement by government, civil society organisations and extractive sector companies
- Disclosure of third party funding arrangements for the participation of government and state owned enterprises in mining, oil and gas projects
- An examination of and recommendations in respect of the current audit and assurance procedures in place around revenue flows subject to the EITI standard both from the government and the company perspective.

In summary, the report makes it clear that a number of further actions are required to be considered and completed to ensure that the reconciliations necessary for compliance with the EITI standard can be done effectively.

For the purposes of this study, extractive industries include oil, gas and mining. The scope of this report specifically excludes quarrying, forestry and fisheries.

The Summary Report cannot be read in isolation without reference to the Appendices. Each Appendix contains detailed information and data which has been captured and analysed in compliance with the scope of works for this engagement. In addition, any information pertaining to technical industry terms and acronyms can be referenced directly in Appendices 24, 25 and 26.

3.3 Scope of Engagement and report coverage

The table below provides the Terms of Reference which Deloitte was requested to undertake and the specific section(s) in the report that address the deliverable.

Terms of reference	Reference
1. Provide a descriptive overview of the extractive sector (EITI Requirement 3.3) and, in accordance with EITI Requirement 3.4, prepare a summary of the contribution of the extractive industries to the economy. The summary should include a list of all revenue streams /payments in the mining, oil and gas sectors, including social expenditures (i.e., types of development projects in education, health, etc.) made by companies and a list of fiscal and non-fiscal incentives given to extractive industries. The consultant to draw on existing sources of information, including those from the PNG Government, IMF, World Bank, ADB, EITI International, CSOs, relevant NGOs and industry sources (including the 2006 report).	Appendix 3
2. Integrate into the report a review of the legal framework surrounding the extractive industries (EITI Requirement 3.2) which will include a description of all types of agreements or contracts governing mining, oil and gas rights and any unusual contractual stipulations in service contracts or mining agreements pertaining to revenue sharing, incentives, payments agreements, calculation of payments and other revenue related stipulations. This will also include, in accordance with requirement 3.12b, a review of PNG's policy on disclosure of contracts and licenses that govern the exploration of oil, gas and minerals. A summary of all relevant legal provisions, actual disclosure practices and any reforms that are planned and underway should also be included.	Appendix 4
3. Provide an overview of the capacity of relevant government ministries and departments, civil society organizations and industry with a focus on identifying key capacity constraints regarding their respective ability to understand and integrate EITI into work flows and outreach efforts. Financial literacy, plus understanding of how government works and the financial practices and structure of the extractives sector in PNG, is critical to PNG EITI's success.	Appendix 5
4. Provide an explanation of how payments are computed (formulae and basis for computation of payment).	Appendix 6
5. Where applicable, and in accordance with EITI Requirement 3.6, investigate the role of state-owned companies in the extractive sector and suggest an approach for reporting on financial relationships between the government and SOEs, quasi-fiscal expenditures, and government ownership in oil, gas and mining companies operating in PNG.	Appendix 7

(Table continued on next page)

Terms of reference	Reference
6. Propose a framework for reporting on revenue allocations and distribution of revenue, in accordance with EITI Requirements 3.7 and 3.8.	Appendix 8
7. Review the currently available information about license registers and license allocations, assess the completeness and timeliness of the information, and propose a mechanism for reporting and disclosure in accordance with EITI requirements 3.1 and 3.10.	Appendix 9
8. Identify sources of production data and comment on the quality and reliability of the data.	Appendix 10
EITI reconciliation	
9. Undertake a comprehensive analysis of the payments and government revenue streams related to the extractive sector, noting in particular the revenue streams that must be covered in accordance with EITI Requirement 4.1(b). The analysis should also cover (where relevant) revenue related to the sale of the State's share of production or other revenues collected in-kind (4.1.c), infrastructure provisions and other barter arrangements (4.1.d), mandatory and voluntary social expenditures (4.1.e), and transportation payments (4.1.f).	Appendix 11
10. Review revenue data and make recommendations over which of these tax payments and government revenue streams should be considered material for the purposes of EITI reporting in line with the PNG EITI work plan. Based on this determination, outline the process by which a determination of materiality and potential scope of EITI reporting in PNG can be established and suggest materiality thresholds for company disclosure if appropriate.	Appendix 12
11. Assess the levels of disaggregation of the data described above and determine whether it will satisfy the requirements of the EITI Standard and the PNG EITI work plan.	Appendix 13
12. Based on the proposed materiality definition, develop a preliminary list of the companies that make material payments and should be covered in the EITI Report (as well as those companies tentatively expected to make material payments in the immediate foreseeable future). Where materiality thresholds are proposed, this should include an estimate of the proportion of payments that will be disclosed relative to total government revenues from the sector. It should also identify the total contribution of companies not required to report (i.e. those that fall below the materiality threshold), with a clear indication of the relative size of each company.	Appendix 14
13. For each company, identify where available: · Company's Tax Payer Identification Number. · Company's Tax Payer Identification Number. · Sector and phase of operation, i.e. exploration, production, oil, gas, mining etc. · Type of license(s) held and the license number(s).	Appendix 15

(Table continued on next page)

Terms of reference	Reference
14. Based on the proposed materiality definition, identify which government entities will be required to report revenue information. It should be noted that the government is required to disclose all revenues, regardless of the materiality (EITI Requirement 4.2.b). Thus, where materiality thresholds for company disclosures are established, a reconciliation of the company payments and government revenues in accordance with the materiality threshold would be appropriate. Any additional government revenues (i.e. from companies below the materiality threshold) would also need to be disclosed in the EITI Report, as per requirement 4.2.b.The consultant should also identify transfers from one collecting agency to another.	Appendix 16
15. In considering which government entities should be disclosed, the consultant should identify whether sub-national government entities receive direct or indirect revenues from the extractive sector, in accordance with Requirement 4.2(d).	Appendix 17
Issues requiring specific attention	
16. The consultant must identify any legal, regulatory, administrative or practical barriers to the comprehensive disclosure of EITI information and, where necessary, set out options and make recommendations for addressing these barriers.	Appendix 18
17. The consultant should provide a summary of funds established and/or mandated by existing rules and regulations for the extractive industries.	Appendix 19
18. The consultant must also provide information on the schedule and regularity of data generation and reporting by government agencies and industries.	Appendix 20
Data quality	
19. An examination of the availability and reliability of data for EITI reporting purposes should also be provided. In accordance with EITI Requirement 5.2(b), the consultant should examine the audit and assurance procedures in companies and government entities that are likely to participate in the EITI reporting process, including the relevant laws and regulations, any reforms that are planned or underway, and whether these procedures are in line with international standards. The consultant should provide a description of revenue payment and collection systems and any gaps in data collection processes that might have an impact on the credibility of the EITI Report and measures to address these gaps. In accordance with EITI Requirement 5.2(c), the consultant should provide recommendations relating to auditing practices and propose assurances to be provided by the reporting entities to the Independent Administrator.	Appendix 21

3.4 Revenue and Payment Flows

Based on the preliminary scoping of the engagement, the revenue and payment flows for EITI purposes that have been identified are captured in the table below. They are however subject to MSG approval. The MSG should also consider including Additional Profits Tax into this pool, as it is expected to be a significant generator of future receipts once the PNG LNG production cycle and related receipts mature.

Revenue/ Payment Stream	Amount 2013 (Kina)	Sector	Source of data	Percentage of known total revenue	Receiving entity	Rationale for including (refer to notes)
Mining and Petroleum Tax (Corporate Income Tax)	666,742,122	Mining and Petroleum	IRC	42.66%	IRC	
Group Tax (Taxes withheld on employee salaries)	516,959,169	Mining and Petroleum	IRC	33.08%	IRC	
Royalties	181,683,028	Mining and Petroleum	MRA and DPE	11.63%	State, Provinces of PNG, Landowner groups, Other Trusts	
Equity Distributions	85,552,000	Petroleum	Petromin	5.47%	MRDC, Petromin	**1**
Import Taxes	20,072,982	Mining and Petroleum	Customs	1.28%	Customs	
Production Levy	18,308,620	Mining	MRA	1.17%	MRA	
Goods and Services Tax	17,890,671	Mining and Petroleum	IRC	1.14%	IRC and Customs	
Business Payments Tax	17,830,129	Mining and Petroleum	IRC	1.14%	IRC	

(Table continued on next page)

Revenue/ Payment Stream	Amount 2013 (Kina)	Sector	Source of data	Percentage of known total revenue	Receiving entity	Rationale for including (refer to notes)
Dividends	17,495,518	Mining and Petroleum	State Budget, Ok Tedi Mining Limited (OTML) and Petromin 2013 Financial Statements	1.12%	IPBC Oil Search, Treasury for Petromin, Ok Tedi Mining Limited, Treasury	**2**
Development Levy	13,936,994	Petroleum	DPE	0.89%	Department of Finance	
License Fees	5,010,900	Petroleum	DPE	0.32%	DPE	
Application, Renewal , Renewal penalty and transfer Fees	707,164	Mining	MRA	0.05%	MRA	
Additional Profits Tax	-	Petroleum	IRC	0.00%	IRC	
Mandatory social expenditure	To be determined	Mining and Petroleum	Companies	To be determined	Not paid to government. MRA and DPE did not receive complete data for all companies in 2013.	**3**
Foreign Contractor Withholding Tax	To be determined	Mining and Petroleum	IRC	To be determined	IRC	**4**
Infrastructure Tax Credits	To be determined	Mining and Petroleum	IRC	To be determined	Reported to IRC	**5**

A diagram of significant revenue flows have been included in Sub Appendix 4.5.

Notes

1 - Calculated on the basis of Joint Ventures Profit before tax, and not on received as this couldn't be extracted from the annual financial statements. No data from MRDC or (NPCP if applicable for 2013) was made available. We note that the first gas in the LNG project was in 2014

2 - No dividends were announced or paid by the Ok Tedi Mining Limited Board of Directors. In all previous years there were significant dividends 2012 (K723 million in total was paid out by Ok Tedi Mining Limited.)

3 - The data that is available indicates that this expenditure is significant and companies make key contributions to PNG

4 - IRC are still locating the figures for Extractive Industries companies and are unable to provide an analysis of the sectors that paid these taxes. K183,273,571.76 is the total amount paid for all entities in 2013.

5 - Total Infrastructure credits across the whole of PNG were 92.8 million Kina. For any individual project, yearly tax credits infrastructure spending appears to be key indicator of development contribution from a mine.

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Mandatory Social Payments

Mandatory Social and Voluntary payments are critical to the landowners and communities impacted by extractive industries and the table below includes suggestions of these various forms of expenditure that should be considered for inclusion in the report.

1	Mandatory Social Expenditure:
a	Compensation to landowners:
	- General Compensation
	- Environmental Compensation
	- Community Asset and Relocation Compensation
	- Lease Fees
b	Education payments:
	- Scholarships
	- University sponsorships
	- Other training cost
c	Infrastructure Development:
	- Other infrastructure development programs
d	Community Development Programs
e	Business Development Programs
f	Health Programs
g	Township Development
2	**Voluntary Social Expenditure:**
a	Voluntary sponsorship
b	Voluntary education payments
c	Voluntary Infrastructure Development:
	- Other infrastructure development programs
d	Voluntary health payment
e	Other Voluntary Corporate Social Responsibility programs

3.5 Materiality

A materiality threshold that the MSG may consider, is to include all payment streams that are above 1% of total known receipts in the First EITI report. There are a number of payment streams that could be material where data has not been collected yet. Accordingly, it is suggested that these items are included in the First EITI report due to their potential size and their qualitative nature.

Specifically, the following matters could be considered:

- The total universe of national taxes paid to the IRC and customs to be captured within the EITI process, and accordingly, all national taxes paid are included for the First EITI report. The IRC have yet to locate all of this data for the scoping process, therefore Deloitte suggests that all are included

- Mandatory social payments data is not yet collated by Government on an industry-wide basis. These costs are considerable to the companies. Accordingly, it would useful for the EITI to be a mechanism to enable industry and government to collate this data on an annual, and systematic, basis.

License fees and development levies should be considered for inclusion in accordance with EITI Requirement 4. The MSG should consider including All Withholding Taxes as a part of the total universe of tax payments, and Additional Profits Tax also, as this payment stream is expected to be a significant generator of future receipts once PNG LNG comes fully online.

This may require an updated scoping exercise to be undertaken for the second and subsequent EITI reports, based on data collected from the First EITI report. It is expected that after the First EITI report is completed, a more accurate picture of the Universe of Payments will emerge.

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3.6 Reporting Entities

For the purposes of the engagement the preliminary scoping of reporting entities to be included in the EITI process are captured in the sections below. These will be subject to MSG final approval.

3.6.1 Government

The preliminary list of reporting Government entities are:

Entity	Rationale as to why scoped in
Internal Revenue Commission	Receipt of taxation and stamp duties.
PNG Customs Service	Receipt of custom duties, GST and excise duties.
Minerals Resource Authority	Receipt of production levies Receipt of royalties. Note: • Where royalties are paid by a company to a landowner (or landowner representative/ association), MRA should be receiving a royalty return that shows amounts paid to landowners, which should agree back to company data. **Note that actual cash flows won't necessarily be received by MRA, but the cash is received by landowners, or local or provincial governments, as set out in the development agreements**. • In the case of State Owned Companies such as Ok Tedi Mining Limited, a state-controlled entity pays royalties to a Landowner Trust such as the Ok Tedi Landowners Royalty Investment Trust. Company Representatives control these disbursements.
Department of Petroleum and Energy	Receipt of royalties.
Department of Finance	Receipt of development levies.
Independent Public Business Corporation (subject to restructure under planned Kumul restructure)	Receipt of Oil Search dividends (and NPCP dividends from 2014/2015 if any).
Department of Treasury	Receipt of Ok Tedi Mining Limited dividends. Receipt of Petromin dividends.
The Department of Mineral Policy and Geohazards Management	Receipt of Ok Tedi Mining Limited dividends, to be distributed to landowners impacted by environmental damage along the fly river.
MRDC Subsidiaries or Trust Funds	Receipt of benefits on behalf of provincial governments. • **Mineral Resource Ok Tedi No. 2 Limited (MROT)** - 3.1% indirect interest in the Ok Tedi mine for the Western Provincial Government. • **Mineral Resource Enga Limited (MRE)** - a 2.5% interest for the Enga Provincial Government.
MRDC Subsidiaries or Trust Funds (cont.)	• **Petroleum Resources Kutubu Limited (PRK)** - 6.75% interest in Petroleum • Development Licence 2 (PDL 2) for the affected people in the Kutubu region of the Southern Highlands Province, the coastal people of Gulf Province whose land hosts the crude oil pipeline, and the provincial governments of the two

Entity	Rationale as to why scoped in
	provinces • Petroleum Resources (Gobe) • Petroleum Resources (Moran) There may be other entities not identified above.
Sub-National Entities: • Western Province • Gulf • Central • South Highlands • Enga • Morobe • New Ireland • Madang	As per 6.15 below.

3.6.2 State Owned Enterprises

The preliminary list of reporting State Owned Enterprise groups are:

Entity	Rationale as to why scoped in
Ok Tedi Mining Limited and its subsidiaries	Holds the State's interest in the Ok Tedi mine.
Petromin and its subsidiaries	Held states interest in the States other mining and petroleum interests during 2013.
National Petroleum Company of Papua New Guinea	May have paid tax in 2013. Significant payment streams to government following PNG LNG coming on stream.
Independent Public Business Corporation	Receipt of Oil Search Dividends . Holds the States share in Highland Pacific although no dividends yet received.
MRDC Subsidiaries or Trust Funds	Receipt of benefits on behalf of provincial governments. • **Mineral Resource Ok Tedi No. 2 Limited (MROT)** - 3.1% indirect interest in the Ok Tedi mine for the Western Provincial Government. • **Mineral Resource Enga Limited (MRE)** - a 2.5% interest for the Enga Provincial Government.
MRDC Subsidiaries or Trust Funds (cont.)	• **Petroleum Resources Kutubu Limited (PRK)** - 6.75% interest in Petroleum • Development Licence 2 (PDL 2) for the affected people in the Kutubu region of the Southern Highlands Province, the coastal people of Gulf Province whose land hosts the crude oil pipeline, and the provincial governments of the two provinces • Petroleum Resources (Gobe) • Petroleum Resources (Moran)

A full list of extractive industry state owned enterprises and subsidiaries is included in Sub Appendix 15.1.

3.6.3 Companies

All companies with production licenses should report. The preliminary list of reporting companies subject to MSG approval are:

Mining Companies

Mine Name	Company	Primary Mineral(s) produced
Ok Tedi	Ok Tedi Mining Limited	Copper, Gold
Porgera	Barrick Gold	Gold, Silver
Lihir	Lihir Gold Limited (LGL)	Gold, Silver
Ramu	MCC Ramu NiCo Limited	Nickel, Cobalt
Hidden Valley	New Crest- Harmony	Gold, Silver
Tolukuma	Petromin (to be closed – now in care & maintenance)	Gold
Simberi	Simberi Gold Company Ltd	Gold
Sinivit	New Guinea Gold	Gold

Oil and Gas Companies

We suggest that all entities with interests in production licenses should report as follows:

Licence Details		
Permit	**Operator/Partners**	**% Interest**
PDL 1 Hides	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (Tumbudu) Ltd.	16.662500
	Santos (Hides) Ltd.	19.375000
	Lavana Ltd. (Santos)	4.650000
	Kroton No. 2 Limited	20.500000
	Gas Resources Gigira Ltd.	2.000000
PDL 1 (Hides GTE)	*Oil Search (Tumbudu) Limited	100.000000
PDL 2 Iagifu Hedinia Usano Agogo Kutubu Field Complex	*Oil Search (PNG) Limited	60.046458
	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	11.611825
	Merlin Petroleum Co. (NOEX)	18.685467
	Merlin Pacific Oil Co. NL (ExxonMobil)	2.906250
	Petroleum Resources Kutubu Ltd.	6.750000
PDL 2 Kutubu Export Line	*Oil Search (PNG) Limited	60.046458
	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	11.611825
	Petroleum Resources Kutubu Ltd.	12.688362
	Merlin Pacific Oil Co. NL (ExxonMobil)	2.906250

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Licence Details		
Permit	**Operator/Partners**	**% Interest**
SE Mananda	*Oil Search (PNG) Limited	72.266413
	Merlin Petroleum. Co. Ltd. (NOEX)	19.837181
	Petroleum Resources Kutubu Ltd.	7.896406
PDL 3 SE Gobe	*Barracuda Ltd. (Santos)	15.921718
	Oil Search (PNG) Limited	36.359740
	Southern Highlands Petroleum Co. Ltd. (JPE)	40.149650
	Cue PNG Oil Co. P/L	5.568892
	Petroleum Resources Gobe Ltd.	2.000000
PDL 4 Gobe Main	*Oil Search (PNG) Limited	10.000000
	Merlin Petroleum Co. Ltd (NOEX)	73.481925
	Ampolex (Highlands) Ltd (ExxonMobil)	14.518075
	Petroleum Resources Gobe Ltd.	2.000000
SE Gobe Unit PDL 3: 59.0% PDL 4: 41.0%	*Oil Search (PNG) Limited	25.552246
	Merlin Petroleum Co. Ltd (NOEX)	30.127589
	Southern Highlands Petroleum Co. Ltd. (JPE)	23.688294
	Barracuda Ltd. (Santos)	9.393814
	Ampolex (Highlands) Ltd (ExxonMobil)	5.952411
	Cue PNG Oil Co. P/L	3.285646
	Petroleum Resources Gobe Ltd.	2.000000
Gobe Common Facilities SEG: 50% GM: 50% (Includes PDL3)	*Oil Search (PNG) Limited	17.776123
	Merlin Petroleum Co. (NOEX)	51.804757
	Southern Highlands Petroleum Co. Ltd.	11.844147
	Ampolex (Highlands) Ltd (ExxonMobil)	10.235243
	Barracuda Ltd. (Santos)	4.696907
	Petroleum Resources Gobe Ltd.	2.000000
	Cue PNG Oil Co. P/L	1.642823
PDL 5 Moran	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (PNG) Limited	40.687500
	Eda Oil Ltd. {Petromin(PNG Govt)}	20.500000
	Petroleum Resources Moran Ltd.	2.000000
PDL 6 NW Moran (continued on next page)	*Oil Search (PNG) Limited	71.066666
	Ampolex (Highlands) Ltd (ExxonMobil)	18.358340
	Merlin Petroleum Co. (NOEX)	8.575000
PDL 6 NW Moran (cont.)	Petroleum Resources North West Moran Ltd.	2.000000
Greater Moran Field PDL 2: 44% PDL 5: 55% PDL 6: 1%	*Oil Search (PNG) Limited	49.509233
	Esso PNG Moran Ltd. (ExxonMobil)	20.246875
	Eda Oil Ltd. {Petromin(PNG Govt)}	11.275000
	Merlin Petroleum Co. (NOEX)	8.307355
	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	5.109203
	Ampolex (Highlands) Inc. (ExxonMobil)	0.183583

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Licence Details		
Permit	**Operator/Partners**	**% Interest**
	Petroleum Resources Kutubu Ltd.	2.970000
	Merlin Pacific Oil Co. NL (ExxonMobil)	1.278750
	Petroleum Resources Moran Ltd.	1.100000
	Petroleum Resources North West Moran Ltd.	0.020000
PDL 7	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (Tumbudu) Ltd.	40.687500
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Gas Resources Hides No.4 Ltd.	2.000000
PDL 8	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (Tumbudu) Ltd.	40.687500
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Gas Resources Angore Ltd.	2.000000
PDL 9	*Esso PNG Juha Limited (ExxonMobil)	21.707750
	Oil Search (Tumbudu) Ltd.	24.420405
	Ampolex (Papua New Guinea) Ltd. (ExxonMobil)	21.684345
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Nippon Papua New Guinea LNG LLC	9.687500
	Gas Resources Juha No.1 Ltd.	2.000000

3.7 Exploration Companies

It is suggested that exploration companies be excluded from the scope of reporting as all stakeholders were in agreement that it is expected that their payments to government were not significant and limited to a small amount of permit fees and taxes.

3.8 Reporting

3.8.1 Reporting Period

The reporting period will need to be finalised by the MSG, but can be the year ended 31 December 2013 or the year ended 31 December 2014. PNG Liquid Natural Gas (LNG) began in 2014 and some government processes are yet to be concluded around receipt of money and financing arrangements. Therefore it might be more practical to report for the year ended 31 December 2013. This will have an impact on the reporting deadline:

- Reporting for the year ended 31 December 2013 is to be completed by the end of 2015
- Reporting for the year ended 31 December 2014 is to be completed by 18 March 2016.

3.8.2 Basis of Accounting

The Government reports on the cash basis of accounting, therefore the PNG EITI should report on a cash basis of accounting.

3.8.3 Separate Mining and Oil and Gas Sections of EITI Report

The MSG will consider having separate reports for Mining and Oil and Gas

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3.9 Key Issues and Recommendations

1) Mining Royalties not paid to the State under benefit sharing arrangements	
Issue	**Recommendations**
In the mineral sector there are many instances where companies pay royalties directly to the landowners (or landowner representative organisations); trusts for landowners, and provincial governments, as stipulated by benefit sharing agreements. Consequently it will be very difficult to reconcile these payments. Per the *Papua New Guinea Mining Policy:* *Mineral Royalty* *(a) All mineral royalties from mining in the PNG jurisdictions belong to the State as the sovereign owner of all minerals in PNG,* *(b) The holder of a mining lease is liable to pay a royalty to the State equivalent to 2% of the net proceeds of sale of minerals (calculated as net smelter return or f.o.b. export value, whichever is appropriate),* *(c) The State may elect to retain its right to royalty or to distribute it between the provincial government of a mine host province and the landholders of the land upon which the mineral resource is mined,* *(d) Where royalty is offloaded by the State, the landholders are entitled to at least 20% of the total amount of royalties paid to the State.*	The MSG will need to decide if mining royalty payments will be reconciled to recipients for the First EITI Report in accordance with EITI Requirement 4.1. The MSG may consider following the practicality of reconciling receipts with Landowners (or landowner representative organisations). Although not directly reconciling receipt flows, it might be more practical to reconcile payments made by companies to royalty data submitted returns to MRA (as the regulator for Mining) by companies. The MSG may consider seeking feedback from the EITI International Secretariat, if in their view this satisfies the requirement of the standard, or if royalties not directly received by Government should be scoped out for the PNG EITI. Alternatively, the companies may report mining royalties paid without a corresponding reconciliation (i.e. unilateral disclosures are undertaken by companies).

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2) Oil and Gas Development Levies	
Issue	**Recommendations**
Oil and Gas Development Levies are paid in arrears in accordance with the Oil and Gas Act. This will provide a significant inflow of funds to provincial and local governments when due.	The work plan and reporting templates will need to reflect that development levies for PNG LNG will only be due in accordance with the requirements of the Oil and Gas Act and not earlier, particularly if 2014 is the chosen reporting period. The following should be undertaken: • Approve reporting templates • Procure the administrator to do the work • As this is the first report the administrator may need quite a lot of time to confirm data. Depending how familiar they are with PNG EITI, it will not be an easy process at first.

3) Reporting Entities – MRDC	
Issue	**Recommendations**
Initial scoping indicates that MRDC may be a reporting entity as it receives royalties due to the state but managed by MRDC on behalf for landowners and provincial government.	Consideration should be given to inviting MRDC to be a member of the MSG.

4) Reporting Entities - Landowners	
Issue	**Recommendations**
Initial scoping indicates that landowners and landowner organisations receive significant amounts of royalties due to the state directly from companies. There are significant challenges and resources required to liaise with landowners, landowner groups and associations.	Consideration to involving landowners in the EITI process, either for the first report or subsequent reports, should be further explored by the MSG, and this should be reflected in the work plan.
Reporting - Sub-National Entities	
Initial scoping indicates that Provincial and Local Level Government organisations receive significant amounts of royalties which are due to the state, directly from companies. There are significant challenges and resources will be required to engage sub-national entities.	Consideration to involving Sub-National Entities in the EITI process, either for the first report or subsequent reports, should be further explored by the MSG and reflected in the work plan.

5) Compilation and Reconciliation of Receipt Data	
Issue	**Recommendations**
Compilation and reconciliation of taxation receipts The IRC compiles taxpayer data through its two taxpayer software systems, SIGTAS and RAMS. The IRC was unable to easily extract all major receipts due to systems limitations. Information had to be extracted from income tax returns. Additionally, there are various bank accounts where receipts are deposited that need to reconcile with taxpayer software systems. The deposit reconciliations (bank reconciliations) are not always kept up-to-date.	All tax receipts will need to be compiled for EITI purposes. Bank reconciliations should be kept up-to-date so that extractive industry taxpayer data can be accurately compiled for EITI Purposes.
Mining Royalty Data – Future Generations and Infrastructure Trusts In certain instances Mining Royalties are paid to Finance Trust Accounts, specifically for Future Generations and Infrastructure Trusts. We were unable to obtain receipts royalty data paid into these trusts. We were also informed that these Trusts are not audited. The following mining projects have (or will soon have) these trust arrangements: • Ok Tedi • Porgera • Sinivit • Ramu • Simberi.	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.

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6) Confidentiality	
Issue	**Recommendations**

Tax Payer information
 	
In accordance with section 9 of the Income Tax Act, individual tax payer information is not allowed to be released by the IRC to third parties. Per discussions with the IRC they are of the view that an appropriately worded signed letter of waiver from the taxpayer to the IRC should be sufficient for the IRC to release tax payer information.
	The Government may wish to consider introducing legislation or policy that enables the disclosure of taxpayer information for EITI purposes.
	
	In the absence of enabling legislation, policy or an updated MOU signed by all reporting companies, a waiver will need to be drafted and provided to the companies for their consideration. The wording of the waiver will need to take into consideration:
	
	• Level of aggregation of data including:
	  o Entities that will disclose
	  o Types of tax payments that will be disclosed or in aggregate
	• The period that the waiver applies.

7) Completeness of Registry Information - MRA	
Issue	**Recommendations**
We were informed that the Online Transactional Mining Cadastre Portal (OTMCP) contains sufficient detail to comply with EITI Requirement 3.9 and 3.10. However we were unable to access this as we were informed that only registered mining companies are allowed to register and access the website. Per our discussions with MRA current legislation doesn't allow the MRA to disclose information other than what is currently included in the online web map http://portal.mra.gov.pg/Map/ The portal provides information consistent with EITI Requirement 3.9 other than the commodity being produced as required by 3.9b iv.	The MSG should satisfy themselves that it is not essential to the meet the EITI requirement. In accordance with the EITI Board notes with respect to this requirement, trivial information missing will not result in this Requirement being assessed as not being met. Additionally, other publically available information exists as to the commodities being extracted by each operator is available.

8) Completeness of Registry Information - DPE	
Issue	**Recommendations**
The official register is recorded manually (written) in paper ledgers. This ledger is not organised sequentially on the basis of license numbers. New entries are made when applications are made. There is another spreadsheet maintained that lists license information to record which licenses have paid their fees. This spreadsheet is updated on an ad-hoc basis. The current registry would need to be populated with the necessary information as stipulated by Requirements 3.9 and 3.10 and included in the EITI report. There is currently a compliance review being undertaken to check the registry for three things: • Reporting requirements being adhered to • Work programs being implemented and valid • License fees being paid At this early stage of the compliance review, 50% of all licenses appear to not comply with work program requirements of Oil and Gas Act and Regulations.	The spreadsheet will need to be updated with the data outlined in EITI Requirement 3.9 and 3.10 In the absence of a secure electronic database of licenses, sufficient controls should be implemented to ensure that the integrity of spreadsheet's data is maintained. It is envisaged that this spreadsheet that will be attached to the EITI report as it unlikely to be practical to photocopy and attach the manual volumes.

9) Licenses issues in 2013	
Issue	**Recommendations**
We were unable to obtain a list of licenses issued in 2013 from either the MRA or DPE as required by DPE.	This list is to be collated by DPE and MRA.

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10) Confidentiality	
Issue	**Recommendations**
Contractual information In accordance with EITI requirement 3.12b, it is a requirement that the EITI Report documents the Government's policy on disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway. Where applicable, the EITI Report should provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location where these are published. In accordance with EITI Requirement 3.12a: *Implementing countries are encouraged to publicly disclose any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals* In the absence of approval from Government and Companies, Government legislation, policy and practice provides restrictions on the public disclosure of mining and petroleum contracts.	EITI Requirement 3.12a is an encouraged disclosure. The Government may wish to consider introducing legislation or policy that enables the disclosure of contracts. In the absence of enabling legislation and policy, appropriately authorised officials of the state and companies may wish to consider agreeing to key contractual information for EITI purposes.

11) Stakeholder Engagement	
Issue	**Recommendations**
Government Government entities have not yet provided compiled receipts information for all key revenue flows. Additionally, the level of engagement between Government departments to information requests differs considerably.	Government Entities will need to compile revenue data, contextual and contractual for EITI scoping purposes. Whilst some Government departments appeared engaged in the process, other departments were not so willing to contribute to the scoping study. For the PNG EITI to be efficient and successful moving forward, all departments will need to contribute in a timely manner. The establishment of the PNG EITI Secretariat should be finalised as soon

11) Stakeholder Engagement	
Issue	**Recommendations**
	as practicable. An effective PNG EITI Secretariat may assist with socialising the EITI to Government stakeholders.
<u>Companies</u> The level of company engagement varies considerably from company to company. In particular responsiveness from the State Owned Mining Companies have been limited and greater efforts to engage Ramu Nickel will required.	The establishment of the PNG EITI Secretariat should be finalised as soon as practicable. An effective PNG EITI Secretariat may assist with socialising the EITI to Company Stakeholders. Greater engagement between the Secretariat and the Chamber of Mines and Petroleum of Mines might be required to ensure that all reporting mining companies are aware of their reporting requirements. Outreach efforts may also be required.
<u>Civil Society Organisations</u> Civil Society Organisations are very willing to learn more about extractive industries revenue and payment flows. However, their level of knowledge of the extractive industry sector, government and company processes is limited. Accordingly, knowledge varies significantly from civil society representative to representative. Significant improvements in financial literacy and industry knowledge are necessary for civil society, as a group, to: • Contribute to the MSG • Represent their members interests, and • Report back to their respective group members The Civil Society Organisations on the PNG MSG are: • Business Against Corruption Alliance • Consultative Implementation and Monitoring Council • Institute of National Affairs • PNG Council of Churches • Transparency International PNG • Papua New Guinea Mining Watch Group Association Inc. • EcoForestry Forum	The establishment of the PNG EITI Secretariat should be finalised as soon as practicable. An effective PNG EITI Secretariat may assist with socialising the EITI to Civil Society stakeholders. The Government or Donors may consider funding education and other outreach campaigns for Civil Society. These campaigns would focus on increasing the capacity of civil society's ability to contribute to the PNG EITI. One of the considerations in pursuing this will be to what extent such organisations have a place at the table in the MSG or merely feed into the information processes of the MSG for the EITI in PNG. The PNG MSG should consider liaising with the EITI International Secretariat to determine if the CSOs on the MSG represent broad community representation particularly across the provinces of PNG.

12) State Owned Enterprises and Funding Arrangements	
Issue	**Recommendations**
EITI Requirement 3.6 provides: *Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:* *a) An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and <u>third-party financing.</u>* *b) Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and <u>national debt servicing.</u> The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.* *c) Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. full-paid equity, free equity, carried interest.*	Treasury will need to disclose third party funding arrangements for mining, oil and gas projects, including funding arrangements for the PNG LNG project. The level of disclosure should be agreed by the MSG and where necessary consultation with the EITI Secretariat may be required, as this is a new disclosure requirement under the revised standard.

12) State Owned Enterprises and Funding Arrangements	
Issue	**Recommendations**
Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. <u>Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.</u> There are funding mechanisms in place for PNG LNG and Petromin's stake in Eda Oil (and Solwara). The PNG LNG funding is not currently being separately reported through the Budget.	

13) Data Reliability	
Issue	**Recommendations**
The multi-stakeholder group, in consultation with the Independent Administrator, is required to examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, including the relevant laws and regulations, any reforms that are planned or underway, and whether these procedures are in line with international standards.	**Companies** Signoff by senior company officials Could separately include published financial statements **Government** Signoff by senior government officials Where government accounts have been audited, a copy should be linked to the report or made available

14) Project by Project Reporting	
Issue	**Recommendations**
In accordance with EITI 5.2(e) *The multi-stakeholder group is required to agree the level of disaggregation for the publication of data. It is required that EITI data is presented by individual company, government entity and revenue stream. Reporting at project level is required, provided that it is consistent with the United States Securities and Exchange Commission rules and the forthcoming European Union requirements.*	The MSG will need to decide how companies with more than one project will report.

Appendix 1: PNG MSG's Objectives, PNG MSG Memorandum of Understanding (MoU) and Work Plan

The PNG MSG's mandate is set out in the MoU. The PNG MSG Memorandum of Understanding and work plan is located at: http://www.treasury.gov.pg/html/misc/PNGEITI.htm

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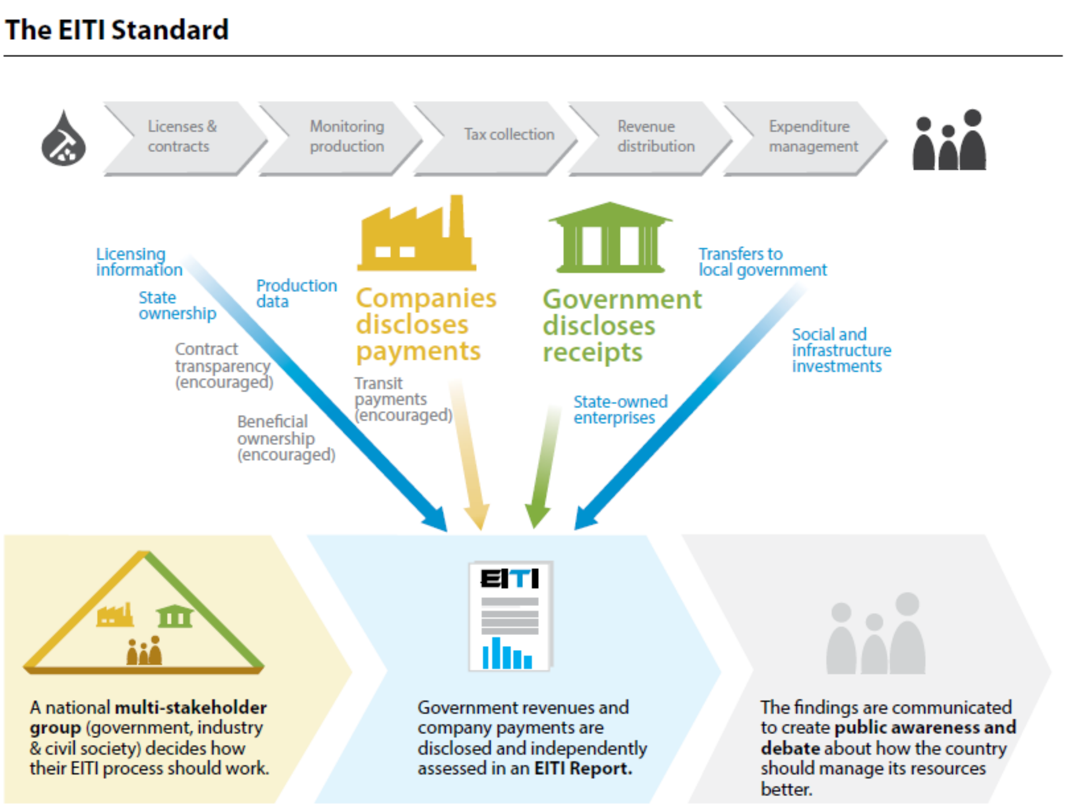
Appendix 2: The EITI Requirements

All members of the PNG MSG should be familiar with the EITI Standard. The Standard is located at http://eiti.org/document/standard

At a high level, the Standard is about matching government receipts with company payments as outlined on page 8 of the EITI Standard, and providing appropriate information to give context to the data:



We have linked the relevant requirements to the steps in the Terms of Reference in the *Contextual Information* (Appendices 3 – 21)

Appendix 3: Overview of Extractive Industries in Papua New Guinea

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Terms of Reference		Link to EITI Standard
1.	Provide a descriptive overview of the extractive sector (EITI Requirement 3.3) and, in accordance with EITI Requirement 3.4, prepare a summary of the contribution of the extractive industries to the economy. The summary should include a list of all revenue streams /payments in the mining, oil and gas sectors, including social expenditures (i.e., types of development projects in education, health, etc.) made by companies and a list of fiscal and non-fiscal incentives given to extractive industries. The consultant to draw on existing sources of information, including those from the PNG Government, IMF, World Bank, ADB, EITI International, CSOs, relevant NGOs and industry sources (including the 2006 report).	Requirements 3.3 & 3.4

EITI Requirement	
3.3	**The EITI Report should provide an overview of the extractive industries, including any significant exploration activities**
3.4	**The EITI Report must disclose, when available, information about the contribution of the extractive industries to the economy for the fiscal year covered by the EITI Report.** This information is expected to include: a) Size of the extractive industries in absolute terms and as a percentage of GDP, including an estimate of informal sector activity. b) Total government revenues generated by the extractive industries (including taxes, royalties, bonuses, fees, and other payments) in absolute terms and as a percentage of total government revenues. c) Exports from the extractive industries in absolute terms and as a percentage of total exports.

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3.1 Overview of the extractive sector

PNG is a leading producer of minerals and has one of the world's most prospective geological structures. PNG ranks among the top 20 world gold and copper producers, and revenues from the extractive industries are a critical part of PNG's economy. In 2014, extractive industries are projected to be 84% of PNG's exports and 18% of GDP. In 2011 they contributed 23% of the central government's internally sourced revenue. Further more detailed and recent economic analysis is included below.

The PNG LNG project, which produced its first shipment of LNG in May 2014, is expected to have a major impact on the economy: in 2015 PNG's GDP is forecast to grow by 15.5% driven by the first full year of LNG production. PNG is also moving towards hosting the world's first commercial deep sea mining operation with the licensing of the Solwara 1 project in the Bismark Sea. There is an artisanal and small-scale mining sector occupying some 60,000 miners and producing an estimated 4 metric tons of gold annually.

PNG came 144th out of 177 countries assessed on in TI's 2013 Corruption Assessment Index. The Natural Resource Governance Index, which measures the quality of governance in the oil, gas and mining sectors of 58 countries ranked PNG 39th with the biggest issues noted in sector reporting practices and the enabling environment. Similarly, the Fraser Institute survey of mining company representatives, ranked PNG 3rd out of 96 jurisdictions in terms of mineral potential but 77th in terms of perceptions of management of the mining sector, 75th for corruption and 91st out of 96 for uncertainty due to disputed land claims.

3.1.1 Scope of Extractive Industries in this Study

For the purposed of this study, extractive industries include oil, gas and mining. The scope of this report specifically excludes quarrying, forestry and fisheries.

3.1.2 Ownership and Use of Resources

In accordance with Section 5 of *Mining Act 1992* and Section 6 of the *Oil and Gas Act 1998* minerals and hydrocarbons belong to the State. At the time of drafting this report there was a proposed constitutional amendment that would add a new section to the Constitution that provides that 'hydrocarbons and minerals in their natural state are, and always have been, the property of Papua New Guinea'.

The pre-amble of the constitution states *"We declare our fourth goal to be for Papua New Guinea's natural resources and environment to be conserved and used for the collective benefit of us all, and be replenished for the benefit of future generations. WE ACCORDINGLY CALL FOR*

> *(1) wise use to be made of our natural resources and the environment in and on the land or seabed, in the sea, under the land, and in the air, in the interests of our development and in trust for future generations; and*
>
> *(2) the conservation and replenishment, for the benefit of ourselves and posterity, of the environment and its sacred, scenic, and historical qualities; and*
>
> *(3) all necessary steps to be taken to give adequate protection to our valued birds, animals, fish, insects, plants and trees"*

3.1.3 Authority to enter into agreements

As the owner of the minerals and resources the State negotiates and enters into licensing agreements with companies/venturers, on a project by project basis, in accordance with the *Mining Act 1992* or the *Oil and Gas Act 1998* and other applicable legislation, regulations and policies.

The processes for entering into agreements and other legal matters are outlined in detail in *Appendix 4: Review of Legal Framework* below.

3.1.4 State, land owner, provincial and local government interactions

3.1.4.1 Papua New Guinea Context

There are significant State, Landowner, Provincial and Local Government interactions that occur over the life of a resource project. There are factors that impact on these stakeholder interactions including:

- Diversity of environment and geography
- Complex culture and population
- Political environment that is complex and patriarchal
- Capacity constraints in governance, institutions and human capital
- Fragmented economic outcomes across the population of Papua New Guinea

There are numerous publically available reports and studies from Government, donors, non-governmental organisations and academia that provide context about Papua New Guinea's development landscape. A selection of references to a number of these is set out below.

Entity Type	Website reference
Government	National Economic & Fiscal Commission http://www.nefc.gov.pg/ Treasury http://www.treasury.gov.pg/ Bank of PNG http://www.bankpng.gov.pg/
Non-Governmental Organisations	Institute of National Affairs http://www.inapng.com/publications.html Transparency International http://www.transparencypng.org.pg/publications
Donor Community	World Bank http://www.worldbank.org/en/country/png Asian Development Bank http://www.adb.org/countries/papua-new-guinea/main International Monetary Fund http://www.imf.org/external/country/png/index.htm?type=9998#42 Department of Foreign Affairs and Trade, Australia http://aid.dfat.gov.au/Publications/Pages/List.aspx?Country=Papua New Guinea

(Table continued on next page)

Entity Type	Website reference
Academia	Australian National University http://pacificinstitute.anu.edu.au/ Harvard http://www.hks.harvard.edu/m-rcbg/CSRI/research/publications/PNGLNGreport.pdf

3.1.4.2 Benefits Sharing

The State negotiates with provinces, local government and landowners regarding the sharing of benefits on a project-by-project basis as required by the *Mining Act 1992* and the *Oil and Gas Act 1998,* government policies and other established practices.

Given the development landscape described above, the process for negotiating the sharing of benefits may take considerable time and effort from all stakeholders. The negotiation process may be comprehensive resulting in negotiated benefit sharing agreements and may include the following activities:

- social mapping studies
- land owner identification processes to identify relevant beneficiaries
- provincial, local and State government negotiations on formulas for benefit sharing
- approval from either the MRA and the DPE respectively; and
- approval from the National Executive Council

Agreements are signed on a project-by-project basis therefore negotiating efforts, processes and outcomes have differed depending on the Governments (state, provincial and local) of the day and the approaches of the different landowners and corporations involved in the negotiations.

Papua New Guinea has well publicised historical examples where comprehensive and sustained commitment by all stakeholders to the process of negotiation and agreement to extractive industry project matters might have resulted in better outcomes for all stakeholders. Examples include issues related to the Bougainville Copper Mine and the ongoing environmental and legal matters related to the Ok Tedi mine.

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Benefit Sharing Agreements by Sector.

Sector	Summary
Mining	The Mineral Resource Authority have developed standardised benefit sharing agreements in accordance with the Mining Act 1992 and the Mineral Policy of Papua New Guinea as set out in the Memorandum of Agreement between the landholders, mine host Provincial and Local -level Government(s), the developer and the State. Benefit Sharing includes but is not limited to royalty and equity sharing, and government grants for infrastructure. The Mineral policy sets out benefit sharing arrangements and standardised agreements have been introduced subject to appropriate approvals.
Oil and Gas	The requisite benefits sharing negotiations are undertaken in accordance with the Oil and Gas Act 1998. An example is the arrangements undertaken for PNG LNG. DPE kindly provided a copy of the UBSA for this study. To enable the distribution of the benefits to stakeholders, including landowners in the Project areas, the Independent State of PNG, representatives of Project area landowners, and four provincial and ten local level governments negotiated and executed the PNG LNG Umbrella Benefits Sharing Agreement (UBSA) in May 2009. The UBSA is an overarching agreement which outlines how a number of the State's Project revenue streams, including royalty, development levy and equity dividends will be shared with Project area landowners, local level governments and provincial governments. The UBSA was negotiated at a development forum, required under the Oil & Gas Act as a precondition of award of licenses for development of the Project. Some of the aspects of the UBSA include: 1. **Royalty:** A royalty benefit of 2% is provided by the State to landowners, affected provincial governments and local level governments. Royalty is calculated on a 'wellhead value' basis per the terms of the Oil and Gas Act and will apply to volumes produced and then sold from the licensed area(s). 2. **Equity:** The UBSA provides a total of 2.78% free equity participating interest in PNG LNG to Project area landowners and local level governments for greenfield areas. UBSA also provides to Project area landowners and provincial governments the opportunity to buy-into indirect PNG LNG equity up to a collective maximum of 4.22% between 1 January and 30 June 2016. 3. **Development Levy:** A Development Levy of 2% of the wellhead value, calculated per the provision of the Oil & Gas Act and the LNG Gas Agreement, is available to the provincial governments and the local level governments. 4. **Infrastructure Development Grants (IDG):** An amount of K1.2 billion has been allocated by the State equally over two five year periods, commencing in 2010 for infrastructure development and maintenance in the affected Project areas and provinces.

(Table continued on next page)

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Sector	Summary
Oil and Gas (cont.)	5. **Business Development Grants (BDG):** The State has provided K120 million to assist landowner companies in business development activities under the PNG LNG Project. Following the UBSA, license-based benefits sharing agreements (LBBSA) were completed in early December 2009. These agreements outline how landowners within each license area will allocate their share of the Project's benefits. The LBBSAs were completed to the satisfaction of the government, consequently allowing the Minister for Petroleum and Energy to issue Petroleum Development Licenses, a Pipeline License and a Petroleum Processing Facility License to the Project on 8 December 2009. http://pnglng.com/commitment/hot-topics/benefits-sharing We note that the UBSA we viewed was not signed by many of the landowner participants to the process which may cause ongoing disagreements as benefits are due to flow. Clan Vetting Royalties have begun being paid to the Government. However the process of identifying beneficiary clans in Project impacted areas and determine the appropriate distribution of benefit through the clan vetting process is yet to be completed. Accordingly royalties will not yet have been paid to landowner and organisations representing landowners.

3.1.4.3 Free Prior and Informed Consent (FPIC) guidelines

We are not aware of FPIC guidelines being actively implemented in the mining, oil and gas sectors. PNG Forestry Authority (PNGFA) operate according to Free Prior and Informed Consent (FPIC) guidelines established under the Forest Code and Logging Code of Practice, however in practice these guidelines are reported to have been inadequately implemented or enforced in sub-national projects (OCCD, 2011; Filer, 2009). FPIC guidelines are currently under review (IGES, 2012). http://theredddesk.org/countries/papua-new-guinea

3.1.4.4 Diversity of Extractive Industries

The PNG extractive industries are diverse with economically feasible deposits in minerals, petroleum and gas suitable for large medium to large projects. There are also deposits suitable for small scale mining activity throughout PNG.

3.1.4.5 Minerals

3.1.4.5.1 Mineral Geology

Per studies published by the MRA the geological terrain of PNG is categorised by the "*Upthrust by the relatively recent collision between the Australian and Pacific plates, Papua New Guinea's mountains contain mineral-rich volcanic rocks, intrusive rocks and ultramafic rocks. Most of the igneous systems are now largely fossilised, but several systems, particularly on the north of mainland PNG and the islands, are still currently active. The mineralised regions are dominated by copper and gold, but they also have other commodities of significance to the global economy, such as nickel, cobalt, chromium, molybdenum, iron and platinum. Within the intrusive centres and volcanic edifices are porphyry copper-gold ores and epithermal deposits of gold and silver, on which* *are based several globally important mines. Current mines in Papua New Guinea are not isolated to specific geological terranes or elements. The mines are spread over different element, further indicating the prospectivity of the terranes and elements. Of the eight operating mines, one in Ramu on the New Guinea thrust belt produce nickel, cobalt and chromium".*

For more detailed geological information:
http://www.mra.gov.pg/Portals/2/Publications/Geological%20framework%20and%20mineralization%20of%20PNG%20%202012%20-%20an%20update.pdf

3.1.4.5.2 Exploration and feasibility

There has been significant recent exploration activity in the mineral sector although that is contracting in light of current conditions in the minerals industry. Much of PNG is now categorised as *Exploration License under Application*, *Exploration License under Renewal* or as a *Current License*. The administration of these exploration licenses is challenging in part due to the large number of applications in process. The number of exploration licenses and applications is included at http://portal.mra.gov.pg/Map/

As a result of exploration activity, there are significant prospects for future production activities with promising drilling and feasibility results across the country. The Fraser Institute lists PNG number 3 in Policy and Mineral Potential assuming no land use restrictions in place and assuming industry "best practices". The Fraser Institute also lists a number of challenges that the PNG Mining industry faces. These findings are outlined in Sub Appendix 3.1.

http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/mining-survey-2012-2013.pdf

Potential mines include:

Name	Company	Type
Solwara 1	Nautilus	Sulphide (deep see mining)
Woodlark	Kula Gold	Gold
Hessen Bay	Katana Irons	Iron Sands
Frieda River	Pan Aust	Cu/Au
Yandera	Marengo mining	Cu/Mo

For further information - http://pngchamberminpet.com.pg/mining-in-png/

3.1.4.5.3 Design and Construction

PNG has recently developed two new mineral projects, the Hidden Valley and Ramu Mines, with other projects currently under design including:

- The Solwara 1 deep sea mining project which is scheduled for production in 2017
- The Woodlark gold project of Kula Gold which is the first onshore mining license to be issued in eight years

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3.1.4.5.4 Production

The following is a list of producing mines extracted from the PNG Chamber of Mines, website http://pngchamberminpet.com.pg/mining-in-png/) and the Mining Resource Authority website, http://portal.mra.gov.pg/Map/

Name	Company	Primary Mineral(s) produced	Size	Estimated Output per annum	Province	Estimated Mine Life	Ownership	License(s)
Ok Tedi	Ok Tedi Mining Limited	Copper, Gold	Large	500,000 oz Au 170,000t, Cu	Western	10 years	100% - the State	SML1 (O)
Porgera	Barrick Gold	Gold, Silver	Large	500,000 oz Au 90,000 oz Ag	Enga	15 years	95% Barrick Subsidiary, **Mineral Resource Enga Limited (MRE)** - 2.5% interest in the world class Porgera Gold mine for the Porgera landowners and a further 2.5% for the Enga Provincial Government.	SML 1 (P), ML 101
Lihir	Lihir Gold Limited (LGL)	Gold, Silver	Large	500,000 oz Au	Niolam Island in New Ireland	15 years	100% owned by Newcrest Ltd.	SML 6, ML 125, 126
Ramu	MCC Ramu NiCo Limitted	Nickel, Cobalt	Large	31, 000 Ni 3,300t Co	Madang	20 + years	The Project is an unincorporated joint venture between MCC Ramu (85%); MRML (2.5%) and MRRL (with 3.94%) two subsidiaries of Mineral Resource Development Corporation (MRDC) on behalf of PNG government and landowner interests; and RNL (8.56%), a subsidiary of former developer Highland Pacific Ltd. Ramu NiCo Management (MCC) Limited, as the Manager of the Project appointed by all joint venture parties, is fully responsible for construction, development and operation of the Project.	SML 8, ML 149

(Table continued on next page)

Name	Company	Primary Mineral(s) produced	Size	Estimated Output per annum	Province	Estimated Mine Life	Ownership	License(s)
Hidden Valley	New Crest-Harmony	Gold, Silver	Large	200,000 oz Au	Morobe	10 + years	JV between subsidiaries of Newcrest (50 per cent) and Harmony Gold Mining Company Limited of South Africa (50 per cent),	ML 151
Tolukuma	Petromin	Gold	Medium to Small	60,000 oz Au	Central	5 years	100% shares held by Petromin but closure of this mine has been announced by Petromin	ML 104
Simberi	Simberi Gold Company Ltd	Gold	Medium to Small	72,000 oz Au	New Ireland	10 years	100% Shares NORD PACIFIC LIMITED, (St Barbara)	ML 136
Sinivit	New Guinea Gold	Gold	Medium to Small	5-8000 ox Au	East New Britain	2 years	Ownership: 90% New Guinea Gold, 10% (Toronto) Goldmines of Niugini Holdings (NGG holds 22% of Goldmines of Niugini Holdings).	ML 122

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Other entities identified through the http://portal.mra.gov.pg/Map/ as having mining leases or in the process of applying for a mining lease:

#	Project	License No#	Owners	Ownership Share
1		ML 113 (Application Registration Complete	Geresong Nandang	100%
2	Edie Creek	ML 144, 380,384, 402, 444,462,	Niuminco Edie Creek Ltd	100%
3		ML 150 (Pending Renewal - Registration complete)	Barrick (Kainantu) Limited	100%
4		ML 457	PNG Forest Products Mining (Bulolo) Ltd, Pacific Niugini Minerals (Bulolo) Ltd	50%, 50%
5		ML 497, 498, 499, (Application – Registration Complete)	Aaron Apinko, Juanita Tills	50%, 50%
6		ML 501	Watson Ila, Paulos Kalo	50%, 50%
7		ML 503	Maka Alluvial Gold Mining Ltd, Brothers & Together PNG Ltd	51%, 49%
8		ML 505 (Application – MAC Recommendation)	Maka Alluvial Gold Mining Ltd, Baolin Investments (PNG) Ltd	51%, 49%
9		ML 506	Kuh Chun Ltd and Dae Han Resources Ltd	51% , 49%
10		ML 507	Kwari Wiem Ltd	100%
11	Woodlark Island	ML 508	Woodlark Mining Ltd	100%
12		ML 509 (Application – Registration Complete)	Hells Gate Exploration Ltd	100%
13		ML 510 (Application – Hearing Complete)	Anomaly Ltd	100%
14		SML (B) (Pending Renewal)	Bougainville Copper Pty Ltd	100%

3.1.4.5.5 Small Scale Mining

According to the MRA small scale mining contributed “approximately 95,000 ounces of gold exported in 2012. Between 60,000 and 80,000 small scale miners, earn a living out of alluvial mining by commonly using non-mechanical methods thereby making a contribution to Papua New Guinea’s total production of 1.9 million ounces of gold in 2012.” http://www.mra.gov.pg/en-au/geologymining.aspx

Small scale miners sell to secondary buyers/traders and mineral aggregators. Minerals, in particular gold, will eventually be sold on international markets, or to private buyers.

3.1.4.6 Petroleum and Gas

3.1.4.6.1 Exploration

The interested generated by PNG LNG has seen a significant increase in exploration activity in recent years. This is highlighted by the significant number of Petroleum Prospecting Licences ("PPL") and Application for Licenses ("AAPL") as per Sub Appendix 3.2. Accordingly, the Department of Petroleum and Energy, Petroleum Division – Licensing and Registry Branch recently began to review licenses issued to check compliance with relevant technical and financial criteria for holding a license. Initial estimates indicate that up to 50% of all licenses are not compliant particularly with respect to work program requirements.

3.1.4.6.2 Prospects

In addition to expansions of current fields, the Stanley and Elk Antelope projects are amongst others considered highly prospective.

3.1.4.6.3 Development

Oil and Gas

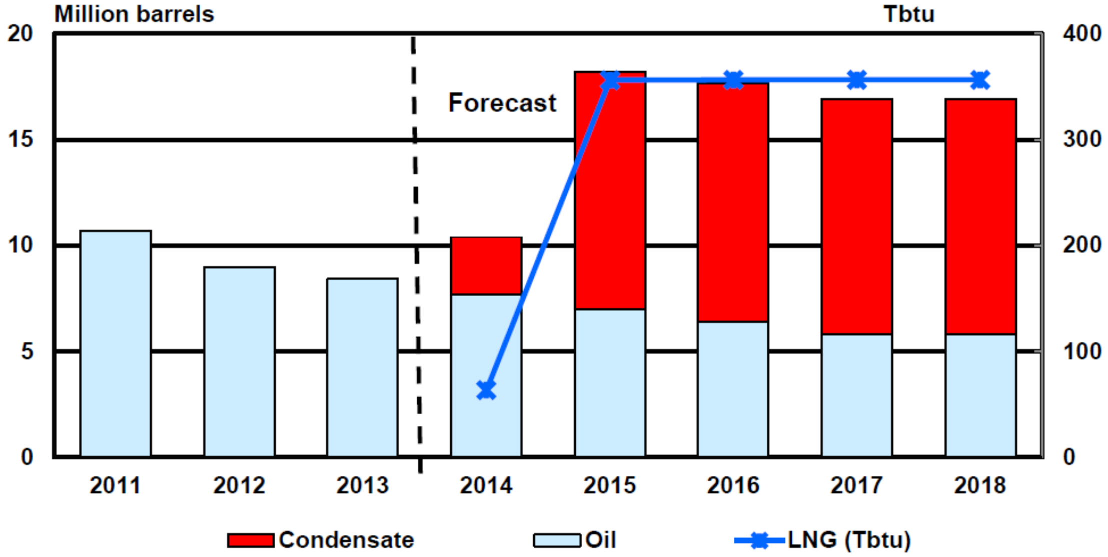
Recent construction activity construction in the petroleum sector has largely been a result of the PNG LNG project. The PNG LNG project has condensate in addition to LNG. At the time of the report, the construction phase had been completed and production had commenced.

3.1.4.6.4 Production

Oil

Oil production in PNG is declining, although condensate is forecast by the Department of Treasury and Department of Petroleum and Energy to increase as a result of the PNG LNG project.

Figure 15: Declining Oil Production Over the Medium Term



Source: Dept of Treasury and Dept of Petroleum & Energy

http://www.treasury.gov.pg/html/national_budget/files/2014/budget_documents/Volume1/2014%20Budget%20Volume%201.pdf

3.1.4.7 PNG LNG

In recent years the PNG LNG project has dominated the oil and gas landscape in Papua New Guinea. The PNG LNG Project is an integrated development that includes gas production and processing facilities in the Southern Highlands, Hela, Western, Gulf and Central Provinces of Papua New Guinea. There are over 700 kilometres of pipelines connecting the facilities, which includes a gas conditioning plant in Hides and liquefaction and storage facilities near Port Moresby with capacity of 6.9 million tonnes per year.

The investment for the initial phase of the Project, excluding shipping costs, is estimated at US$19 billion. Over the life of the Project it is expected that over nine trillion cubic feet of gas will be produced and sold.

The PNG LNG Project commenced production of liquefied natural gas in April 2014 and delivered its first cargo of LNG in May 2014, ahead of schedule.

The Project will provide a long-term supply of liquefied natural gas (LNG) to four major customers in the Asia region including:

- China Petroleum and Chemical Corporation (Sinopec)
- Osaka Gas Company Limited
- The Tokyo Electric Power Company Inc.
- CPC Corporation

A map of the project is outlined below.

http://pnglng.com/project/about.

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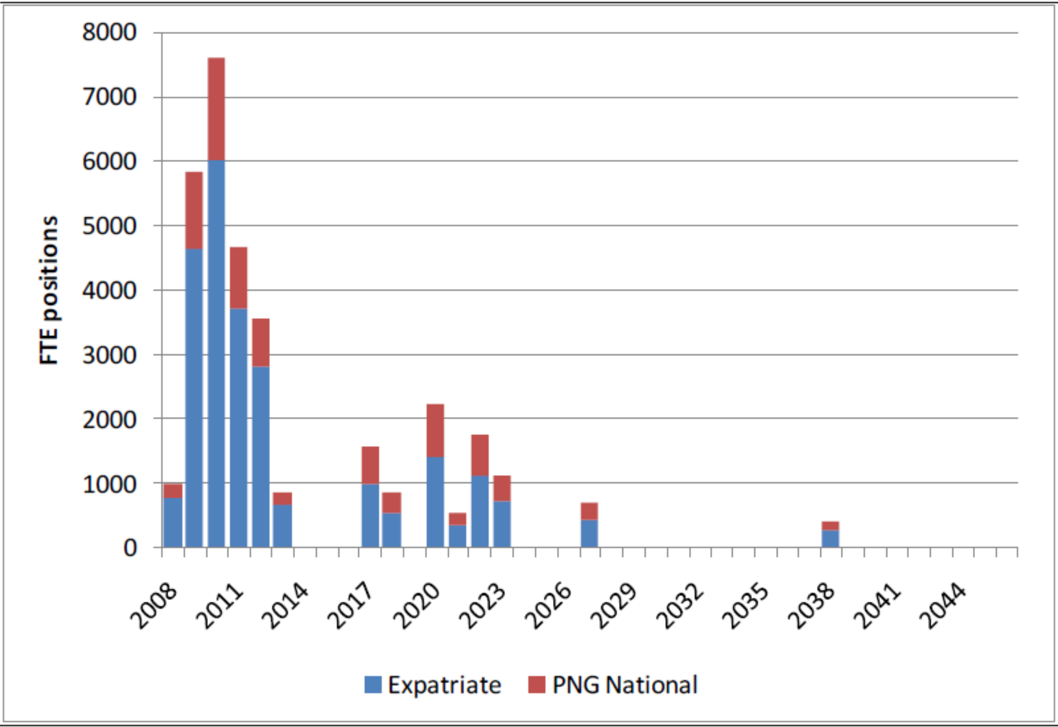
3.2 Contribution of the extractive industries to the economy

3.2.1 Estimated impact of project development to the economy - An Example: PNG LNG

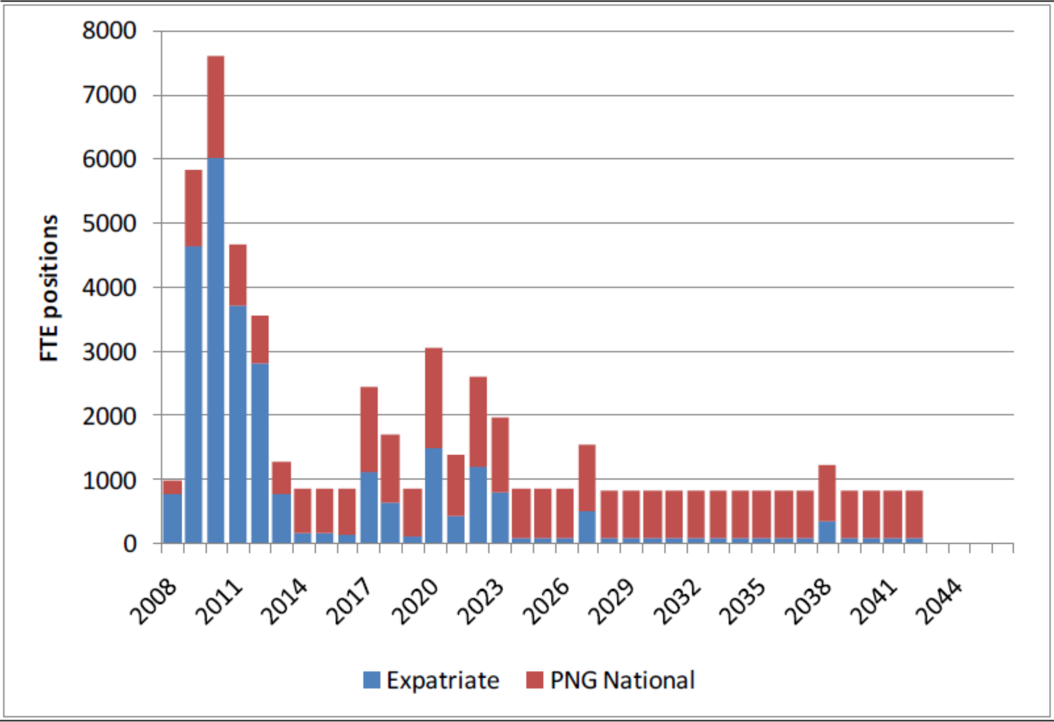
It is typical for the overall economy to benefit during the construction phase of a mining project(s). Figures extracted from the *ACIL PNG LNG Economic Impact Study, an* Exxonmobil commissioned study, outlines some of the expected impacts leading up to production in 2014:

Figure 5 **Construction workforce direct employment and contractors**



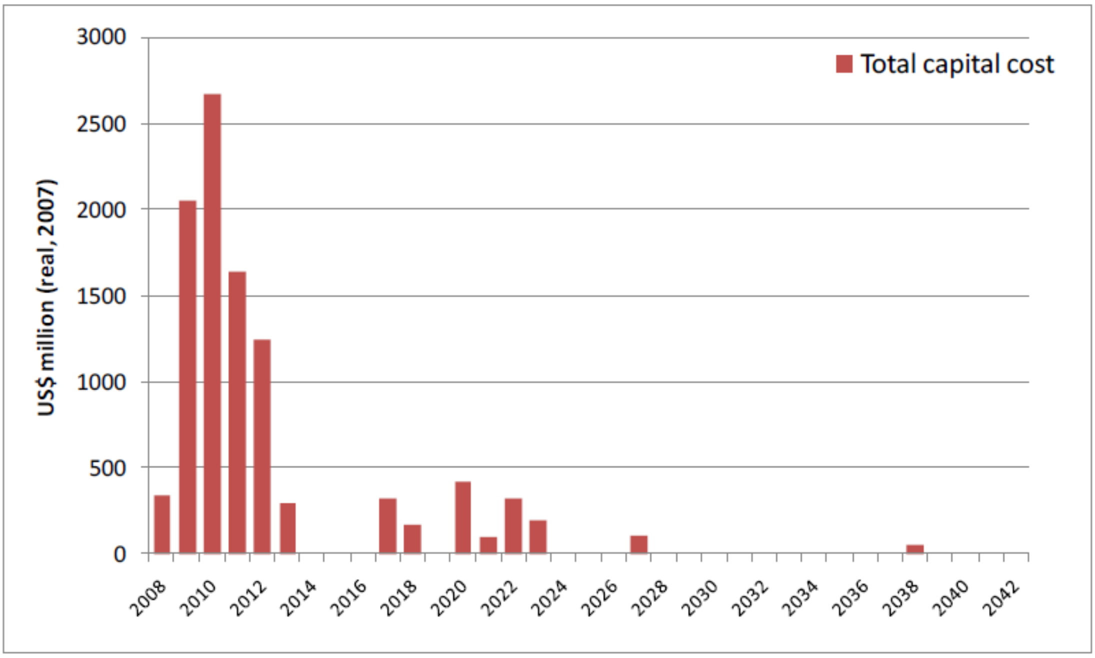
Data source: ACIL Tasman analysis based on proponent advice

Figure 7 **Total direct employment from construction and operations**



Data source: ACIL Tasman analysis based on proponent advice

Figure 2 **Total capital expenditure (Real US$, 2007)**



Source:
http://pnglng.com/project/economic-benefits:

3.2.1.1 Impact of project development to the economy

The construction sector significantly benefits from the project development phase of projects with flow on effects to the rest of the economy. The following is an extract from State Budget data:

GROSS DOMESTIC PRODUCT AT CURRENT AND CONSTANT PRICES	2011 Actual	2012 Actual	2013 Estimate	2014 Projection
CONSTRUCTION				
nominal	4,965	6,381	7,427	7,405
deflator	205	212	221	235
real	2,424	3,006	3,364	3,149
rate of real growth %	26.0	24.0	11.9	- 6.4
TOTAL GDP				
nominal	30,618	32,133	34,611	39,592
rate of nominal growth	16	5	8	14
deflator	239	233	239	257
real	12,803	13,785	14,482	15,384
rate of real growth %	11.1	8.0	5.1	6.2

The construction figures includes non-mining related construction and there were other sectors of the economy which contributed to the total GDP growth. Please read the treasury budget papers for further contextual information
http://www.treasury.gov.pg/html/national_budget/national_budget.html

This trend changes once construction reaches completion. This impact is outlined in the Mid-Year Economic and Fiscal Outlook Report 2014 released by Treasury:

Despite the huge gain in the oil and gas sector, the impact of the production phase of PNG LNG on the non-mining sectors of the economy remains small compared to the construction phase. Non-mining GDP in 2014 is projected to grow by 1.1 percent, which is very slow compared to the faster pace of 9 percent recorded during the construction phase of the PNG LNG project. The completion of the PNG LNG project was always anticipated to have a significant impact on the economy given the overwhelming boost injected during its construction. It is clear that the amount of resources mobilised including the total spent during construction of the project dwarfed any investment ever made in the economy therefore its completion is deemed to have a deflating effect on overall activity. With the project construction phase completed, the stimulus experienced during the construction phase will be hard to replace nor repeated hence growth is projected to decelerate in the non-mining sectors especially in those that benefited from the indirect impacts of the construction phase including community, social and personal services, finance and real estate and electricity gas and water. The construction sector is expected to contract as it was the one to have borne the bulk of the direct impacts.

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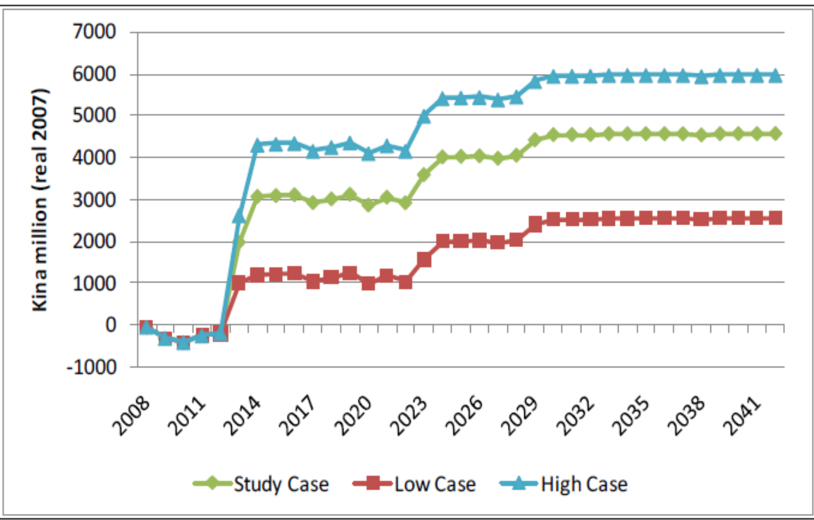
3.2.1.2 Production phase economic impact

The economic benefits shift as revenues flow to royalty and tax recipients and away from those who have benefitted from the project development phase. Although this relates to all mineral, oil and gas projects in PNG, we have used the PNG LNG project as an example, extracting the analysis undertaken by ACIL Tasman, http://pnglng.com/project/economic-benefits:

"The direct benefits of the LNG project would include valuable revenue streams for national and provincial governments and landowners through taxes, royalty payments, levies, and through equity participation in the project. Under the Study Case assumptions, the total direct cash flow to the PNG government and landowners from the LNG project is estimated at US$31.7 billion (K114 billion) over a 30-year life of project. Figure ES2 shows the modelled annual direct cash flow to government and landowners from taxes, royalties and other payments as well as returns to equity.

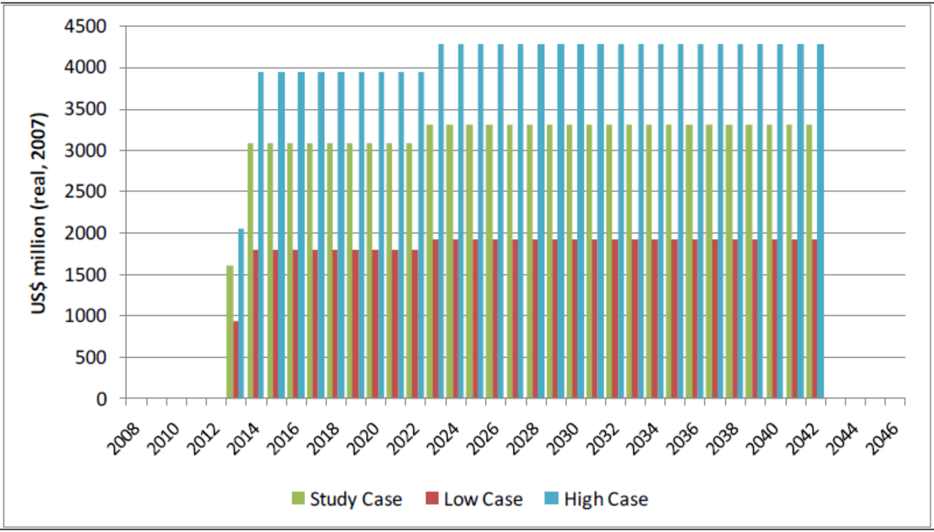
The cash flows shown are net of the costs of equity contributions (and therefore negative in the early years). Net cash flow would reach a maximum of around K4.5 billion/year for the Study Case, within a range of K2.5 to 6 billion/year for the Low Case and High Case respectively.

Figure ES 2 **Total annual net cash flow to government and landowners**



Data source: ACIL Tasman analysis

Figure 4 **Total value of output (real US$, 2007)**



Data source: ACIL Tasman analysis

The Budget of Papua New Guinea projects the following Gross Domestic Impact at Current and Constant Prices for Oil Gas and Extraction and Mining and Quarrying.

	2012 Actual	2013 Est	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj
Oil and Gas Extraction							
nominal	1320.4	1322.3	3444.6	12828.7	13027.8	13136.7	13154.9
deflator	796.3	805.7	461.5	378.7	385.4	390.5	391.0
real	165.8	164.1	746.5	3387.7	3380.7	3364.1	3364.1
rate of real growth	-20.5	-1.0	354.8	353.8	-0.2	-0.5	0.0
Mining and Quarrying							
nominal	3275.2	3371.5	3795.4	3878.3	3908.9	4233.8	4396.3
deflator	513.7	461.2	456.4	452.1	459.0	466.8	472.0
real	637.6	731.1	831.7	857.8	851.6	907.0	931.4
rate of real growth	-2.5	14.7	13.8	3.1	-0.7	6.5	2.7

Source: Table 1: 2014 Budget Volume 1

3.2.1.3 Impact of production on the economy

Mineral exports make up a significant percentage of total exports as per the table below:

TABLE: VALUE OF MAIN EXPORT COMMODITIES *Source: Extracted from Budget and MYEF(Data.* *(Kina Million)*	2011 Actual	2012 Actual	2013 Estimate	2014 Projection
AGRICULTURE, FORESTRY, FISHERIES				
Copra	70.8	33.1	16.8	18.8
Copra Oil	173.9	56.1	40.4	50.2
Cocoa	320.3	182.6	151.1	171.8
Coffee	927.7	478.5	274.5	278.6
Palm Oil	1477.4	1009.9	789.6	912.2
Rubber	40.8	33.1	34.3	42
Tea	13.9	11.7	7.9	8.9
Other Agriculture	291.3	209.3	224.2	235.9
Forest Products	809	627.1	615.3	624
Marine Products	259.8	329.5	299.7	191.7
Total Agriculture, forestry and fisheries	**4384.9**	**2970.9**	**2453.8**	**2534.1**
MINERALS				
Gold	6177.4	5202.8	5392.6	5447.8
Copper	3047.1	2071.5	2044.1	1766.5
Silver	102	114.9	88.1	84.8
Oil	2434	2134.3	1360.8	1239.8
LNG	0		0	1810.4
Condenstae	0		0	491.2
Nickel	0		546.2	889.7
Cobalt	0		77.9	139.9
Refined Petroleum Products	473.6	680.2	444.8	473.7
Total Mineral Exports	**12,234.10**	**10,203.70**	**9,954.50**	**12,343.80**
TOTAL EXPORT	**16,619.00**	**13,174.60**	**12,408.30**	**14,877.90**
Percent Mineral Exports of Total	**74%**	**77%**	**80%**	**83%**

Source: Treasury publications including *2014 National Budget Volume 1*

The GDP growth by sector is outlined below. Notably the construction sector benefited significantly from the PNG LNG project and with shipments beginning the impact on GDP from LNG has just begun.

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT CURRENT AND CONSTANT PRICES Source: Extracted from Budget and MYEFO Data.	2011 Actual	2012 Actual	2013 Estimate	2014 Projection
Oil and Gas Extraction				
nominal	1,862.60	1,320.40	1,322.30	3,444.60
deflator	892.50	796.30	805.70	461.50
real	208.70	165.80	164.10	746.50
rate of real growth	- 17.50	- 20.50	- 1.00	354.80
Mining and quarrying				
nominal	3,806.30	3,275.20	3,371.50	3,795.40
deflator	581.90	513.70	461.20	456.40
real	654.10	637.60	731.10	831.70
rate of real growth	- 9.80	- 2.50	14.70	13.80
Construction				
nominal	4,965.30	6,380.80	7,427.20	7,405.40
deflator	204.90	212.30	220.80	235.20
real	2,423.80	3,005.50	3,364.10	3,148.80
rate of real growth	26.00	24.00	11.90	- 6.40
Total non-mining GDP				
nominal	24949.4	27,537.50	29,917.10	32,351.60
rate of nominal growth	21.7	10.90	8.60	8.10
deflator	209	212.10	220.20	234.30
real	11940	12,981.90	13,586.70	13,806.20
rate of real growth %	13.2	9.10	4.70	1.60
Total GDP				
nominal	30,618.40	32,133.00	34,611.00	39,591.60
rate of nominal growth	15.90	5.30	7.70	14.40
deflator	239.20	233.10	239.00	257.40
real	12,802.80	13,785.30	14,481.90	15,384.30
rate of real growth	11.1	8.0	5.1	6.2
Mining GDP as a % of Total (nominal)	19%	14%	14%	18%

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3.2.1.4 Impact to State revenues

Contributions made by extractive industries to State revenues as extracted from Treasury publications as follows:

	Millions of Kina		
	2012 Outcome	**2013 Outcome**	**2014 Revised**
Total GDP	32,102.62	34,622	39,601
Total Government Revenue	**8,571.40**	**9,832.70**	**12,316.00**
% of Total GDP	27%	28%	31%
Total Tax Revenue	8,148.30	8,588.50	9,504.20
% of Total Government Revenue	95%	87%	77%
Total Mining and Petroleum Tax Revenue	**981.10**	**666.70**	**648.70**
% of Total Tax Revenue	**12%**	**8%**	**7%**
% of Total Government Revenue	**11%**	**7%**	**5%**
% of GDP	**3%**	**2%**	**2%**
Total Non-Tax Revenue	423	274	1,127
Total Mining and Petroleum Dividend Revenue	**122.30**	**-**	**-**
% of Total non-tax revenue	**29%**	**0%**	**0%**
% of Total Government Revenue	**1.4%**	**0%**	**0%**
% of GDP	0.38%	0%	0%

Source: Extracted from Treasury publications.

This extract sets out the direct revenues recorded in the Budget. The Budget category of *Mining and Petroleum Tax Revenue* refers to Corporate Income Tax for mining and petroleum taxes (i.e. corporate income tax levied at the applicable industry sector rates). Per our discussions with IRC this category does not include other taxes paid by mining and oil companies locally to the IRC such as wages withholding taxes (Group Tax), royalty taxes or Goods and Services Taxes. Corporate Income Tax in many instances is paid to the Federal Reserve in the United States (Managed by the Reserve Bank of Papua New Guinea) because commodities are sold in United States Dollars, while other taxes are paid locally into Commercial and Reserve Bank of PNG bank accounts in Kina.

3.3 List of revenue streams and payments in the mining, petroleum and gas sectors

The following is a list of revenue streams and payments. Further details are provided in *Appendix 6: Payment Computations* below. The scoping of recipients is an initial process for information purposes only and is to be finalised upon completion of all deliverables.

Mining

Revenue and Payment Stream	Initial Scoping of Recipients	Brief Description *(Refer Appendix 6 below for further information)*
Income tax	PNG Internal Revenue Commission (Corporate Income Tax is paid into a Federal Reserve (USA) account in USD managed by the Reserve Bank of PNG, while other income taxes are paid in Papua New Guinea in PGK	This data excludes the portion of Income Tax 0.75% made available to fund infrastructure projects under the Tax Credit Scheme.
Dividends	Treasury - holdings of Petromin and Ok Tedi Mining Limited PNG Independent Public Business Corporation (IPBC) - Interests in Highlands Pacific	The Government of Papua New Guinea has a direct or indirect shareholding in: • Ok Tedi Mining Limited • Petromin • Highlands Pacific • Oil Search
Royalties	Due to Independent State of PNG, but paid to landowners or landowner associations and provincial governments under benefit sharing agreements	Royalties are paid directly to the landowners or landowner associations and provincial governments.
Production Levies	Mineral Resources Authority (MRA)	These levies partly fund the operations of MRA
Tax credit	Project suppliers	The Tax Credit Scheme is a voluntary PNG national government scheme under which up to 0.75% of gross assessable income can be made available to fund infrastructure projects approved by the government and delivered by resource companies as works in kind. Tax Credit monies are used to upgrade and deliver infrastructure projects such as schools, aid posts and roads, predominantly around project affected areas. The money is paid to PNG vendors of the mining company (preferably from the project areas) to provide materials and services using company contracting processes.

(Table continued on the next page)

Revenue and Payment Stream (cont.)	Initial Scoping of Recipients	Brief Description *(Refer Appendix 6 below for further information)*
Salary & wages tax	PNG Internal Revenue Commission	Salary & Wages Tax is the personal income tax remitted by companies and their affiliates, and paid for on behalf of all expatriate & citizen employees and directors who earn salaries and wages across all project areas. This does not include contractors who occupy company positions.
Other Govt. taxes	PNG Internal Revenue Commission	Includes goods and services taxes, excise duty, customs duties, foreign contractor's withholding tax, goods & services tax, interest withholding tax, and stamp duties.
Other Govt. fees & charges	PNG Finance Department or the applicable government Regulation/Act owner, including Minerals Resource Authority, Department of Environment & Conservation, Department of Transport, Immigration, Internal Revenue Commission, and Department of Labour & Industrial relations etc.	Different fees and charges paid to the PNG government for the provision of services or compliance with applicable statutory requirements. Fees and charges include Minerals Resource Authority licence fees, data request fees, Department of Environment & Conservation water and waste permits and environmental bonds, in-house customs agency fees, manufacturer licence, PNG passports and visas, PNG work permit fees, telecommunication licences and drivers' licences.
Mine Closure Bond	MRA	The developer is to establish a financial security bond for the purposes of mine closure. The financial security may include; i. An irrevocable, unconditional letter of credit issued to the State by a Bank or a parent company, ii. A security or guarantee issued to the State by a bank or a company legally able to do so, iii. Security interests in unencumbered assets, goods, documents of title, securities, chattels, instruments, monies, intangibles or interest arising from assignments of accounts including a pledge of assets.
Social Payments (Mandatory Local Content)	NGOs, community groups, Government	Mandatory payments under legislation, policy of development agreements, which are included in 7.1.3.2 in more detail. May include such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events
Corporate Social Responsibility Payments	NGOs, community groups, Government	Non-mandatory payments that includes such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events

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3.3.1 Petroleum and Gas

Revenue and Payment Stream	Initial Scoping of Recipients *(To be confirmed in next deliverable on the basis of finalised scoping and materiality considerations)*	Brief Description *(Refer Appendix 6 below for further information)*
Gas - Share of Co-Venture	NPCP Petromin MRDC as a Corporate Trustee on behalf of landowners (including incorporated land group groups), provincial government and local government)	NPCP holds a 16.57% participating equity interest in the PNG LNG Project, making NPCP the third largest participant in the Project Eda Oil owns a 0.24% interest in the Project derived from its 20.5% interest in the Moran Petroleum Development Project. MRDC is a direct equity participant in the PNG LNG project with a 2.8% interest held by the company on behalf of its subsidiary companies.
Oil - Share of Co Venture	Petromin	Eda Oil Limited (EOL), a subsidiary, holds Petromin's interests (11.275 %) in the Unitized Moran Project. EOL's share of oil production.
Income tax	IRC	This data excludes the portion of Income Tax (0.75% ceiling) made available to fund infrastructure projects under the Tax Credit Scheme.
Additional Profits Tax	IRC	In addition to income tax, gas projects are also subject to an additional profits tax (APT) based on the cash flow of the project.
Dividends	PNG Independent Public Business Corporation (IPBC) - National Petroleum Company of PNG Limited (NPCP – PNG LNG Treasury - Petromin (Eda Oil)	The Government of Papua New Guinea has a direct or indirect shareholding in: • NPCP • Petromin We note that under a proposed restructure ownership of Eda Oil may be transferred to a Kumul oil & gas holding company.
Royalties	Independent State of PNG, Department of Finance (2014) Department of Petroleum and Energy (2013)	Royalties were redistributed by the PNG Department of Petroleum and Energy (Now Department of Finance) to impacted provincial and local level governments and landowners based on each individual oil licence development agreement.
Development levies	Independent State of PNG	These levies are paid 12 months in arrears and are redistributed to affected provincial governments and local level governments for community infrastructure projects. Under the Oil & Gas Act (1998), petroleum projects that started after the passing of this Act – such as the Moran project - require the operator to pay this benefit.

(Table continued on the next page)

Revenue and Payment Stream (cont.)	**Initial Scoping of Recipients** *(To be confirmed in next deliverable on the basis of finalised scoping and materiality considerations)*	**Brief Description** *(Refer Appendix 6 below for further information)*
Tax credits	Project suppliers	The Tax Credit Scheme is a voluntary PNG national government scheme under which up to 0.75% of gross assessable income can be made available to fund infrastructure projects approved by the government and delivered by companies as works in kind. Tax Credit monies are used to upgrade and deliver infrastructure projects such as schools, aid posts and roads, predominantly around project affected areas. The money is paid to PNG vendors (preferably from the project areas) to provide materials and services using company contracting processes.
Salary & wages tax	PNG Internal Revenue Commission	Salary & Wages Tax is the personal income tax remitted by oil companies and its affiliates, and paid for on behalf of all expatriate & citizen employees who earn salaries and wages across all project areas. This does not include contractors who occupy oil company positions.
Directors' tax	PNG Internal Revenue Commission	This is the personal income tax collected by Oil Companies and paid on behalf of Directors who sit on the Board of Oil Companies.
Other Govt. taxes	PNG Internal Revenue Commission	Includes goods and services taxes, excise duty, foreign contractor's withholding tax, interest withholding tax, and stamp duties.
Other Govt. fees & charges	PNG Finance Department or the applicable government Regulation/Act owner, including Department of Petroleum & Energy (DPE), Department of Environment & Conservation, Department of Transport, Immigration, Internal Revenue Commission, and Department of Labour & Industrial relations etc.	Different fees and charges paid to the PNG government for the provision of services or compliance with applicable statutory requirements. Fees and charges include Department of Petroleum & Energy licence fees, data request fees, Department of Environment & Conservation environmental bonds water and waste permits, in-house customs agency fees, manufacturer licence, PNG passports and visas, PNG work permit fees, telecommunication licences and drivers' licences.
Decommissioning Bonds	DPE where applicable	*S139 of the OGA* The licensee shall demonstrate such financial resources– *(a)* by establishing a reserve account for abandonment costs in accordance with the report of a certified independent auditor; or (*b*) by providing, in a form acceptable to the Minister, a financial undertaking (or in the case of a licensee which is a joint venture, several undertakings) in the form of a bond, letter of credit or guarantee or other instrument acceptable to the Minister; or (*c*) by granting the Minister a charge or similar security over its assets and income.
Other License Securities	DPE	The OGA makes reference to other forms of security payable to the state for licenses.

(Table continued on the next page)

Revenue and Payment Stream (cont.)	**Initial Scoping of Recipients** *(To be confirmed in next deliverable on the basis of finalised scoping and materiality considerations)*	**Brief Description** *(Refer Appendix 6 below for further information)*
Social Payments (Mandatory Local Content)	NGOs, community groups, Government	Mandatory payments under legislation, policy of development agreements, which are included in Appendix 3.3.1.2 in more detail. May include such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events
Corporate Social Responsibility Payments	NGOs, community groups, Government	Non-mandatory payments that includes such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events

Sources:
Mining Act 1992, Mineral Policy of Papua New Guinea
Oil and Gas Act 1998 (OGA)
Income Tax Act 1952 (ITA)
Petromin
http://www.petrominpng.com.pg/pubs.html
MRDC
http://www.mrdc.com.pg/subsidiaries/index.htm
PNG LNG
http://pnglng.com/project/co-ventures
Oil Search Transparency report
http://www.oilsearch.com/Media/docs/OS_2012_Transparency%20Report-322e9600-864f-4ed6-b19d-5f05af1d9b93-0.pdf
Deloitte PNG Resource Tax Guide

3.3.2 Social Payments by Companies

The social payments made by companies will differ on a project by project basis. Companies have provided examples of the types of social payment made. Further analysis was undertaken:

Oil and Gas

Types	Examples provided by the companies
Workforce development	**Oil Search** Oil Search is committed to hiring local people to fill vacancies wherever possible. Their retention and development forms a critical element of the Company's workforce development objectives. This commitment: • Ensure a local source of skilled, competent staff in the longer term • Aligns with partner and government expectations • Benefits communities through economic stability and growth and skills development. **PNG LNG** Workforce development aims to create local jobs and train people in technical and professional skills that are needed during the construction phase of the Project and future employment opportunities either with the production phase of the Project or elsewhere.
Supplier development	**Oil Search** Oil Search provides a wide range of goods, services and skills to international standards. They contract many local businesses such as Landowner companies (Lancos) and cooperatives in Oil Search's supply chain. They also provide them with business development advice. This helps them to grow and generates a sustainable income for local communities, while mitigating landowner-related problems around their areas of operation. Oil Search provides a wide range of goods, services and skills to international standards. They contract many local businesses such as Landowner companies (Lancos) and cooperatives in Oil Search's supply chain. They also provide them with business development advice. This helps them to grow and generates a sustainable income for local communities, while mitigating landowner-related problems around their areas of operation.

(Table continued on the next page)

Types (cont.)	Examples provided by the companies
Supplier development (cont.)	**Oil Search (cont.)** Oil Search contracts Lancos for a range of services including: • Catering and maintenance services at all camps • Local produce • Security • Trucking and transport • Civil infrastructure support. **PNG LNG** Representative Landowner Companies (Rep Lancos) have been selected to conduct and streamline business operations associated with the PNG LNG Project. Each of these companies represents a geographic area within the Project area. The engagement and development of local suppliers is an important aspect of the PNG LNG Project's National Content Plan. Supplier development involves purchasing local goods and services, transferring knowledge and skills, and increasing PNG suppliers' capability to help them meet the global standards that are expected for contracts with PNG LNG and other projects. The Enterprise Centre is an initiative of the PNG LNG Project and is operated by the PNG Institute of Banking and Business Management (IBBM). IBBM is the longest established private sector training organisation in PNG. The Enterprise Centre was officially opened on 14 April 2010 under a five-year agreement.
Food and agriculture development	**Oil Search** A focus of Oil Search's sustainable development activities is supporting the establishment of sustainable agricultural enterprises. These enterprises, particularly those run by women, align with multiple sustainable development priorities, including improved food security, economic development, conservation and health. **PNG LNG** The PNG LNG Food and Agriculture Development Program is making an important difference in the lives of people in the Hides and Komo areas. The program is providing assistance for villagers affected by economic and physical displacement and is helping to improve nutrition in the region.

(Table continued on the next page)

Types (cont.)	Examples provided by the companies
Women's programs	**Oil Search** The Oil Search Occupational and Medical Team and the Oil Search Foundation support efforts to eliminate violence against women through on-site and community awareness presentations, posters and events. **PNG LNG** Since 2006, ExxonMobil PNG Limited has helped 49 women from PNG attend the prestigious Global Women in Management (GWIM) conference. These women are already making inroads into driving change in their communities, and the training program enhanced their skills and networks.
Community health	**Oil Search** The Oil Search Medical and Occupational Health Service deliver contemporary health care to Oil Search's workforce and provides urgent medical care to local communities in the area of operations within PNG. This service includes six permanent clinics, including one in Port Moresby, supplemented by several temporary clinics at operational locations. The Oil Search Health Service consists of both qualified local and international health professionals. The service's objective is to strengthen and improve the capacity of health care delivery in the areas in which we operate, using a risk based approach governed by health policy, standards and procedures. A simple, realistic and consistent approach is adopted to meet the Company's, and its stakeholders', needs and expectations. Core programs include; Occupational Health, Curative Medical Care and Community Medical Support. Emergency response and evacuations, both domestic and international, are managed in-house by the Health Service. A mandatory annual development programme supports the maintenance of patient care standards. This workforce wellbeing programme aims to prevent lifestyle related diseases and improve overall workforce health. **PNG LNG** ExxonMobil PNG Limited, in partnership with the Papua New Guinea Institute of Medical Research (PNGIMR) and Population Services International (PSI), has developed a Community Health Impact Management Program to function across all Project areas.

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Types (cont.)	Examples provided by the companies
Health and safety programs	**Oil Search** Oil Search uses an organisation-wide health, safety, environment and security (HSES) management system to ensure a consistent corporate approach to managing HSES risks to people, assets and the environment. They strive for all operations to be incident free through: • Effective leadership • Behaviour change programmes • Support systems • Risk Management strategies. Performance against HSES standards is framed by the HSES Group 1, Oil Search's most senior safety committee, which comprises executive and senior managers. This group guides compliance with the HSES Policy and Standards and drives safety performance towards Oil Search's overall objective of incident free operations. An incident management system supports ongoing monitoring, review and performance improvement across the Company. **PNG LNG** The PNG LNG Project Safety Champions program is playing a vital role in helping to promote a positive work safety culture on the PNG LNG Project. ExxonMobil PNG Limited is helping to reinforce the importance of pedestrian and road safety awareness with the community. The Project has been successful in delivering its pedestrian and road safety message to more than 11,000 Papua New Guinean citizens in Project areas by 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.
Resettlement programs	**PNG LNG** The PNG LNG Project has an overall goal to avoid resettlement where possible; but where unavoidable, to design and implement resettlement in a manner that improves, or at least restores, livelihoods and standards of living of physically and economically displaced persons. Resettlement includes both physical and economic displacement.

(Table continued on the next page)

Types (cont.)	Examples provided by the companies
Resettlement programs (cont.)	**PNG LNG (cont.)** Physical displacement involves the loss of shelter and assets resulting from acquisition of land associated with the Project that requires the affected persons to move to another location. Economic displacement involves the loss of income streams or means of livelihood resulting from land acquisition or obstructed access to economic resources (land, water, forest) resulting from the construction or operation of the Project or its associated facilities.
Other Education programs	**Oil Search** Several Oil Search programmes are helping to improve education outcomes and develop sustainable livelihoods in project areas. As well as working towards securing a long term skilled workforce and contributing to a more stable local environment, these programmes are providing the opportunity to enact change by: • Widening access to a quality education through university education sponsorships for students from local communities • Providing skills training, in partnerships with various local organisations • Building the capacity of educational institutions by making improvements to education and facilities through the Community Area Planning Programme, the Donations Programme and the Tax Credit Scheme. **PNG LNG** Improving access to education and skills training for communities is a key priority for the PNG LNG Project. This involves partnering with community leaders, NGOs, and local governments to improve critical school infrastructure and resources. The aim is to enable communities to make better-informed decisions and improve their quality of life.

(Table continued on the next page)

Types (cont.)	Examples provided by the companies
Infrastructure Support	**Oil Search** Sharing responsibility for project selection, planning and delivery with local communities motivates people to support the resulting projects, contribute to their implementation and share in their success. It also encourages ownership, ensures programmes are relevant to local needs and increases the likelihood their benefits will be maximised. Most Community Area Planning (CAP) Programme projects address local infrastructure needs that have been identified by the communities themselves. They include: • Upgrades to school and health buildings • Installation of water tanks and other sanitation facilities • Installation of solar panels • Provision of school desks, sports equipment and sports facilities. Project applications are completed by local communities and reviewed by a local CAP committee. Only projects that demonstrate the direct involvement of local people in the project delivery are approved – all projects must be a joint effort between the community and Oil Search. **PNG LNG** • Mining projects in Papua New Guinea build significant infrastructure projects such as roads to provide access to Mining projects. Where practicable these infrastructure projects are shared with the general public.
Support to the Security Forces	**PNG LNG** ExxonMobil PNG Limited has signed a Memorandum of Understanding (MOU) with the Royal Papua New Guinea Constabulary (RPNGC), which sets out ExxonMobil PNG Limited's interface with the RPNGC in relation to security for the PNG LNG Project. The MOU defines the type of support ExxonMobil PNG Limited can offer, such as transportation, fuel, lodging and stipends for police personnel located away from their normal work locations. The MOU is important to both parties in that it establishes clear expectations and provides a solid foundation for the delivery of effective policing in Project areas. http://pnglng.com/commitment/hot-topics/security

Mining

The *Mineral Policy of PNG* sets out the following social obligations. Companies may make additional contributions in accordance with their company policies.

PART 9. EMPLOYMENT	1. The developer shall develop an Employment and Training Plan (ETP). The ETP shall be approved by the National Training Council (NTC) and shall be an annexure to the MOA document, 2. Preference in employment shall be given in the following order of priority to suitably qualified persons from the mining host province(s), then to other parts of the country and the rest of the world, 3. The developer shall give equal opportunity to women in terms of employment. The ETP shall be administered by the Monitoring and Review Committee.
PART 10. EDUCATION AND TRAINING	1. The developer shall develop Training and Localization Plan (TLP) in consultation with the State through the National Training Council (NTC), 2. The Training and Localization Plan shall be an annexure to the MOA document and shall be administered by the Monitoring and Review Committee.
PART 11. LOCAL BUSINESS PARTICIPATION	1. Where feasible, the developer shall give due consideration to reputable landholder companies on commercial arrangements to participate in major contracts in relation to mine development and operations, 2. The developer shall develop a Business Development Plan (BDP) in consultation with the State through the Department of Commerce and Industry, 3. The BDP shall be an annexure to the MOA document and shall be administered by the Monitoring and Review Committee, 4. The developer shall employ a Business Development Specialist to assist with the establishment and operation of landholder businesses.
PART 12. SUPPLY AND LOCAL PROCUREMENT .	1. The developer shall develop a Supply and Procurement Plan (SPP), which shall be an annexure to the MOA and shall be administered by the Monitoring and Review Committee, 2. The developer shall give preferences to the well-established suppliers in the mine host province(s) first and then to those reputable suppliers that are capable of meeting the specified service required that are established within Papua New Guinea before sourcing internationally

(Table continued on the next page)

PART 17. PROJECT INFRASTRUCTURE .	1. Provision of Infrastructure (a) The development of the mine shall include the construction of all infrastructures which will be required by the project and where appropriate cater for the socioeconomic needs of the population affected by the project, (b) Project infrastructure shall include operational facilities (Project Offices, accommodation, mining and processing plant, project area roads, pipelines, transmission lines, water, waste facilities) and the non-operational facilities (local government facilities, community and health centres, roads, wharves and air strips, etc.), 2. Costs and Ownership of Infrastructure **(a)** The capital cost of all project infrastructures shall be borne by the project developer. The State may contribute to the capital cost of non-operational facilities which shall be reimbursed by the project company, **(b)** The developer shall transfer ownership of non-operational facilities from the project at no cost to the State at the time of the mine closure.
PART 18. TOWNSHIP DEVELOPMENT	1. The developer and the State shall collaborate to develop integrated and economically viable townships in the Mining Lease project areas. 2. The township shall cater for the permanent employee residence and to service the local community's socioeconomic needs.

More information is provided in *Appendix 6: Payment Computations* below.
Sources:
http://www.oilsearch.com/Sustainability/Enhancing-Our-Social-Licence.html
http://www.oilsearch.com/Sustainability/Generating-Shared-Value.html
http://pnglng.com/newsroom/fact-sheets/
http://www.mra.gov.pg/Portals/2/docs/Mineral%20Policy%202012.pdf

3.4 List of Fiscal and Non-Fiscal Incentives to Mining, Oil and Gas

3.4.1 Fiscal Incentives

Fiscal incentives can be set-out either in legislation or the licensing agreements between the licensees and the State. The following fiscal incentives are specific to Extractive Industries. This section does not undertake comparative analysis with other fiscal regimes and other industries also receive fiscal incentives in PNG.

Incentive	Industry	Description
0.75% Infrastructure tax credit	Mining, petroleum, gas	An extra 0.75% of assessable income (in addition to that under the general ITC) may be claimed as credit against tax payable for expenditure on infrastructure by primary production projects and mining, petroleum & gas companies as per: - mining, petroleum & gas, 0.75% of assessable income. Unused credits can be carried forward for two years. Expenditure in excess of 0.75/1.5% can be carried forward to succeeding years of income. Credit for expenditure on TCS Project not allowed in the year may be carried forward to next succeeding year of tax (indefinite). Credit cannot exceed tax payable in any one year.
1.25% credit for expenditure on "emergency repairs" on Highlands Highway	Gas	1.25% of assessable income in any year following the PNG Gas Project decision may be claimed as an income tax credit for expenditure on construction, upgrading or repairs of a road defined in the Gas Agreement as State Road Commitments. Unused credits can be forwarded for 2 years. Expenditure in excess of 1.25% can be carried forward to future years within this time limit. This only applies to the PNG Gas Pipeline Project. Credit cannot exceed 50% of the amount of tax payable in any one year. Applies when a gas/pipeline Development License is issued.
Incentive Rate for Petroleum Operation	Mining, petroleum, gas	Petroleum operations that qualify for the incentive are taxed at a reduce income tax rate of 30% To qualify for the incentive rate, companies need to be granted a Petroleum Prospective Licence within a designated period of 1st January 2003 to 31 December 2007 from which a Petroleum Development Licence is granted.
Additional Income Tax Deduction Exploration Expenditure	Mining, petroleum, gas	Expenditure incurred by a taxpayer for the purpose of exploration in Papua New Guinea for minerals, petroleum and gas for a period of 20 years pursuant to the issue of a Resource Development Licence. This can be deducted from the income of a development project derived from that exploration license area during the course of its life period. Even the expenditure incurred in relation to other exploration areas which have been surrendered can be claimed. This deduction is in addition to the normal business deductions. Expenses which have been transferred to another taxpayer or amounts recovered would be excluded from the allowable deduction.

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Incentive (cont.)	Industry	Description
New incentive rate of tax for petroleum operations and mining operations carried by non-resident companies	Mining, petroleum, gas	From 2003 onwards, for petroleum development licences granted within the following 15 years, a special "incentive" rate of 30% was introduced. This rate is available to petroleum companies that are holders of new exploration licences, or existing licence holders who reapply, issued within five years from 2003 (and out of which development licences have been issued within ten years) whose planned exploration program is acceptable to the Department of Petroleum and Energy. Moreover, income tax rate on non-resident mining companies was reduced from 48% to 40%.
Carry forward of losses	Mining, petroleum, gas	Taxpayers involved in mining petroleum and gas operations can now carry forward tax losses indefinitely. Other companies are subject to a 20 year limitation.
Pooling of exploration expenditure	Mining, petroleum, gas	Mining, Petroleum & Gas Companies can elect at the end of each year of income to bring in exploration expenditure incurred outside of the project operation during that same year of income and claim this Amount allowed as a tax deduction should not exceed the lesser of 25% of the un-deducted pool balance or such amount that would reduce income tax payable by 10%. Election must be made at the end of the year of income in which the expenditure was incurred.
Fiscal Stability Provisions	Mining, petroleum, gas	The fiscal stability provision allows the State to enter with the resource companies in an agreement which guarantees the fiscal stability of the project in respect of duplicable taxes, duties, fees and other fiscal imposts and the rates at which such taxes, duties, fees and other fiscal imposts will be charged and the manner in which liability in respect thereof will be calculated in the event of a change in the applicable law after the effective date of the agreement. Mining and petroleum companies have the option of applying for fiscal stability for the original financing period or twenty years whichever is the lesser. Gas companies can apply for a period of time necessary to produce a volume or quantity of resource as defined in the relevant gas agreement to be a foundation volume or quantity for that long-term gas project. Where such a provision applies, a 2 percent premium applies to the income profit tax rates although it is noted the 2% premium was waived in the case of the PNG LNG project.
Interest Withholding Tax Concession	Mining, petroleum, gas	Interest paid by mining, petroleum and gas projects to non-resident lenders is exempted from the withholding of a 15% interest tax. The financing arrangement has to be approved by the Bank of Papua New Guinea (Approval by BPNG is no longer required – Section 35 (2) (e) of the ITA will have to be amended).
Dividend Withholding Tax Concession	Mining, petroleum, gas	Petroleum and gas companies are exempted from the payment of dividend withholding tax on dividend payments to their shareholders. PNG resident mining companies pay a dividend withholding concessional tax rate of 10% on dividend payments to their shareholders instead of the 17% applicable. This equalises their overall tax rate on distributed profits with non-resident mining companies which are taxed at 40%.

(Table continued on the next page)

Incentive (cont.)	Industry	Description
Exemption from Income Tax/Salaries and Wages Tax of Certain Travel Benefits	Mining, petroleum, gas	In addition to the exemption of one annual leave fare from places of employment to the place of origin or recruitment, employees of resource companies are entitled to: 1) Exemption on their domestic fares within Papua New Guinea and, 2) Additional Exemption on their international fares
Stamp Duty Concession on Transfer of Mining Information	Mining, petroleum, gas	If an exploration licence is transferred for the historical cost of obtaining the mining information, total stamp duties to be paid will be: 1) A K 10,000.00 incentive rate for the mining information transfer. 2) An incentive rate of K10,000 for the transfer of the licence. Or a total of K 20,000.00. If an exploration licence is transferred for more than the historical cost of obtaining the mining information, total stamp duties to be paid will be: 1) A K 10,000.00 incentive rate for the mining information transfer. 2) An incentive charge of 2 percent applied on the excess between the price charged and the historical cost (instead of 5 percent previously).
Stamp Duties Concession on Transfer of Development Licences	Mining, petroleum, gas	If a development licence is transferred, total stamp duties to be paid will be: 1) A K 10,000.00 incentive rate for the mining information transfer. 2) An incentive rate of 2 percent of licence value instead of the 5 percent usually charged on transfers of real property valued at over K 140,000.00.
Stamp Duties Concession for Intra-Company Transfers	Mining, petroleum, gas	Transfers resulting from company reorganization or what is known as “intra-group” transfers attract a concessional stamp duty that is limited to K600 per transaction up to a maximum of K12,500. The parent company must own at least 95% of the subsidiary for at least three years prior to the date of the application for exemption. At least 20% of the issued capital or voting rights of the ultimate parent company has to have held a minimum of 20% of the issued capital or voting rights for at least three years prior to the date of the application for exemption. The conveyance must not have the purpose or effect of avoiding or delaying the payment of any tax under the Income Tax Act 1959. The companies must operate as an intra-group operation for a period of 5 years, otherwise the full stamp duty and penalties will apply

(Table continued on the next page)

Incentive (cont.)	Industry	Description
GST Zero Rating of Exports	Mining, petroleum, gas	Exported goods are not subject to Goods & Services Tax (GST). Exporters receive a full refund of GST paid on all inputs to production of exported goods or services
Zero rating of GST on goods supplied to resource companies.	Mining, petroleum, gas	Goods or services, other than cars, supplied to a resource company for use in resource operations are zero-rated for GST. Applies to registered holders of mining, petroleum or gas tenements and the Goods must be used for the resource operations.
Fiscal Stability Clause for PNG LNG	Petroleum and, gas	According to the Department of Petroleum and Energy the Fiscal Stability Clause in the PNG LNG contract provides for a 2% Fiscal Stability Tax. The Tax for PNG LNG is included within the 30% tax rate which instead of having an effective rate of 32% (inclusive of Levy) the tax rate inclusive of the levy is 30%.
Customs exemption for PNG LNG	Gas	PNG LNG Project petroleum is exempt from customs duties (import and excise duties) and any LNG project company, its affiliates and any person engaged by an LNG company pursuant to a written agreement is not liable to pay any customs duty on import, export, use or movement of the goods and consumables to be used or consumed for or by the LNG project in connection with initial construction and any subsequent phase of the project whose total project costs exceed USD 50 million or equivalent
Ramu Nickel Mining Development Contract	Mining	10 year taxation holiday, customs and import duties exemptions
Well Head Valuation Determination	Gas	The PNG LNG project has been provided a well head valuation determination that may differ from other oil and gas projects to be approved.

Note that a number of tax concessions listed in this section are available to all taxpayers and not just resource industries. Also, ACE deductions are analogous to depreciation and would not normally be considered a concession

Sources included:

A Guide to the Taxation Incentives for Business & Investment in Papua New Guinea, PNG Internal Revenue Commission
Deloitte Resources Tax Guide

Non-Fiscal Incentives

Per our discussions with the Department of Petroleum and Energy the following non-fiscal Incentives provided by the Government include but are not limited to:

- Increased policing activity at mining, oil and gas sites
- Removal of Domestic Market Obligations in accordance with Section 67 of the OGA for PNG LNG
- Allowances for fast track immigration processing for the PNG LNG project
- Employment of Non-Citizens
- Licensed Insurer exemptions
- Price Regulation exemptions
- Central Banking regulation exemptions

http://pnglng.com/downloads/fs_PrinciplesSecurityHumanRights.pdf

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Sub Appendix 3.1: Fraser Institute Surveys

Figure 5: Policy/Mineral Potential assuming no land use restrictions in place and assuming industry "best practices"

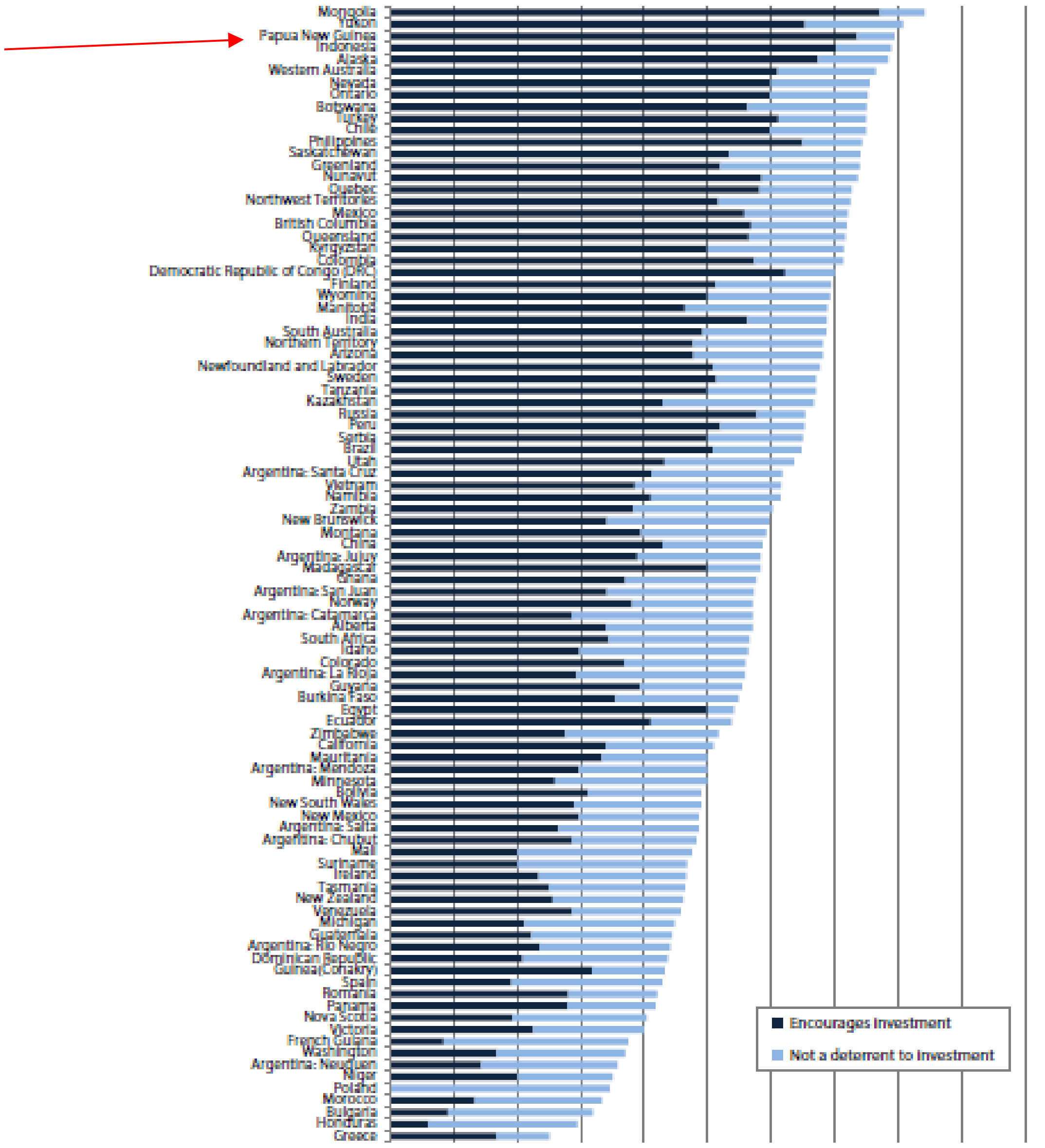

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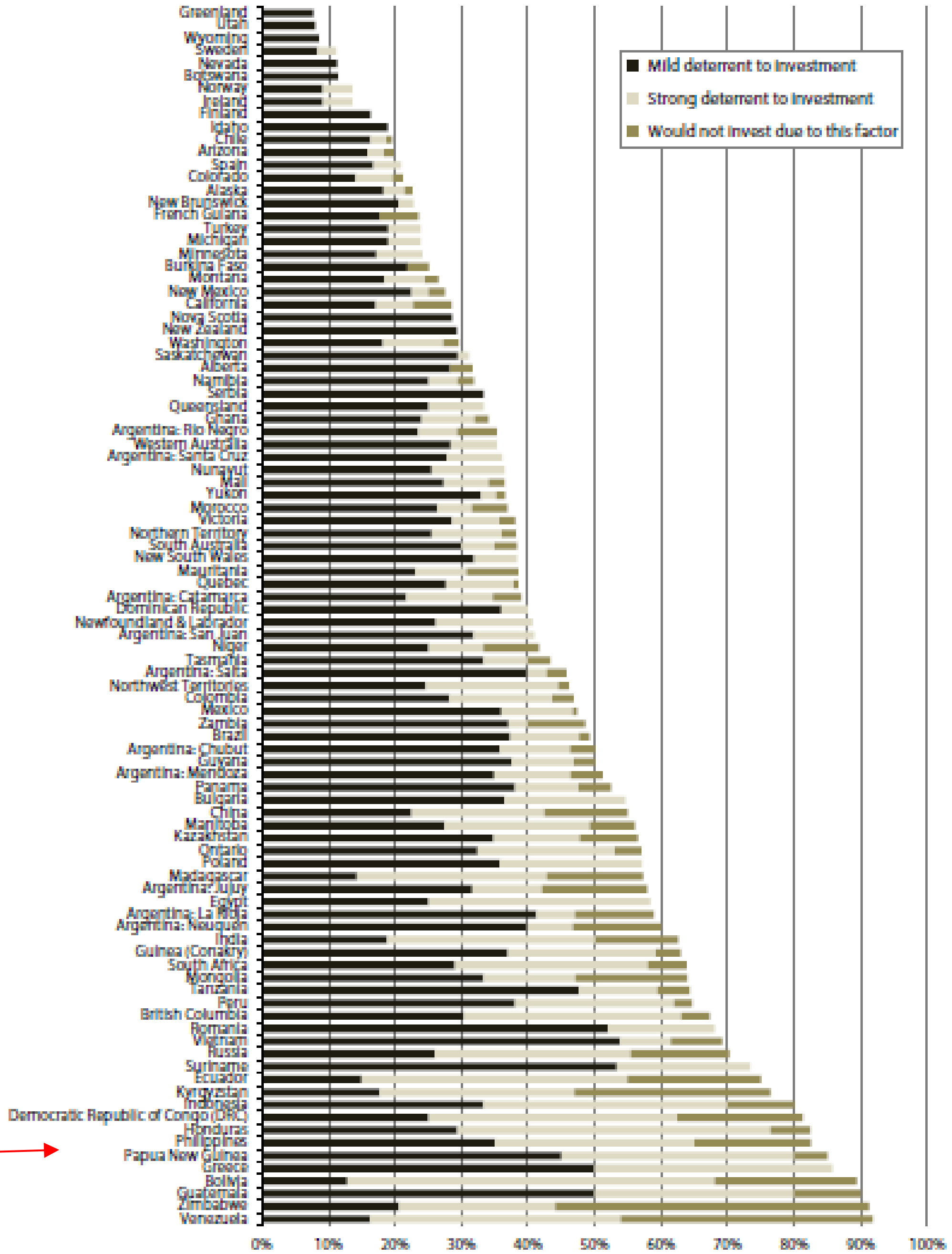
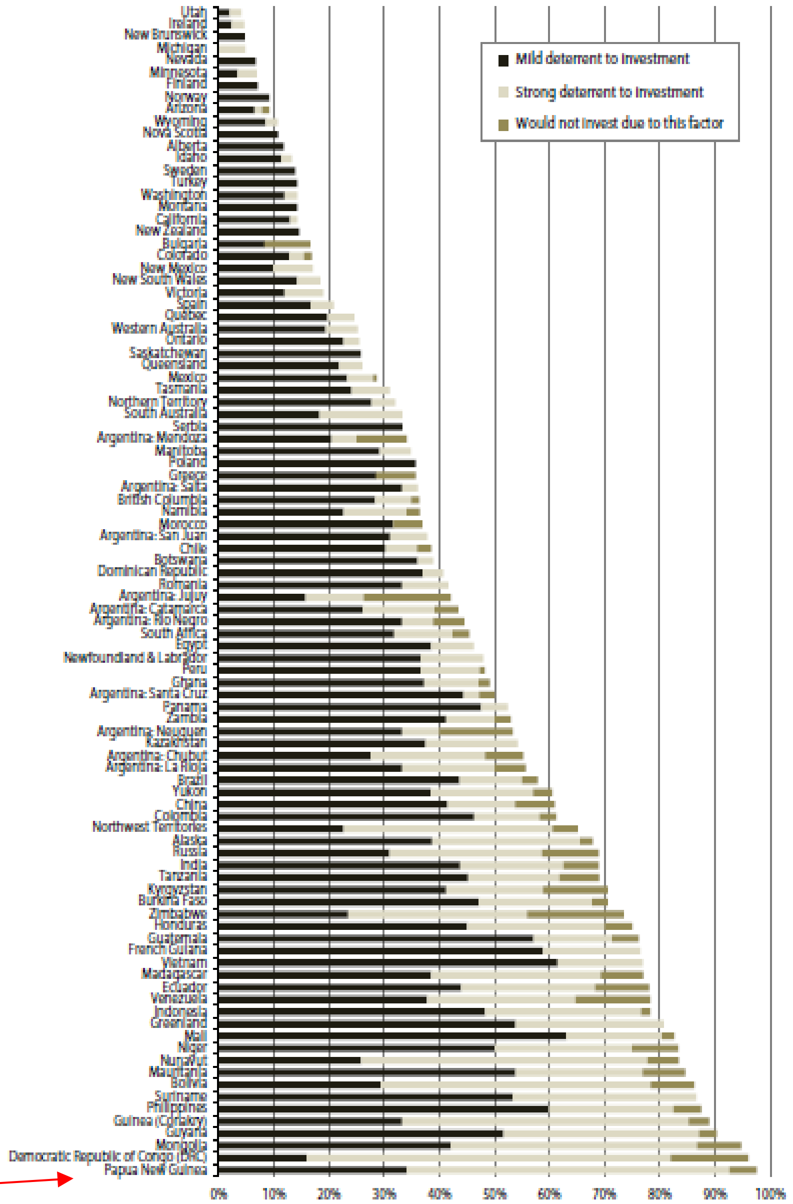
Figure 12: Uncertainty concerning disputed land claims



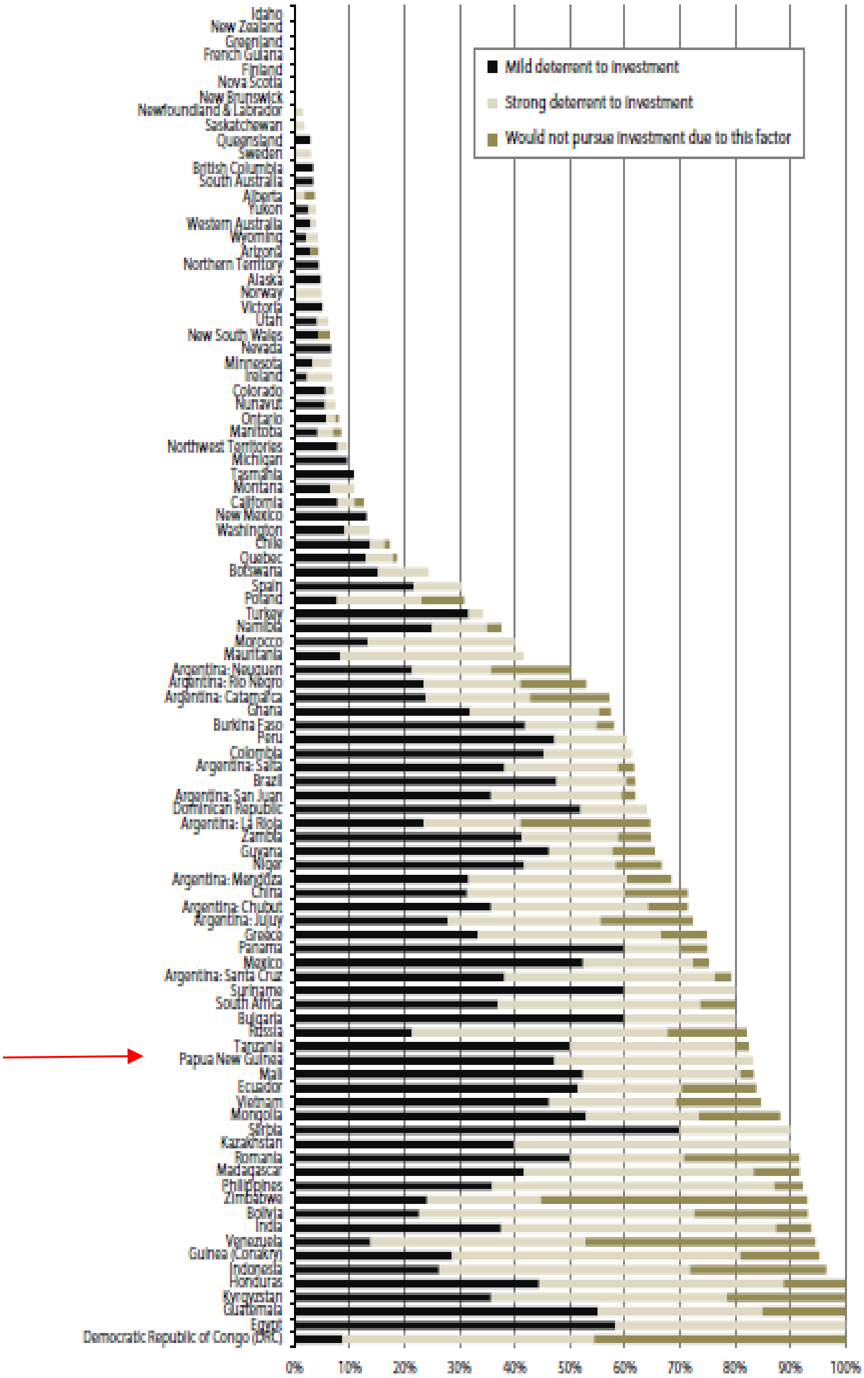
38 www.fraserinstitute.org

Figure 14: Infrastructure (includes access to roads, power availability, etc)



42 www.fraserinstitute.org

Figure 22: Corruption



58 www.fraserinstitute.org

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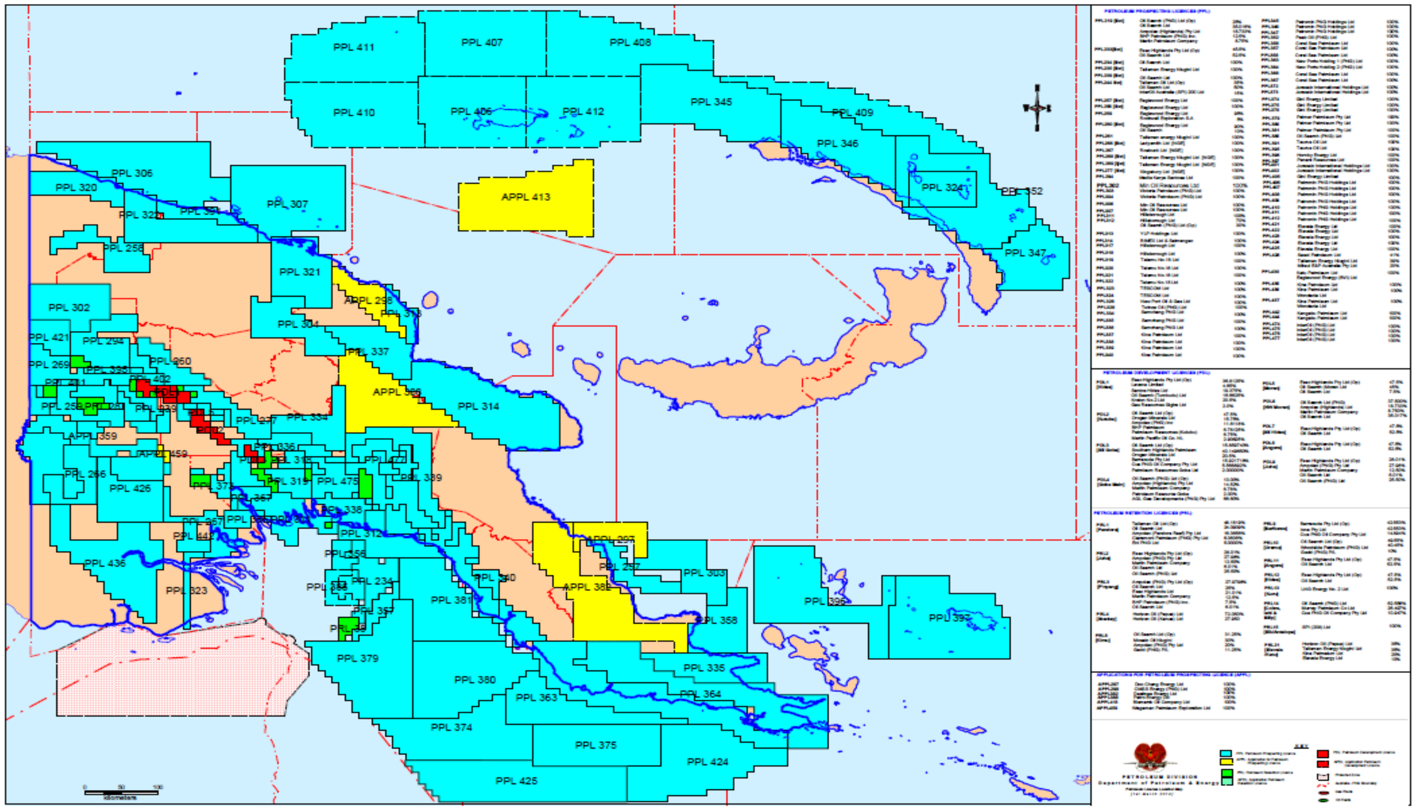
Sub Appendix 3.2: Petroleum Licenses as at 31 March 2014

Source: Department of Petroleum and Energy, Petroleum Division -Licensing and Registry Branch.

Petroleum Licence Map



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Appendix 4: Review of the legal framework

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Terms of Reference		Link to EITI Standard
4	Integrate into the report, a review of the legal framework surrounding the extractive industries (EITI Requirement 3.2) which will include a description of all types of agreements or contracts governing mining, oil and gas rights and any unusual contractual stipulations in service contracts or mining agreements pertaining to revenue sharing, incentives, payments agreements, calculation of payments and other revenue related stipulations. This will also include, in accordance with requirement 3.12b, a review of PNG's policy on disclosure of contracts and licenses that govern the exploration of oil, gas and minerals. A summary of all relevant legal provisions, actual disclosure practices and any reforms that are planned and underway should also be included.	3.2, 3.12b

EITI Requirement	
3.2	**The EITI Report must describe the legal framework and fiscal regime governing the extractive industries.** a) This information must include a summary description of the fiscal regime, including the level of fiscal devolution, an overview of the relevant laws and regulations, and information on the roles and responsibilities of the relevant government agencies. b) Where the government is undertaking reforms, the multi-stakeholder group is encouraged to ensure that these are documented in the EITI Report.
3.12 Contracts	b) It is a requirement that the EITI Report documents the government's policy on disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway. Where applicable, the EITI Report should provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location where these are published.

4.1 Oil and Gas

We have extracted information from the International Comparative Legal Guides - PNG Guide and the Relevant Acts.

http://www.iclg.co.uk/practice-areas/oil-and-gas-regulation/oil-and-gas-regulation-2014/papua-new-guinea

4.1.1 Relevant Legislation

The principal legislation for the petroleum sector is the *Oil and Gas Act 1998* (OGA).

4.1.2 Legislative regime

The State of PNG regulates oil and natural gas resource development. The principal legislation applying to the development of oil and natural gas reserves is the OGA, which applies with respect to exploration and exploitation of petroleum in both onshore and offshore areas of PNG (OGA, ss 9(1)-(2)). No petroleum may be removed from the land, or disposed of in any manner, except as permitted by the OGA (OGA, s 6(3)).

4.1.2.1 Government authorities responsible for the regulation of oil and natural gas development

The Department of Petroleum and Energy (DPE) is responsible for the regulation of oil and natural gas development. The Minister for Petroleum and Energy (Minister) performs a number of functions under the OGA.

4.1.2.2 Transfer of State's mineral rights to develop oil and natural gas reserves to companies

PNG utilises a statutory licensing regime for enabling investors and companies to develop oil and natural gas reserves (OGA, s 6(1)).

The OGA provides for petroleum titles to be granted to persons wishing to explore for or exploit petroleum. The types of titles available include:

a) petroleum prospecting licences granting the exclusive right to explore for petroleum in the licence area, and carry out appraisal of a petroleum discovery [OGA, s 25];
b) petroleum retention licences granting exclusive rights to explore for petroleum and carry on field studies to obtain information to ensure timely economic development of the gas field in the licence area [OGA, s 42];
c) petroleum development licences (**PDLs**) granting exclusive rights including exploration for petroleum, its recovery and its sale or disposal [OGA, s 59];
d) pipeline licences authorising the licensee to construct and operate a pipeline [OGA, s 76]; and
e) petroleum processing facility licences granting exclusive rights to construct and operate a petroleum processing facility at a particular site (OGA, s 90).

In certain circumstances, the director appointed under section 11 of the OGA (Director) may give a direction to two or more respective licensees to develop a coordinated petroleum development to better further the interests of the State (OGA, s 65).

A licensee is liable to pay compensation to the lawful owners and rightful occupiers of, and any persons interested in, any private land in respect of the licensee's entry on or occupation of the land (OGA, s 118(1)). There is also provision for damage and depreciation relating to the value of private land adjoining or in the vicinity of land comprised in any licence area or occupied under any pipeline licence or petroleum processing facility licence (OGA, s 118(2)). There are also obligations under petroleum prospecting licences in relation to landowner identification and social mapping (OGA, s 47).

The OGA makes provision for a register of petroleum titles (OGA, s 96). Instruments either directly or indirectly creating, assigning, affecting or dealing with the legal or equitable interests in an existing or future licence are of no force or effect until they are approved by the Minister and registered (OGA, ss 100(2), 97(3)).

4.1.2.3 License Application Process

The license application process is attached at Sub Appendix 4.1.

4.1.2.4 Types of Licenses

Licence	Term	Description
Petroleum prospecting licence	6 years, with provision for extension (OGA, ss 26, 29-30).	Granted subject to conditions as the Minister thinks fit and specified in the licence, or as specified in the licence extension (OGA, ss 29(4), 31(1)). Each licence is subject to the conditions prescribed in OGA section 31(2), which include conditions relating to work and expenditure proposals, reporting obligations regarding prospecting operations and expenditure, social mapping and landowner identification studies (OGA, s 31(2)).
Petroleum retention licence	5 years, with provision for extension (OGA, s 43, 45).	Granted subject to conditions prescribed in OGA section 46, which include provisions relating to carrying out approved proposals, reporting obligations as to activities under the licence and adherence to social mapping and landowner identification studies obligations. The Minister may impose further conditions as he thinks proper and the licensee may be required to enter into a gas agreement (OGA, s 46).
Petroleum development licence	25 years, with provision for extension (OGA, ss 60, 62).	Granted subject to conditions prescribed in OGA section 63, which include provisions relating to carrying out approved proposals, reporting obligations as to activities under the licence and adherence to social mapping and landowner identification studies obligations. The Minister may impose further conditions as he thinks proper (OGA, s 63(b) (ii)).
Pipeline licence	20 years, with provision for extension (OGA, ss 77, 79).	A pipeline licence may be granted subject to such conditions as the Minister thinks fit and as specified (OGA, s 80).
Petroleum processing facility licence	Remains in force until cancelled by the Minister or surrendered by the licensee (OGA, ss 91, 137-138).	A petroleum processing facility licence may be granted subject to such conditions as the Minister thinks fit and specifies in the licence, which may include conditions as to construction, conduct, control, management and operation of the facility, reporting requirements and removal and restoration requirements upon termination of the licence (OGA, s 94).

Holders of petroleum licences containing blocks that have been declared locations are required to make requisite applications within the prescribed time for retention or development of the area or risk revocation of the declaration of location (OGA, s 36(1)).

The Minister must grant a PDL if an applicant's proposal satisfies prescribed requirements under the OGA (OGA, s 57(2)). If these requirements are not satisfied, the Minister may refuse the application (OGA, s 57(2)).

4.1.2.5 State participation in the development of oil and natural gas reserves

The State has the right (although is not obliged) to acquire by itself or through a nominee a participating interest of not more than 22.5% in each petroleum project (OGA, s 165). The consideration payable by the State shall be a percentage of the un-recouped sunk costs of the seller attributable to the seller's interest in the petroleum project, equal to the percentage participating interest in the petroleum project being acquired by the State (OGA, s 165(3)).

The State must exercise its right to acquire an interest in a petroleum project in order to grant equity benefits to the project area landowners and the affected Local-level Governments of a petroleum project (OGA, s 167(3)). The equity benefits are to be shared between grantees in agreed proportions under a development agreement or, in default, as determined by the Minister by instrument (OGA, s 167(4)). The equity benefit is defined as a 2% participating interest in the particular petroleum project, free of encumbrances or liabilities as at the commencement of commercial production of petroleum from that project (OGA, s 3(1)).

In addition to the equity benefit granted by the State, project area landowners and affected Local-level Governments may acquire further participating interests in the petroleum projects by negotiation with licence holders on freely negotiated commercial terms (OGA, s 175(1)).

4.1.2.6 State derived value from oil and natural gas development (e.g. royalty, share of production, taxes)?

Project area landowners, the affected Local-level Governments of a petroleum project and the affected Provincial Governments have a royalty entitlement in respect of the Project (OGA, s 168(1)). Like the equity benefits, the royalty benefits are to be shared in proportions as set out in a development agreement or in default, as determined by the Minister by instrument (OGA, s 168(2)).

A PDL holder is required to pay a 2% royalty and a 2% development levy on the wellhead value of all petroleum produced from the PDL (OGA, ss 159, 160).

The royalty is payable to the State, and section 168(3) of the OGA implies that it is controlled by the DPE, because it is the Minister for Petroleum and Energy who is responsible for its disbursement. It is disbursed in accordance with a development agreement to be agreed between project area landowners, affected Local-level Governments and affected Provincial Governments (OGA, s 168(2)). In the absence of an agreement, the Minister determines the proportionate disbursement of royalties (OGA, s 168(2)).

The development levy is payable to the State by way of a trust fund under the *Public Finances (Management) Act 1995* (OGA, s 160(4)). The development levy is disbursed to the affected Provincial or Local-level Governments (OGA, s 160(1)).

Provided both the royalty and development levy are paid, the royalty is deemed to be income tax paid by the PDL holder (OGA, s 159(4)).

4.1.2.7 Restrictions on the export of production

All natural gas produced in PNG is required to be processed in a petroleum processing facility in PNG (OGA, s 68. This requirement excludes reinjected or flared natural gas in accordance with the OGA or natural gas consumed in Papua New Guinea in operations under a licence). Natural gas may only be exported from PNG if permitted by the terms of a written agreement to which the State of PNG is a party, by the licence, or by the Minister (OGA, s 69).

Subject to prescribed circumstances, the OGA provides a domestic market obligation requiring a person disposing of processed petroleum produced in PNG, when approached by a *bona fide* prospective purchaser, to negotiate with that prospective purchaser. If the prospective purchaser's offer is not less favourable to the seller than the price and terms which he could obtain at that same time as such offer by selling and exporting that processed petroleum, the seller is required to sell and supply the processed petroleum to that person (OGA, s 67).

In practice, the domestic market obligation can be waived or excluded in a petroleum agreement or gas agreement entered into between a project developer and the State.

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4.1.2.8 Obligation of participants to provide any security or guarantees in relation to oil and natural gas development.

As a requirement for the grant of the licences specified in question 3.3, the Minister may require the licence holder to lodge a security for compliance with the conditions to which the licence, if granted, will be subject (OGA, ss 23(1), 39(1), 56, 74(5) and 88(1). Petroleum prospecting licences (s 29(1)) and pipeline licences (s 79(1)) may also require security upon the grant of an extension of the licence). Such securities shall be an amount as the Minister thinks reasonable, but must not exceed K1 million (OGA, s 142(1)). These are required to be paid by way of bond and supported by: a cash deposit by the licensee; a guarantee of a bank acceptable to the Minister; or some other approved form of security (or a combination of the above) (OGA, s 142(1)).

When a licence is transferred, the Minister may require the transferee to lodge with him such security as the Minister thinks fit for the transferee's compliance with licence conditions (OGA, s 97(2)).

4.1.2.9 Pledging for security, or booked for accounting purposes under domestic law? Can rights to develop oil and natural gas reserves granted to a participant

Licence holders may directly or indirectly deal with the equitable interests in existing and future licences by instrument (OGA, s 99). Dealings (including pledges by way of security) will not have force or effect until they have been approved by the Minister and registered (OGA, s 100(2)).

Other government authorisations likely to be required to develop natural gas reserves include:

Authorisation/agreement	*Description*
Development Agreement (OGA, Division 6)	The agreement is between the PNG Government and any project landowners, the affected Local-level Governments and the affected Provincial Governments of a petroleum project and takes place before the initial grant of a licence. The agreement relates to state equity entitlement and project benefits set out at Part IV of the OGA (and discussed above at questions 3.4 and 3.5).
Environment permit	The *Environment Act 2000* (**Environment Act**) governs resource projects and their related environmental issues in PNG. It requires that a person apply to the Department of Environment and Conservation to obtain an environmental permit before carrying out an activity which involves: a) construction of works, land clearance, demolition, excavation or other works in relation to land or water; b) installation, operation or maintenance of plant or equipment; c) activities for the purpose of extracting or harvesting natural resources; or d) release of contaminants to air, land or water, in connection with any of the activities specified in paragraphs (a), (b) or (c). The Environment Act requires that an environmental impact assessment (**EIA**) be undertaken prior to the issue of an environmental permit (Environment Act, s 50(1)). An EIA is required to set out the "physical and social environmental impacts" which are likely to result from the proposed activities.

(Table continued on next page)

Authorisation/agreement	Description
Environment permit (cont.)	The *Environment (Prescribed Activities) Regulation 2002* also prescribes certain activities which require an environmental permit to be issued (required by Environment Act, s 44, Regulation 3(1), Sch 1), including: (a) drilling of oil and gas wells; (b) manufacture of products by any chemical process in works designed to produce more than 100 tonnes per year of chemical products; (c) manufacturing of organic chemicals requiring a petroleum processing facility licence issued under the OGA; (d) pipeline transport and storage using facilities with a holding capacity of more than 0.5 million litres; (e) construction of electricity transmission lines or pipelines greater than 10km in length; (f) damming or diversion of rivers or streams; (g) recovery, processing, storage or transportation of petroleum products requiring the issue of a PDL or a pipeline licence under the OGA; (h) refining of petroleum or manufacture and processing of petrochemicals or liquefaction of natural gas requiring a petroleum processing facility licence issued under the OGA; and (i) construction of commercial sites for the storage, treatment, reprocessing, incineration or disposal of hazardous contaminants. The application for an environmental permit must contain details of the proposed activities which are consistent with the EIA and any conditions required by the Minister. The Director may also place conditions in the granting of the environmental permit.

4.1.2.10 Legislation or framework relating to the abandonment or decommissioning of physical structures used in oil and natural gas development

The OGA and the regulations prescribe the process to which a tenement holder must adhere in abandoning a well made in connection with exploration for petroleum or operations for the recovery of petroleum (OGA, s 139(1). Abandonment must be conducted according to the manner prescribed in the regulations as per s 139(1) (c)). The process involves requesting the Director to approve a programme for abandonment which includes the removal of equipment, plugging the well bore and reclaiming the well site (OGA, s 139(1). Abandonment must be conducted according to the manner prescribed in the regulations as per s 139(1) (c)). On the completion, suspension or abandonment of a well, the well site and any surrounding areas giving access are required to be restored to as near to the original state as can reasonably be done unless a prior mutually acceptable agreement has been made with the owner or occupier of the land (*Oil and Gas Regulation 2002*, s 109).

Tenement holders are also responsible for repairing damage to any improvements on the land, to land capable of being used for agricultural purposes or to the water supply to such improvements or land (OGA, s115).

4.1.2.11 Legislation or framework relating to gas storage

The OGA defines storage as "the accumulation of petroleum or petroleum products pending transportation to a petroleum processing facility or loading for transportation or sale" (OGA, s 3(1)).

The OGA regulates storage through the grant of the following licences:

(a) PDL: the application requires detailed proposals for the construction, establishment and operation of all facilities and services incidental to storage of the petroleum from the licence area (OGA, s 54(1)).

(b) Petroleum pipeline licence: a "pipeline" includes storage tanks used in an integrated system for transporting petroleum (OGA, s 3(1)). The application for a petroleum pipeline licence requires, amongst other things, particulars of the proposed design and construction of the pipeline, which necessarily includes by definition storage tanks (OGA, s 73(2) (c)).

The Act also defines "tank stations" as "a tank or system of tanks for holding or storing petroleum, and includes any structure associated with that tank or system of tanks" (OGA, s 3(1)). The application for a petroleum pipeline licence must be accompanied by a plan detailing tank stations to be part of or used in connection with the pipeline (OGA, s 73(2) (d)).

(c) Petroleum processing facility licences: a "petroleum processing facility", as defined, includes tanks for bulk storage of petroleum or petroleum products (OGA, s 3(1)). The application for a petroleum processing facility licence requires an applicant to provide particulars of the design of the petroleum processing facility (OGA, s 87(1) (c) (iii)).

4.1.2.12 The regulatory framework in relation to transportation pipelines and associated infrastructure

Transportation pipelines and associated infrastructure, such as natural gas processing facilities in PNG (discussed further at question 9 below) are regulated under the OGA (OGA, Divisions 9 and 10). Pipeline licensees and petroleum processing facility licensees are granted rights to construct and operate the relevant infrastructure [OGA, ss 76, 90] and various other ancillary rights (OGA, ss 111-112), but are not conferred a right of ownership in respect of the land and property on the land that is the subject of the respective licence (OGA, ss 111-112). However, the licensee would be treated as owning all infrastructure constructed by it in the licence area.

4.1.2.13 Obtain the necessary land (or other) rights to construct oil and natural gas transportation pipelines or associated infrastructure. (Do Government authorities have any powers of compulsory acquisition to facilitate land access)

Normally, a licence holder would rely on the rights granted to it under a PDL to access the relevant land and other rights to construct pipelines or associated facilities. A pipeline licence confers on the holder the right to construct and operate a pipeline and associated infrastructure of particular specifications along a designated route (OGA, s 76). Within 10 metres on either side of the pipeline, the OGA prescribes rights that the licensee, his agents and workmen may exercise to the extent reasonably necessary for the operations which include rights of entry, occupation and construction (OGA, s 111). A pipeline licence applicant or intended applicant may also be granted necessary rights of entry and associated rights to land (OGA, s 116).

Private landowners whose land is the subject of a pipeline licence may continue to use, occupy and enjoy their land except for land reasonably required from time to time by the licensee to exercise its rights (OGA, s 113(1)). The licensee is liable to compensate lawful owners and rightful occupiers in relation to rights affected by entry and occupation of the land by the licensee, which includes compensation for deprivation of use and enjoyment, severance of the land from other land, rights of way and easements (OGA, s 118).

A licensee may request the Minister to compulsorily acquire land for prescribed purposes including those in connection with the pipeline, such as the transporting of petroleum, accommodation of particular persons, disposal of waste, establishment of a town and the construction, maintenance and operation of the pipeline (OGA, ss 111(g), 120, 1(2)). Any compensation payable by the State relating to the acquisition of land is a debt due and payable by the licensee to the State (OGA, s 120(3)).

4.1.2.14 Outline any third-party access regime/rights in respect of oil and natural gas transportation and associated infrastructure. For example, can the regulator or a new customer wishing to transport oil or natural gas compel or require the operator/owner of an oil or natural gas transportation pipeline or associated infrastructure to grant capacity or expand its facilities in order to accommodate the new customer? If so, how are the costs (including costs of interconnection, capacity reservation or facility expansions) allocated?

As discussed at question 6.4, pipelines may be designated as strategic pipelines. Once designated, the pipeline's licensee must adopt and comply with access arrangements approved by the Minister, whereby third parties can have petroleum or petroleum products transported by the pipeline licensee through that strategic pipeline (OGA, s 75(2)). The OGA sets out certain requirements (but does not limit the potential terms and conditions (OGA, s 75(8))) of access arrangements applying to strategic pipelines, which include the terms and conditions of an agreement to be offered by the licensee to third party users, tariff methodology (including principles upon which tariffs are to comply), a queuing policy in respect of competing proposals and reasonable pipeline entry quality specifications which are not unfairly discriminatory to third party users (OGA, s 75(4)). A licence for a strategic pipeline may come into force as follows:

(a) Application for the pipeline licence (OGA, ss 73(7), 80): the OGA prescribes that the application must contain particulars as to any agreement entered into, or proposed to be entered into, by the applicant in relation to the conveyance of petroleum by means of the pipeline (OGA, s 73(2) (c) (vii)). The applicant must specify proposed access arrangements to apply to that pipeline (OGA, s 73(7)(a)) and, prior to applying, make all reasonable consultations with existing and potential third party users and report to the Minister regarding these potential users and applicable access arrangements (OGA, s 73(8)). The strategic pipeline will be advertised for submission and responses provided to the applicant (OGA, s 73(9)).

The offer to grant the strategic pipeline will specify the terms of the access agreements (which are OGA compliant) that will be approved by the Minister and apply to the pipeline (OGA, s 74(15)). The pipeline licence applicant will serve on the Minister an instrument specifying the access arrangements it requests to apply to the licence, which is then approved by the Minister (OGA, ss 74(17)-(18)). A pipeline licence for a strategic pipeline will not be granted unless the Minister has approved access arrangements (OGA compliant) and the applicant has accepted those access arrangements (OGA, s 74(20)).

(b) Application by the licensee for variation of the licence conditions (OGA, s 81(1)): the applicant is required to follow a substantially similar procedure as outlined above at (a) (OGA, s 81(4)). The Minister may offer to vary the licence to that of a strategic pipeline licence and specify the terms of the access arrangements (OGA compliant) (OGA, s 81(6)(a)). The licensee may then request the Minister to vary the licence accordingly (OGA, s 81(7)). Such changes will not affect the validity of agreements previously entered into by a pipeline licensee for the transportation of petroleum (OGA, s 81, particularly 81(13)).

(c) Variation of the licence conditions by the Minister (OGA, s 82(5)): the Minister, acting on the advice of the Petroleum Advisory Board, may direct that a project pipeline be converted into a strategic pipeline if it is desirable that third parties use that pipeline for petroleum transportation (OGA, s 82(5)(a)). The Minister and licensee will then perform a process substantially similar to that discussed above at (a) (OGA, ss 82(6)-(11)). Draft access arrangements may be amended and agreed upon by the Minister and the licensee (OGA, s 82(12)), with expert determination available in the case of a dispute (OGA, s 82(13)). Such changes will not affect the validity of agreements previously entered into by a pipeline licensee for the transportation of petroleum (OGA, s 82, particularly 82(19)).

These access arrangements must be registered and copies be made available to all prospective third party users when requested (OGA, s 75(3)). These access arrangements shall have legal effect and shall be enforceable according to their terms by any person having a bona fide interest in the terms of the access arrangements (OGA, s 75(6)). The access arrangements are binding on the pipeline licensee and compliance with those access arrangements shall be a condition of the pipeline licence so long as it remains in force (OGA, s 75(5)).

None of the existing oil or gas pipelines have been declared to be strategic pipelines. A project developer may seek that the State confirms this approach.

4.1.2.15 Are parties free to agree the terms upon which oil or natural gas is to be transported or are the terms (including costs/tariffs which may be charged) regulated?

As discussed above, the OGA regulates certain aspects of access arrangements for third party access to strategic pipelines, including certain compliance requirements and content (OGA, s 75(4)). Access arrangements shall have legal effect and shall be enforceable according to their terms by any person having a bona fide interest in the terms of the access arrangements (OGA, s 75(6)). Notably, the OGA prescribes the following requirements:

(a) compliance with principles including:

(i) the arrangements should achieve the lowest sustainable tariffs for users which provide a reasonable return on investment for the pipeline licensee, having regard to the circumstances of the investment, including due consideration of risk (OGA, s 75(4) (b) (i)); and

(ii) the arrangements should provide certainty of tariff methodology for the term of the transportation contract (OGA, s 75(4) (b) (iv));

(b) inclusion of the following:

(i) the classes of transportation service offered to third parties by the pipeline licensee, separating the charges and tariffs to be charged in respect of each class of service (OGA, s 75(4)(c)(vi));

(ii) the terms and conditions of the agreement to be offered by the pipeline licensee and third-party users for the transportation of petroleum or petroleum products (OGA, s 75(4) (c) (vii)); and

(iii) tariff methodology, with sample calculations (OGA, s 75(4) (c) (viii) (; and

(c) billing and payment arrangements (OGA, s 75(4) (c) (ix)).

4.1.2.16 Is there any regulation of the price or terms of service in the LNG sector?

As discussed above, there is a domestic supply obligation which necessarily encompasses the sale of LNG. If a domestic person's offer is not less favourable to the seller than the price and terms upon which the seller could obtain at that same time an offer by selling and exporting that processed petroleum, the seller is required to sell and supply the processed petroleum to that domestic person (OGA, s 67). However, in the case of the PNG LNG project, an agreement was reached with the State that the domestic market obligation would not apply. Apart from this arrangement, there is no specific regulation of the price or terms of sale of LNG in PNG.

4.1.2.17 Outline any third-party access regime/rights in respect of LNG Facilities.

As discussed above in relation to pipeline licences, a third party access regime exists for petroleum processing facilities. These facilities are defined as "strategic petroleum processing facilities". The OGA sets out certain requirements (but does not limit the potential terms and conditions (OGA, s 89(8))) of access arrangements applying to strategic petroleum processing facilities, which includes the terms and conditions of an agreement to be offered by the licensee to third party users, tariff methodology (including principles upon which tariffs must comply), a queuing policy in respect of competing proposals and acceptable pipeline entry quality specifications which are not unfairly discriminatory to third party users (OGA, s 89(4)). A licence for a strategic petroleum processing facility may come into force as follows:

(a) Application for the petroleum processing facility licence (see OGA, ss 86, 87 and 88(5)-(10)): an applicant may apply for a licence to construct and operate a strategic petroleum processing facility, the provisions of which are quite similar to those set out above in relation to strategic pipeline licences.

(b) Application to vary a petroleum processing facility licence (OGA, s 81): this involves an application to vary the licence for the purposes of changing the access arrangements applying to a strategic petroleum processing facility (OGA, s 92). In those circumstances, such changes will not affect the validity of agreements previously entered into by a petroleum processing facility licensee for processing of petroleum (OGA, s 92(13)).

(c) Variation of the licence conditions by the Minister (see OGA, s 93): in circumstances where the Minister has directed that a project pipeline become a strategic pipeline, the relevant petroleum processing facility would become a strategic petroleum processing facility and the Minister would give a direction to commence the installation of access agreements through a process similar to that applicable to variations of project pipeline licences to strategic pipeline licences (see OGA, s 93). The same procedure applies to the Minister giving a direction that current access arrangements be varied (OGA, ss 93(2)-(3)). In those circumstances, such changes will not affect the validity of agreements previously entered into by a petroleum processing facility licensee for processing of petroleum (OGA, s 93(16)).

These access arrangements must be registered and copies be made available to all prospective third party users when requested (OGA, s 89(3)). These access arrangements shall have legal effect and shall be enforceable according to their terms by any person having a *bona fide* interest in the terms of the access arrangements (OGA, s 89(6)). The access arrangements are binding on the licensee and compliance with those access arrangements shall be a condition of the petroleum processing facility licence so long as it remains in force (OGA, s 89(5)).

4.2 Mining

4.2.1 Relevant Legislation

The principal legislation for the mining sector is the *Mining Act 1992*. Other guidance is provided by the *Papua New Guinea Mineral Policy.*

http://www.mra.gov.pg/en-au/regulations.aspx

4.2.1.1 Licenses

Tenements are issued by the Mining Minister on recommendation from the Mining Advisory Council (MAC) under the Mining Act 1992 as outlined in Sub Appendix 4.3. The Head of State, acting on advice from the National Executive Council issues the special Mining Lease whilst the Minister for Mining issues the other types of licences. These tenements are:

http://www.mra.gov.pg/en-au/license.aspx

Licence	Term	Description
Exploration License	An exploration licence may be granted for a term not exceeding two years, which may be extended for periods not exceeding 2 years.	The area of land in respect of which an exploration licence may be granted shall be no more than 750 sub-blocks (One Sub block = 3.41 km2) and one area comprising one sub-block or more than one sub-block, each of which shall share a common side with at least one other such sub-block.

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Licence	Term	Description
Mining Lease	A mining lease may be granted for a term not exceeding 20 years, which may be extended for periods not exceeding 10 years.	A mining lease is generally issued for small to medium scale alluvial and hard rock mining operations. The area of land in respect to which a mining lease shall be granted shall be not more than 60 Km2 and in a rectangular or polygonal shape.
Special Mining Lease	A special mining lease may be granted for a term not exceeding 40 years, which may be extended for periods not exceeding 20 years.	A special Mining Lease is generally issued to the EL holder for large scale mining operations. The EL holder must also be a party to a Mining Development Contract with the state. Before the grant of an SML, the Minister is required to convene a development forum to consider the views of the persons and authorities whom the Minister believes will be affected by the grant of the SML. Those represented at this forum will include the applicant for the special mining lease; the landholders of the land that is the subject of the application for the special mining lease and other tenements to which the applicant's proposals relate, the National Government, and the Provincial Government, if any, in whose province the land the subject of application for the special mining lease is situated.
Alluvial Mining Lease	An alluvial mining lease may be granted for a term not exceeding five years which may be extended for periods not exceeding 5 years.	The Minister may grant an AML, on the application of a natural person who is a citizen or a land group in respect of land owned by that natural person or land group. An alluvial mining lease may only be granted over land that is a river bed and land that extends no further than 20m from any river bed. The area of land in respect to which an alluvial mining lease may be granted shall be not more than 5ha; and in a rectangular or polygonal shape. An alluvial mining lease may only be granted to a depth which is consistent with the safe conduct of the mining development described in the approved proposals and the depth shall be specified on the lease document. An alluvial mining lease shall not be granted over land that is the subject of an existing tenement unless the existing tenement is an Exploration Licence or a Mining Easement.
Lease for Mining Purpose	The term of a lease for mining purposes shall be identical to the term of the special mining lease or mining lease in relation to which the lease for mining purposes is granted.	An LMP may be granted in connection with mining operations conducted or to be conducted by the applicant for LMP or some other person for one or more of the following purposes: • The construction of buildings and other improvements, and operating plant, machinery and equipment; • The installation of a treatment plant and the treatment of minerals therein; • The deposit of tailings or waste; • Housing and other infrastructure required in connection with mining or treatment operations; • Transport facilities including roads, airstrips and ports; • Any other purpose ancillary to mining or treatment operations or to any of the preceding purposes which may be approved by the Minister. The Area and shape of a lease for mining purposes shall be not more than 60 Km2 and in a rectangular or polygonal shape

(Table continued on next page)

Licence (cont.)	Term	Description
Mining Easement	The term of a mining easement shall be identical to the term of the tenement in relation to which the mining easement was granted. The area of land over which a mining easement may be granted will be that sufficient for the purpose or purposes for which it was granted and shall be in a rectangular or polygonal shape	A mining easement may be granted in connection with mining, treatment or ancillary operations conducted by the applicant for the mining easement or some other person for the purpose of constructing and operating one or more of the following facilities: a road; an aerial ropeway; a power transmission line; a pipeline; a conveyor system; a bridge or tunnel; a waterway; any other facility ancillary to mining or treatment or ancillary operations in connection with any of the preceding purposes which may be approved by the Minister.

The License Phases are outlined in Sub Appendix 4.2 and the License Application is outlined in Sub Appendix 4.4.

4.2.1.2 State Participation

The State has a right to acquire and transfer a participating interest in a mining project in accordance with Section 16A of the *Mining Act 1992*.

4.2.1.3 Mining Agreements

The Papua New Guinea Mineral Policy sets out the types of agreements. The State shall enter into agreement in relation to a mining development or the financing of a mining development under a tenement, the three (3) major mining agreements.

http://www.mra.gov.pg/Portals/2/docs/Mineral%20Policy%202012.pdf

Contract	**Description**
The Mining Development Contract (MDC),	(a) The Minister may, require mining to take place under a Mining Development Contract in accordance with the provisions of the Mining Act 1992 *(and its subsequent amendments),* (b) The contract shall be between the State and the developer and relates specifically to the method of mining, processing the mineral, the infrastructure required and the financial or economic considerations involved.

The Compensation Agreements (CA), and	(a) A compensation agreement shall be agreed to and duly registered before the tenement holder enters into and occupies the mining tenement area for the purposes of exploration and mining, (b) The parties to the agreement are the landholders and the developer of the mining project, (c) The State shall maintain oversight on the Agreement to ensure its compliance.
The Benefit Sharing Memorandum of Agreement (MOA).	The MOA shall be a benefit sharing agreement, (b) The parties to the MOA shall consist of the landholders, mine host Provincial and the Local -level Government(s), the developer and the State, (c) The MOA shall contain the undertakings of respective parties in (b) above, (d) Each party shall implement the MOA undertakings as per the agreement, (e) The MOA shall be reviewed every two (2) years or less as agreed to by parties concerned, (f) The MOA review in (e) shall not be a renegotiation of the terms of the agreement. It shall be a review and an update of the original agreement to assess the implementation of the parties' respective undertakings.

4.2.1.4 Fiscal Provisions

The *Papua New Guinea Mineral Policy* sets out the Mining Fiscal Terms and Rates and that any amendments or variations to the Mining Fiscal Regime shall take effect through the National Government policy direction, the National Executive Council (NEC).

4.2.1.5 Mineral Royalties

The *Papua New Guinea Mineral Policy* sets out the following:

(a) All mineral royalties from mining in the PNG jurisdictions belong to the State as the sovereign owner of all minerals in PNG,

(b) The holder of a mining lease is liable to pay a royalty to the State equivalent to 2% of the net proceeds of sale of minerals (calculated as net smelter return or f.o.b. export value, whichever is appropriate),

(c) The State may elect to retain its right to royalty or to distribute it between the provincial government of a mine host province and the landholders of the land upon which the mineral resource is mined,

(d) Where royalty is offloaded by the State, the landholders are entitled to at least 20% of the total amount of royalties paid to the State.

4.2.1.6 Other Matters set out in the Mineral Policy

The *Papua New Guinea Mineral Policy* also sets out other matters including but not limited to:

Topic	Policy
PART 9 EMPLOYMENT	1. The developer shall develop an Employment and Training Plan (ETP). The ETP shall be approved by the National Training Council (NTC) and shall be an annexure to the MOA document, 2. Preference in employment shall be given in the following order of priority to suitably qualified persons from the mining host province(s), then to other parts of the country and the rest of the world, 3. The developer shall give equal opportunity to women in terms of employment. The ETP shall be administered by the Monitoring and Review Committee.
PART 10. EDUCATION AND TRAINING	1. The developer shall develop a Training and Localization Plan (TLP) in consultation with the State through the National Training Council (NTC), 2. The Training and Localization Plan shall be an annexure to MOA document and shall be administered by the Monitoring and Review Committee.
PART 11. LOCAL BUSINESS PARTICIPATION	1. Where feasible, the developer shall give due consideration to reputable landholder companies on commercial arrangements to participate in major contracts in relation to mine development and operations, 2. The developer shall develop a Business Development Plan (BDP) in consultation with the State through the Department of Commerce and Industry, 3. The BDP shall be an annexure to the MOA document and shall be administered by the Monitoring and Review Committee, 4. The developer shall employ a Business Development Specialist to assist with the establishment and operation of landholder businesses.
PART 12. SUPPLY AND LOCAL PROCUREMENT	1. The developer shall develop a Supply and Procurement Plan (SPP), which shall be an annexure to the MOA and shall be administered by the Monitoring and Review Committee, 2. The developer shall give preferences to the well-established suppliers in the mine host province(s) first and then to those reputable suppliers that are capable of meeting the specified service required that are established within Papua New Guinea before sourcing internationally.
PART 13. COMPENSATION	1. Tenement holders shall pay compensation to the landholders for exploration and mining activities on their land. Compensation shall be payable for the following; (a) Deprivation of possession and use of land, (b) Damage to land, c) Loss of economic plants and trees, (d) Social disruption, (e) Relocation or resettlement of affected people from within the project impact area. 2. Where applicable, the developer may determine compensation with reference to the Valuer General's rates as a minimum guide, 3. The developer shall take into account the current market rates for inconvenience(s) in (1) above when calculating compensation payments,

(Table continued on next page)

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Topic (cont.)	Policy
PART 13. COMPENSATION (cont.)	4. All Compensation Agreements between the landholder and the project developer must be registered with the Registrar of Tenements to be duly certified in accordance with law.
PART 14. NATIONAL PARTICIPATION	1. The State may elect to acquire up to a 30% participating interest in a mining projects as its guaranteed right, 2. Petromin Holdings PNG Limited is the duly nominated State entity that shall exercise the State option for and on behalf of the State pursuant to its constituent laws, 3. Equity interest by State or landholder shall be acquired on the percentage of the unrecouped sunk cost by the mining project company, 4. Persons or entities opting to take up equity in the project shall do so on a commercial basis in consultation and subject to agreement with the State and the developer prior to the granting of the mining lease, 5. The State shall allocate 5% equity to be shared equally between the provincial government of the mine host province and the customary landholders of the project lease areas on a free carry basis, 6. Where no landholders are identified as in the case of offshore mining, the 5% equity interest shall be given to the mine host Provincial Government(s), 7. Where more than one province is covered by the mining tenement, the percentage breakup of the State’s 5% free carry equity shall be distributed as agreed between the parties, 8. The Mineral Resources Development Company (MRDC) shall manage the equity for and on behalf of the landholders and the provincial government(s) pursuant to its constituent laws.
PART 15. SPECIAL SUPPORT GRANT (SSG) .	1. The Special Support Grant shall be appropriated by the National Government to the mine host provincial government(s) to be used on approved social and economic infrastructure development projects, 2. The grant shall be equivalent to 0.25% of net sales value of mine products from the project, 3. A minimum of 20% of this grant shall be spent in the “*mine affected areas”*, 4. The administration and implementation of the SSG shall be done in accordance with the Special Support Grant Guideline, through the Department of National Planning and Monitoring

Other Legislation that applies with respect to mining projects

1. Environment Act 2000
2. Conservation Areas Act 1978
3. Environment (Prescribed Activities) Regulation 2002
4. Environment (Permits & Transitional) Regulation 2002
5. Environment (Fees & Charges) Regulation 2002
6. Income Tax Act
7. Foreign Exchange Act & Regulations
8. Land Act
9. Customs Act

4.2.1.7 National Executive Overriding Approval of Mining and Petroleum Agreements

Although Mining and Petroleum Development agreements are negotiated and subject to approval by the MRA and DPE, non-standard terms and conditions are subject to final approval and sign-off by the NEC.

4.2.1.8 Review of the Mining Act 1992

The *Mining Act 1992* is currently under review. Draft revisions are being proposed by the Department of Mineral Policy & Geohazards Management (DMPGM).

4.3 Unusual contractual stipulations in service contracts or mining agreements pertaining to revenue sharing, incentives, payments agreements, calculation of payments and other revenue related stipulations.

The MRA and the DPE do not disclose contractual information in accordance with the confidentiality provisions of Section 163 of the Mining Act, and Section 159 of the Oil and Gas Act respectively and the applicable development contracts.

Mining and Petroleum agreements are confidential unless both the Company and the relevant Government authority approve publically releasing contracts. The companies and the State have not agreed to approve releasing mining or petroleum agreements to the public for EITI purposes (or for any other purpose).

4.4 PNG's policy on disclosure of contracts and licenses

4.4.1 Policy

Refer to per 4.3. above.

4.4.2 Actual disclosure practices

We have not discussed disclosure practices with every company, however it is our understanding from our discussions with MRA, DPE and the company representatives that we did meet, that Companies and Government have not publically released contractual terms to date and are unlikely to release contractual terms for EITI purposes. Contracts are held and maintained by the Solicitor General's office.

Papua New Guinea does not have Freedom of Information legislation.

4.5 Reforms of Law and Disclosure practices

4.5.1 General Legal Reforms

A general review of taxation is ongoing and specifically includes matters related to minerals, petroleum and gas taxation.

The PNG Government announced measures to restructure the State's petroleum investments, including the establishment of Kumul Petroleum as a nominee holding company for the State's interests in petroleum projects as briefly outlined in Appendix 7 below. This process is ongoing.

4.5.2 Recent Parliamentary Reforms

The PNG Parliament passed legislation in September 2013 that appropriated the shares of the Ok Tedi Mining Limited held by the PNG Sustainable Development Program Limited by cancelling and reissuing the shares to the State.

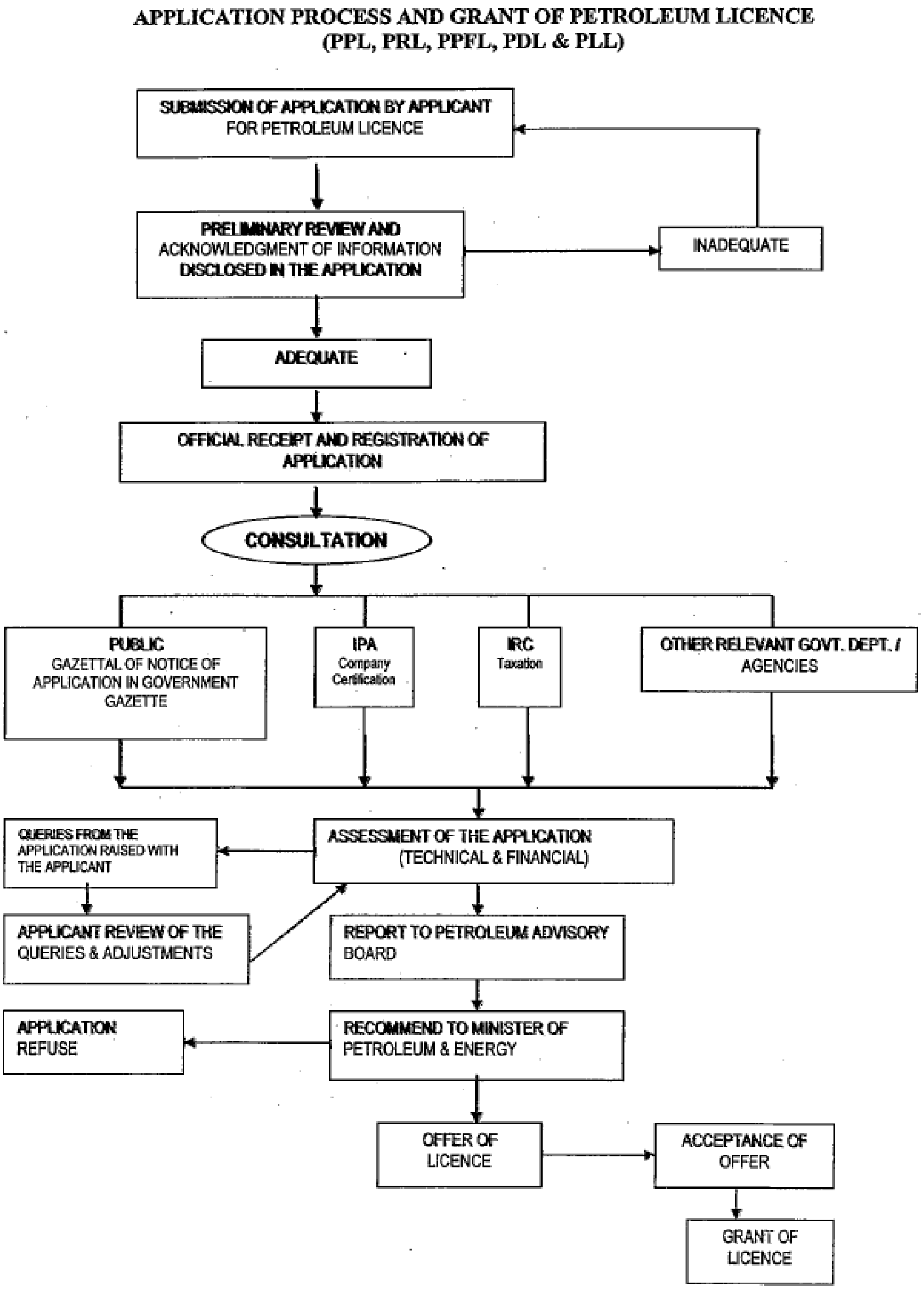
4.5.2.1 Reforms in Disclosure Practices

No reforms to disclosure practices have been publicised by Government or Companies at this stage.

Key Findings and Recommendations	
Mining and Petroleum Contracts are not publically disclosed	In the absence of approval from Government and Companies, Government legislation, policy and practice provides restrictions on the public disclosure of mining and petroleum contracts. Recommendation The Government may wish to consider introducing legislation or policy that enables the disclosure of contracts. In the absence of enabling legislation and policy, appropriately authorised officials of the state and companies may wish to consider agreeing to disclose contracts for EITI purposes.

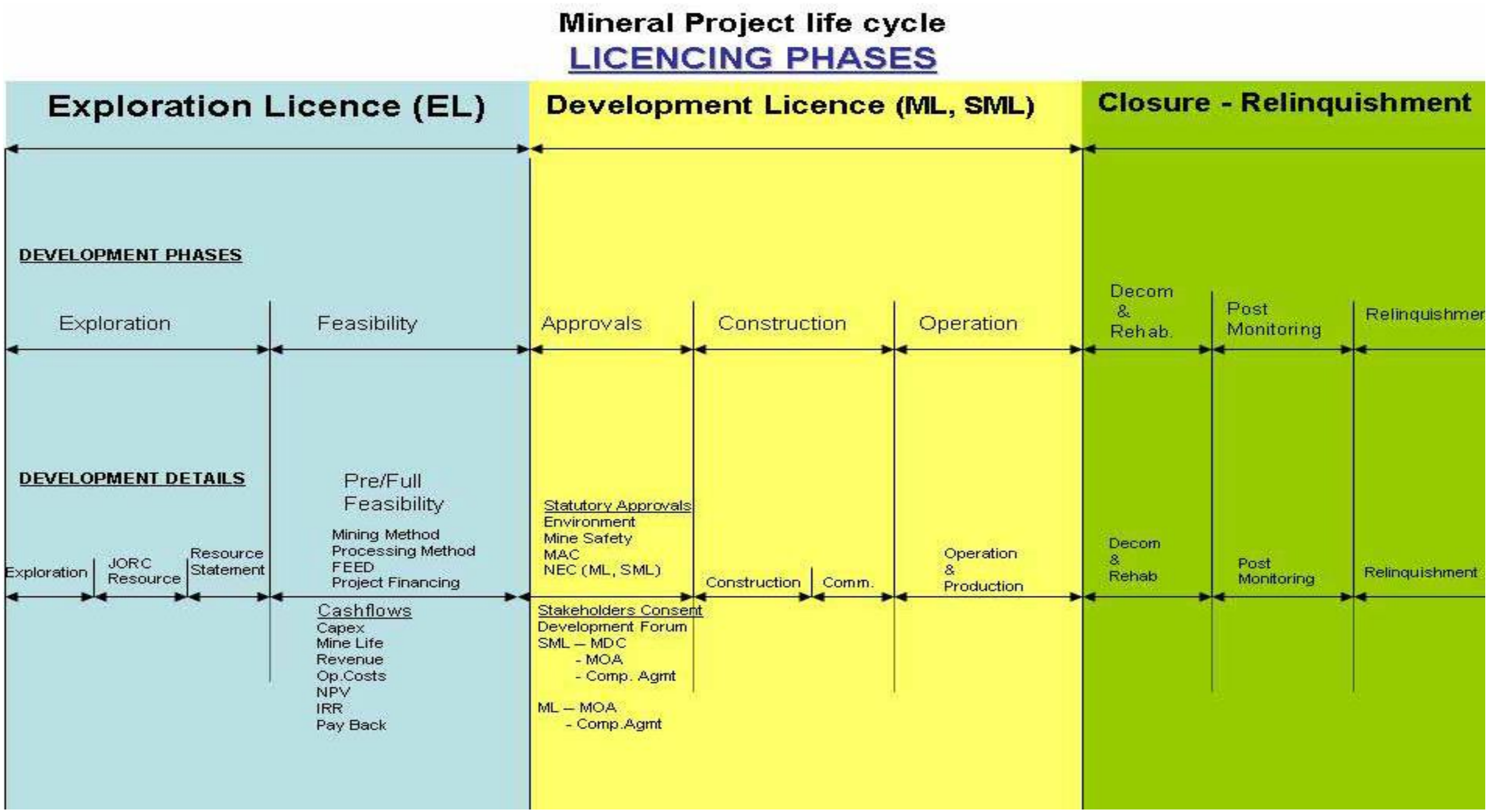
Sub Appendix 4.1: Application Process and Grant of Petroleum License

Source: Department of Petroleum and Energy, Petroleum Division -Licensing and Registry Branch.



Sub Appendix 4.2: License Phases Mining

Source: http://www.mra.gov.pg/Portals/2//Mining%20Info/licensing%20phase.pdf



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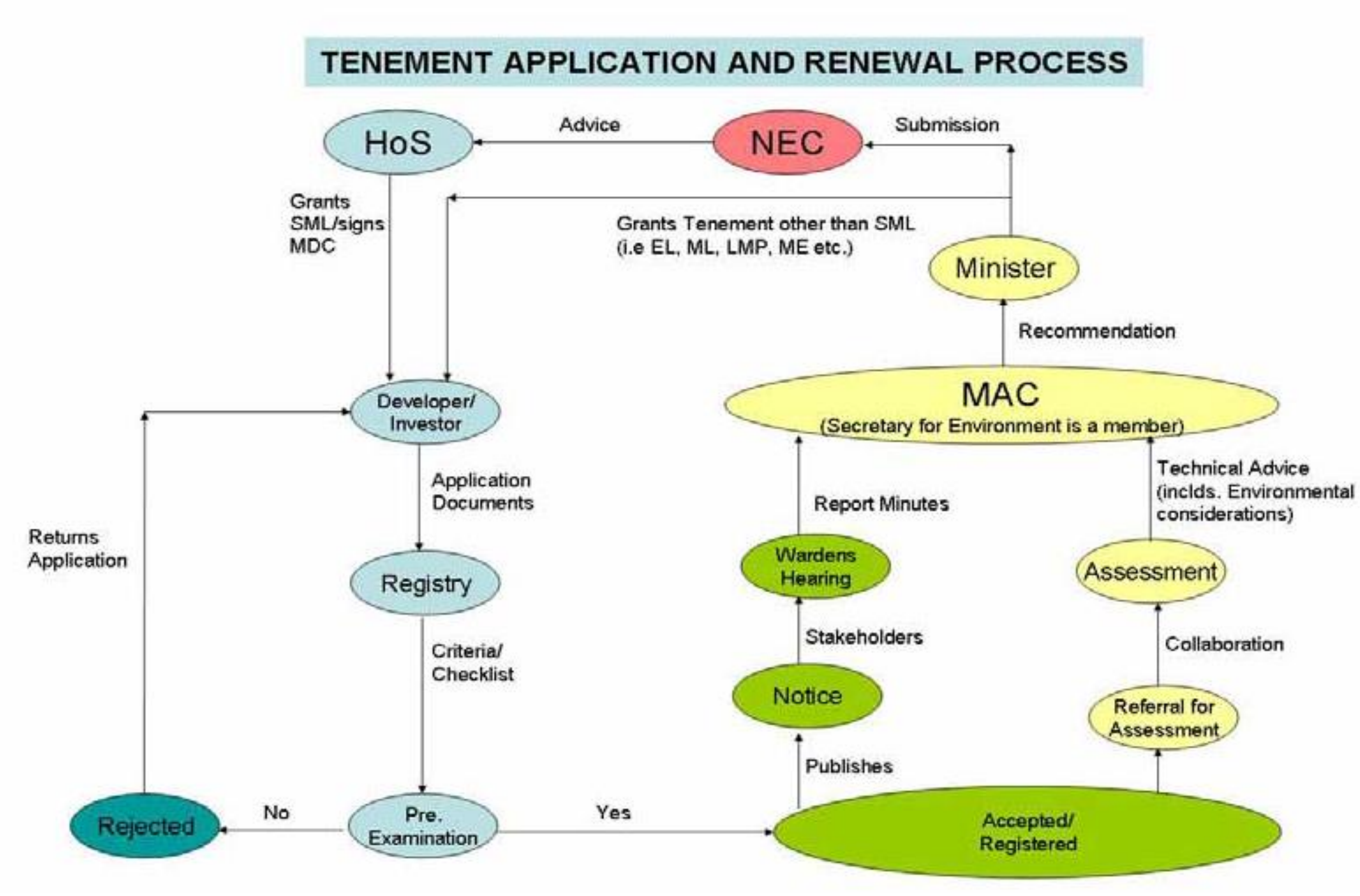
Sub Appendix 4.3: License Phase Flow Chart

Source: http://www.mra.gov.pg/Portals/2/Mining%20Info/licensing%20renewal%20and%20application.pdf



Sub Appendix 4.4: License Application Process and Fees

Source: http://www.mra.gov.pg/Portals/2/Mining%20Info/licensing%20renewal%20and%20application.pdf

THE APPLICATION PROCESS

STEP 1: Lodging of Applications

Attachments to be submitted together with Application Form.
Form 8—Application Form
Form 17—Boundary Description Form
Form 20—Work Program Form
**Statements & evidences of financial & technical capacities*
**Form to be filled, signed and submitted in person or by a nominated agent*
**Application Fee: K5,000.00 (US$1,690.00)*

STEP 2: Registration of Application by Registrar
STEP 3: Advertisement of Application in media.
STEP 4: Warden's Hearing and Reporting (this is usually done at the proposed activity site).
STEP 5: Technical Assessment of Application
STEP 6: Mining Advisory Council (MAC) considers application (the council is comprised of government representatives) who reco mends to Minister for grant of licence or otherwise.
STEP 7: Mining Minister makes decision on application.
STEP 8: Payment of Fees and Obtaining of Exploration Permit.

Mineral Resources Authority

Mining Haus, Poreporena Freeway
PO Box 1906
Ph: +675 321 3511
Fax: +675 320 0579

Fees and Explanation

AMOUNT	AREA	PERIOD
K90.00	1 sub block (3.41 km²)	YEAR 1 & 2 *Term 1*
K180.00	1 sub block (3.41 km²)	YEAR 2 & 3 *Term 2*
K470.00	1 sub block (3.41 km²)	YEAR 3 & 4 onwards *Term 3 & 4 onwards*

Minimum Expenditure Requirement
Term 1: K400/sub block/year
Term 2: K1000/sub block/year
Term 3: K2000/sub block/year

License Conditions
- Work programs
- Expenditure
- Reporting

CONDUCTING BUSINESS IN PNG

Under PNG Laws, Section 28 of the Investment Promotion Act stipulates the requirements. The Certification unit accepts application for certification by foreign enterprises, processes and makes recommendation to the Board for approval. It is crucial to note that the certification of foreign enterprises by the IPA does not relieve a company from meeting the requirements of other agencies nor does it override their approvals.

A foreign enterprise must firstly register with the IPA (*www.ipa.gov.pg*) under the Companies Act 1997. There are two (2) option for a foreign company to consider at time of registration: the first option is to incorporate a new company in PNG, and the other is for a company that is incorporated (registered) under the laws of another country overseas to register as an Overseas Company.

HOW TO APPLY

PNG IMMIGRATION REQUIREMENTS

All Applicants must:
- Complete and sign the correct application form.
- Attach one passport size photograph (for APEC Business Card Applicants and Permanent Resident Applicants please provide two photos).
- Pay the required fee.
- Provide any other documentary information as requested (refer to the appropriate entry category).

PASSPORT VALIDITY

Passports should be valid for at least 6 months from the date of intended travel.

FEES

In the event that your application is unsuccessful, the fee is not refundable.

Applicants can pay the required fee at:
- Any PNG Dilomatic mission in your country of residence (if available); or
- Mail required fees together with application to the nearest PNG diplomatic mission within the region.

If application is lodged at an Australian mission representing the PNG Government, the application fee will be collected on arrival in PNG.

SCHEDULE OF FEES	
Application or Certification	
Form 3	K2,000.00
Variation of terms & conditions of certification	
Form 5	K400.00
Change in Ownership of enterprise	
Form 3	K2,000.00

Sub Appendix 4.5: Diagrams of Flow of Significant Funds

Royalties

Figure 1 - Oil and Gas Royalties paid to Landowners. *Under PNG LNG these arrangement have been superseded, with DPE no longer a recipient.*

Figure 2 - Oil and Gas Royalties paid to Provincial and Local Governments. *Under PNG LNG these arrangement have been superseded, with DPE no longer a recipient.*

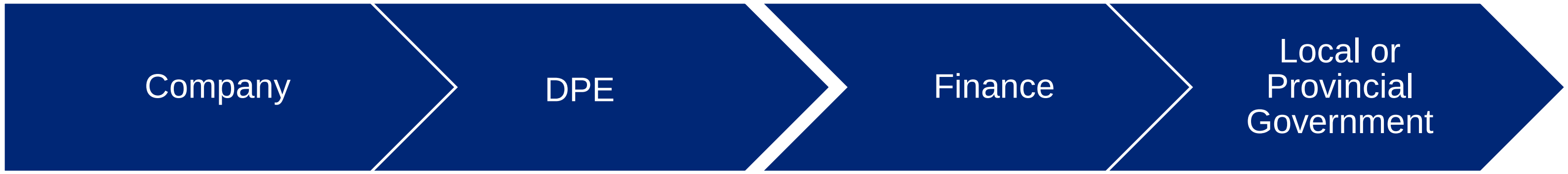


Figure 3 - Mining

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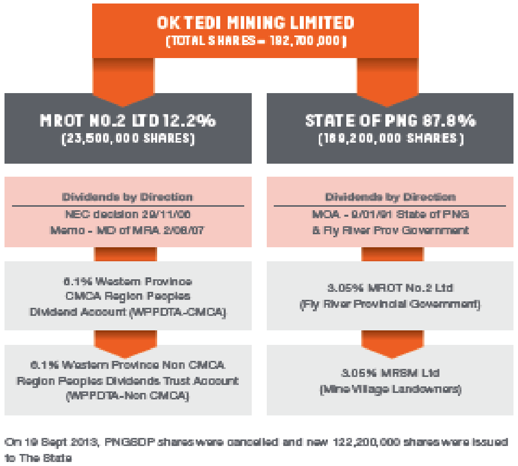
Dividends

Petromin

Company → Treasury (Shares held by Prime Minister in Trust for Government)

OK Tedi

Company → Treasury and Dividends by Direction



Source: Page 18 of the Ok Tedi Mining Limited Annual Review

Company
IPBC
Treasury

Taxation

Company
IRC

Development Levies

Oil and Gas - 2% Development Levies

Company
Finance
Provincial and local government

Production Levies

Mining - 0.025% Production Levies

Company
MRA

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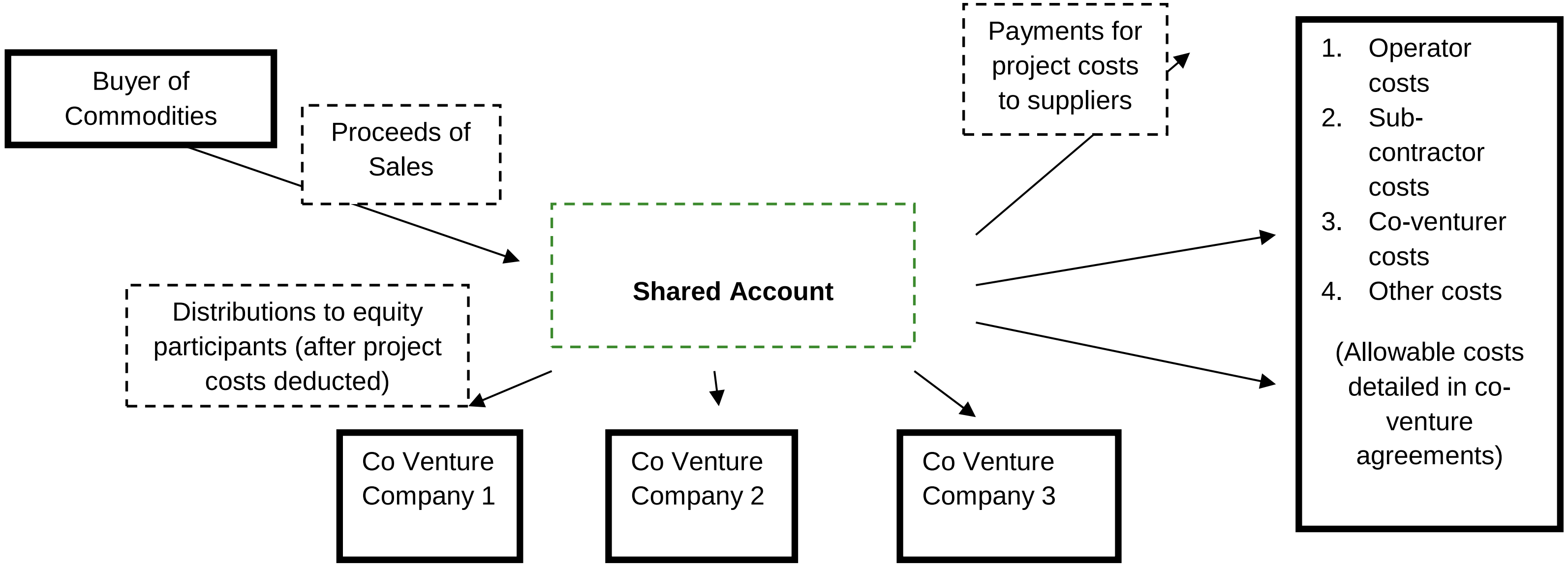
Equity

Example for illustrative purposes only. (Each project where there is equity will differ depending on agreements between venture partners)



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Appendix 5: Institutional Capacity

	Terms of Reference	Link to EITI Standard
1.	Provide an overview of the capacity of relevant government ministries and departments, civil society organizations and industry with a focus on identifying key capacity constraints regarding their respective ability to understand and integrate EITI into work flows and outreach efforts. Financial literacy, plus understanding of how government works and the financial practices and structure of the extractives sector in PNG, are critical to PNG EITI's success.	1.3 a) & g)

EITI Requirement	
1.3	**The Government is required to commit to work with civil society and companies, and establish a multi-stakeholder group to oversee the implementation of EITI.** a) The government, companies and civil society must be fully, actively and effectively engaged in the EITI process
	g) The multi-stakeholder group is required to agree clear public Terms of Reference (ToRs) for its work. The ToRs should at a minimum include provisions on: The role, responsibilities and rights of the multi-stakeholder group: i) Members of the multi-stakeholder group should have the capacity to carry out their duties.

The following table was based on discussion with stakeholders:

Sector	Entity	Financial Literacy	Ability to fit into Workflows	Recommendations
Government	MRA	At an executive level the MRA appears to have appropriate financial literacy to understand the PNG EITI Where tasks are re-assigned from executives to more junior staff the level of financial literacy may decrease. The MRA as a part of its strategic planning is working towards increasing the level of systems capability across all staff within the organisation.	The Mineral Resource Authority appear to have the appropriate ability at an Executive level to undertake certain key tasks. Where tasks are re-assigned from the Executive to more junior staff the level of capacity to understand and undertake key EITI tasks decreases. The MRA is considering mechanisms to practically report production and revenue data for EITI purposes.	Staff with appropriate levels of capacity will need to be identified by the Executive to assist with undertaking key EITI tasks. The MRA may need to adjust existing processes and systems to enable the EITI to fit into its work practices. For example production and royalty data is currently collected via manual lodgements. It may be more efficient to collect this information via electronic lodgements or a publish what you pay portal moving forward. The impact of system changes should be fully assessed and costed prior to making a decision to implement such changes.
	Department of Petroleum and Energy	At an executive level the DPE appears to have appropriate financial literacy to understand the PNG EITI Where tasks are re-assigned from the executive to more junior staff the level of financial literacy and knowledge of EITI decreases.	The Department of Petroleum and Energy has not yet considered how to fit the EITI into its current workflows. For example: • DPE is not yet receiving royalty returns which might form the basis of reconciling royalty receipts received from operators. • Revenue information is received across the organisation in a fragmented manner. That is the registrar section has some revenue data, the commercial sections have other levy revenue data. • License data is still in a manual format that is neither suitable nor complete for inclusion in an EITI report.	Staff with appropriate levels of capacity will need to be identified by senior DPE officials to assist with undertaking key EITI tasks. DPE may require some assistance with: • Identifying key EITI workflows such as: ○ Reporting license data that complies with 3.9 and 3.10 of the Standard ○ Collating and reporting of all revenue flows • Identifying and allocating staff to undertake the relevant workflows ○ Training staff as to how the EITI

(Table continued on next page)

Sector	Entity	Financial Literacy	Ability to fit into Workflows	Recommendations
Government (cont.)	Department of Petroleum and Energy (cont.)		DPE is receiving production and export data but has not considered how to include this information for EITI reporting purposes.	• relates to their workflows • Assistance with putting in underlying processes to support the above, such as receiving and adequately reviewing royalty returns It may be more efficient to collect this information via electronic lodgements or publish a what you pay portal moving forward. The impact of system changes should be fully assessed and costed prior to making a decision to implement such changes. Updating the registry system may assist with tracking license information.
	Department of Finance	The officials we met appear to have the appropriate financial literacy to understand the PNG EITI. Where tasks are re-assigned from senior officials to more junior staff the level of financial literacy may decrease.	The Department of Finance has a key role in receiving, recording and then re-distributing key extractive industry receipts, in particular Development Levies and Royalties. We only had brief discussions with Ministry of Finance representative and we unable to determine which receipts were being received by the Department of Finance. From our review of Auditor General Reports, it appears that the department of Finance may not be appropriately accounting for receipts that are not received via consolidated treasury accounts, including monies from extractive industries such as Royalties and Development levies.	Receipt and payment data will need to be reconciled to extractive industry trust bank accounts and compiled for EITI reporting purposes. Where reconciliation and compilation of receipt data does not occur a program will need to be undertaken to ensure that this occurs.

(Table continued on next page)

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Sector	Entity	Financial Literacy	Ability to fit into Workflows	Recommendations
Government (cont.)	Department of Treasury	Treasury have adequate financial literacy to understand the PNG EITI	The Department of Treasury play a key role in understanding total revenue flows and co-ordinating the EITI. Treasury officials involved in the EITI undertake a number of other functions in addition to their EITI co-ordinating role.	The set-up of the EITSecretariat should be finalised as a priority.
	IRC	The IRC officials we met appear to have the appropriate financial literacy to be able to understand the EITI and how to fit it into their workflows.	IRC Officials and Advisors appear to have a good understanding of how to extract the relevant information from IRC systems for EITI purposes. The IRC expressed concerns that reconciliations of receipts from the bank accounts back to their taxpayer management systems SIGTAS and RAMS 1 are not up-to-date in some instances which result in differences between taxpayer records and IRC records.	The IRC will need to: • Ensure that taxpayer receipts as recorded in SIGTAS and RAMS 1 are reconciled to bank accounts • Update taxpayer records where there are reconciling differences. The IRC should consider documenting the key systems and process flows relevant to their role within the EITI to ensure that EITI knowledge is retained within the IRC should IRC officials and advisors change roles.
Oil and Gas Companies	Oil Search	Oil Search executive and staff appear to have the appropriate level of financial literacy across the organisation to understand EITI	Oil Search appear to have adequate systems and staffing across the organisation to fit the EITI into their workflows.	N/a
	ExxonMobil	PNG LNG executive and staff appear to have the appropriate level of financial literacy across the organisation to understand EITI	PNG LNG appear to have adequate systems and staffing across the organisation to fit the EITI into their workflows.	N/a
	Petromin	The officials we met appear to have the appropriate financial literacy to understand the PNG EITI.	Petromin appear to have adequate systems and staffing across the organisation to fit the EITI into their workflows.	N/a

(Table continued on next page)

Sector	Entity	Financial Literacy	Ability to fit into Workflows	Recommendations
Oil and Gas Companies (cont.)	NPCP	Officials within the NPCP appear to have sufficient financial literacy to understand their role in the EITI.	The NPCP is a new institution and is currently building capacity, implementing processes and procedures to support its strategic plan. The EITI will be an additional task for the newly formed entity to implement.	Staff with appropriate levels of capacity will need to be identified by senior NPCP officials to assist with undertaking key EITI tasks. If the NPCP is scoped in for EITI reporting, it may require some assistance with: • Identifying key EITI workflows • Identifying and allocating staff to undertake the relevant workflows • Training related to how the EITI relates to their workflows • Assistance with implementing underlying processes to support the above, such as preparing and filing income taxation returns, paying dividends etc.
Mining Companies	Barrick and Newcrest	The Mining Companies that we met with had a good understanding of the EITI and the payments made to government that might be subject to the Initiative. There were various Government, Civil Society and Company stakeholders who expressed concern that Ramu Nickel were not currently reporting adequate information for EITI purposes, therefore may not have adequate financial literacy and so will be reluctant to participate	The Mining companies we met with appear to have sufficient capacity to implement EITI into their workflows.	Outreach efforts will be required to increase the level of EITI awareness with some mining companies, in particular increased focus may be required with: • Mining companies with relatively new operations in Papua New Guinea such as Ramu Nickel • State owned mines.

(Table continued on next page)

Sector	Entity	Financial Literacy	Ability to fit into Workflows	Recommendations
Civil Society	Various	We met with various Civil Society members. The level of financial literacy and general EITI awareness varied considerably across civil society MSG participants. There were some civil society participants who had excellent knowledge of Government operations and extractive industries, other participants whilst very willing to be involved, but had very limited knowledge of Government operations and extractive industries.	N/a	Significant outreach efforts are required to improve the EITI knowledge and financial literacy of civil society participants on the MSG and the wider groups that they represent. A functioning EITI Secretariat to support outreach efforts will assist a successful EITI implementation in PNG.

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Appendix 6: Payment Computations

	Terms of Reference	Link to EITI Standard
2.	Provide an explanation of how payments are computed (formulae and basis for computation of payment).	4.1

EITI Requirement	
4.1	**Defining the taxes and revenues to be covered in the EITI Report** a) in advance of the reporting process, the multi- stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be included in the EITI Report. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.

Information below is extracted from a variety of sources including:

- http://www.irc.gov.pg/
- http://www.customs.gov.pg/03_travellers/4_traveller_concessions/4_customs_duty_and_GST.php
- http://www.oilsearch.com/BED77567-37CC-4228-A316-E6868949271F/FinalDownload/DownloadId-29B9E6742D09BE84241ABF8F3BE1A6FB/BED77567-37CC-4228-A316-E6868949271F/media/docs/Oil%20Search%202013%20Transparency%20Report-d60f4c12-dc6a-48a6-96ef-c93f941e2486-0.pdf
- Deloitte Resource Taxation Guide
- *Oil and Gas Act 1998*
- *Mining Act 1992*

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6.1 Dividends

Dividends are due to the Government from State Owned Entities involved in the mining and petroleum sectors. Dividends are declared by the Board of Directors and calculated on a per share basis (dividend rate). For example the Board might declare a 1.25 PGK per share. The dividend paid will be the number of shares multiplied by the dividend rate.

6.2 Royalties

	Description
Oil and Gas	Calculated at a rate of 2% of the well head value of oil or gas exported. The wellhead value of any petroleum is the value of the petroleum determined in accordance with Section 158 of the Oil and Gas Act less any deductions prescribed in the regulations to the extent and in the manner prescribed. In more general terms, the well-head value is derived by taking the gross value of petroleum recovered and deducting all costs incurred between a defined valve on the Christmas tree and the point of sale. Deductible costs are normally confined to the processing, storage and transport of the petroleum recovered by the producer to the point of sale. All other costs, including costs associated with exploration, drilling, recovery and abandonment are not deductible.
Mining	Calculated at a rate of 2% on gross Free On Board (FOB) sales. FOB would be the value of the commodity at the time of loading for shipment.

6.3 Levies

The levies due under the Oil and Gas Act and due to the MRA are different in nature. The MRA levy is to fund its operations as a statutory authority. The Oil and Gas levies are for Provincial and Local Government funding.

Sector	Description
Oil and Gas	<u>Development Levy</u> 2.00% of the wellhead value of all petroleum product from the licence area, calculated in the same manner as the Royalty. These levies are paid 12 months in arrears in accordance with the Oil and Gas Act.
Mining	<u>Production Levy</u> Calculated at 0.25% of FOB production sales. In accordance with Section 30 of the ***Mineral Resources Authority Act* 2005.** the production levy in respect of minerals to which this Section applies is to be imposed at the rate of 0.25%, or such other rate that does not exceed 0.5%, as is determined by the Minister responsible for treasury matters in consultation with the Minister for mining matters and the Board, of the assessable income in respect of the project of the relevant producer or producers of the minerals.

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6.4 Equity

Sector	Description
Oil and Gas	Petromin, NPCC and MRDC Each equity stake varies on a project by project basis. Equity is the term that is used to describe the Government's distributions, other than a dividend, received from its share of project. Gas Sales are calculated on Millions of British Thermal Units (MBTus) primarily based on long term contracts. 6.6 Million Tonne per Annum (MTPA) of LNG from the PNG LNG Project is contracted to Asian buyers, comprising: TEPCO (~1.8 MTPA) and Osaka Gas (~1.5 MTPA) from Japan, CPC from Taiwan (~1.2 MTPA) and Sinopec (~2.0 MTPA) from China. The LNG has been jointly marketed, with ExxonMobil acting as marketing representative on behalf of the Project participants. The remaining 0.3MTPA will be sold either under contract or on the spot market. Per discussions with MRDC, there is a joint venture agreement called the Coordinated Development and Operating Agreement between all coventurers (Covs) of the PNG LNG Project. (NPCP and MRDC participants are parties to it as well). At the end of every financial year the Covs at an owners committee meeting approve the operational budget for the coming year. The operator (Exxonmobil) aim to operate within that approved budget. The sales proceeds go to a single account and the operational cost is taken out from that account by the operator. Petromin, NPCC and MRDC get monthly report on sales proceeds, expenditures and other account details. The COVs then conduct an audit of the operations during the year.

6.5 Corporate Income Tax

6.5.1 General Corporate Tax Provisions

The tax year is the calendar year ended 31 December. Rules exist for adoption of substitute accounting periods and these will often be granted where a PNG subsidiary wishes to adopt the same balance date as its foreign parent company.

Tax is charged on taxable income, which equates to accounting profit as adjusted by specific tax requirements. Therefore the PNG tax system will generally allow a deduction for expenses incurred in carrying on a business provided they are not of a capital nature. Allowable deductions include depreciation of plant and equipment. The accounting profit of a company is subject to a number of tax adjustments to arrive at taxable income, and these may include:

- provisions for expenses are not deductible (but expenses actually incurred are)
- no deduction is available for formation expenses
- no income or deduction is generally included in the case of unrealised foreign exchange gains and losses
- business entertainment expenses are not generally deductible
- depreciation or amortisation of intangibles is not deductible
- deductibility of management fees paid can be restricted
- various other concessions and exemptions exist which may have a further impact.

There is no general capital gains tax in PNG. Capital gains are only taxable if they have been realised as part of a profit-making scheme or undertaking, or if they are related to the ordinary business of the taxpayer, as for example to that of a share trader.

Movement in the value of stock on hand is assessable or deductible as the case may be. Stock can be valued, at the taxpayer's option, at cost, market selling or replacement cost. Provision exists for the value of trading stock to be adjusted where special circumstances, such as obsolescence, exist.

Depreciation of plant and equipment is an allowable deduction for income tax purposes. The annual deduction is calculated on the basis of the cost of the particular item, plus any additional costs required to put that item into place, spread over its effective life. The rates of depreciation allowable are determined in the first instance by the IRC, although provisions do exist for a taxpayer to gain approval from the IRC for adopting a different rate in relation to a particular item.

The depreciation of assets used in petroleum or gas projects in PNG is normally subject to a separate special tax regime applicable only to those types of ventures.

Tax losses may be carried forward for 20 years in PNG, with the exception of the tax losses of primary production ventures, where unlimited carry forward of losses is allowed. The carry forward of tax losses by a company is subject to it passing either a continuity of ownership test or a continuity of business test. The continuity of ownership test involves meeting a 50% threshold and that test applies to changes of ownership in holding companies higher up the ownership chain.

6.5.2 General Resource Tax Provisions

Resource projects in PNG are assessed to tax on a ring fenced or project basis of assessment so that every project of a taxpayer is assessed separately even if the same taxpayer has an interest in multiple projects. There are limited allowances for expenditure by a taxpayer outside a project area to be brought in to costs of a successful project.

Income tax deductions are allowed for operating expenses, administration and management charges (subject to limits), interest on funds borrowed and depreciation of allowable exploration and allowable capital expenditure. In addition, interest paid by resource project operators to non-resident lenders is not subject to interest withholding tax.

Deductions for allowable exploration expenditure (AEE) are allowed on the basis of the residual exploration expenditure for any year being divided by the lesser of the remaining life of the project or four. Certain expenditure outside the licence area can also qualify as AEE. Allowable capital expenditure (ACE) is divided into two categories being short life ACE (capital expenditure with an estimated life of less than 10 years) and long life ACE (capital expenditure with an estimated life of more than 10 years). Short life ACE is claimed by dividing the lesser of the remaining life of the project or 4. Alternatively, a taxpayer can elect to apply standard corporate depreciation rates to short life ACE. Long life ACE is claimed on a straight line basis over 10 years. Where the remaining life of the project is less than 10 years then the deduction is calculated according to the length of that remaining life.

Deductions for AEE and ACE cannot create a tax loss. Residual balances of AEE and ACE can be transferred on sale or transfer of interests in licences. Generally a purchaser of an interest will be limited to the lesser of the seller's residual tax balances or the purchase consideration.

Specific rules relate to the deductibility of interest against project income and these can be summarised as follows:-

- Interest incurred prior to the issue of a development licence is not allowable.
- Interest incurred in relation to the acquisition or construction of an item of plant is capitalised until the later of when the taxpayer first uses the plant or when assessable income is first derived.
- Interest deductions are capped by a debt/equity ratio of 3:1.

Deductibility of management fees is restricted to 2% of exploration expenses during the exploration phase, 2% of capital expenses during the development phase and 2% of operating expenses during the operational phase. This deductibility limit can be overridden by tax treaties that PNG has entered into with various countries, however the PNG Internal Revenue Commission requires additional disclosure before allowing this increase in limit.

Tax credits are allowed for expenditure on approved infrastructure projects which are not directly part of project ACE. These credits are limited to the lesser of 0.75% of assessable income or the tax payable in any year and may be carried forward if unutilised in a particular year.

It should be noted that joint venture operators are required to lodge a consolidated joint venture statement for their joint venture as a whole and individual joint venture members are then required to reconcile their tax claims against these statements.

Resource projects are zero rated for Goods and Services Tax (GST) purposes so supplies to such taxpayers, apart from cars, are not subject to GST.

6.5.3 Specific Mining Tax Provisions

The rate of tax applicable to mining projects is 30% for resident companies and 40% for non-resident companies. In addition, there is a 10% dividend withholding tax on distributions of profit to shareholders of resident mining companies. The Mining Act provides for a number of different types of mining licences, including Mining Leases and Special Mining Leases. There is no differentiation in tax rates between these types of leases.

A mining levy based on a formula related to customs and excise duties was previously payable but has now been phased out.

The definition of ACE for a mining project has been extended to include:-

- Expenditure on acquisition of the site, or rights over the sight, of mineral deposits.
- Expenditure on winning access to or testing of mineral deposits.
- Expenditure on studying the feasibility of development of smelting and refining activities
- Expenditure on environmental impact studies.

The ring fencing regime applying to mining projects is not completely rigid and a number of adjustments can be made. These include:-

- A taxpayer operating a mining project and related corporations may add exploration expenditure to a pool from which deductions can be claimed.
- A double deduction is effectively allowed for any un-deducted expenditure in the pool when a development licence is granted because the AEE in that pool can be taken against the project and can also remain in the pool.
- Where a prospecting or development licence is surrendered, cancelled or expires, AEE but not ACE may potentially be transferred to another project.

While not explicitly a tax, the PNG government conditions for issuing a special mining lease includes the right of a free carry. The PNG government reserves the right to take up to 30% of such a mining project which it pays for either out of foregone production or by refinancing. This amounts to riskless entry into a mining project for the government at the point the production licence is issued, which is paid for at cost.

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6.5.4 Specific Petroleum Tax Provisions

The rates of tax applicable to petroleum projects are as follows:-

	Resident	Non resident
Existing projects	50%	50%
New projects	45%	45%
Incentive rate projects	30%	30%

A new petroleum project is one which did not derive income until after 1 January 2001. Incentive rate petroleum projects are those for which prospecting licences were granted between 1 January 2003 and 31 December 2007 and for which a development licence is issued before 31 December 2017.

Petroleum projects are subject to a royalty of 2% of net wellhead value of petroleum produced. New petroleum projects are also subject to a development levy of approximately 2% of gross revenue which is deductible for income tax purposes. Where a project pays both levies then the royalty is claimable as a credit against income tax payable. In addition, there is no dividend withholding tax on distributions of profit to shareholders.

Petroleum tax provisions apply not only to the extraction of petroleum but also the transport and processing of petroleum. The definition of ACE for petroleum projects has therefore been expanded to include capital expenditure related to these activities as well as that of extracting the petroleum.

The ring fencing regime applying to petroleum projects is not completely rigid and a number of adjustments can be made. These include:-

- Expenditure in adjacent permits may be included on approval to Government Approval if that expenditure was made to delineate a deposit in the taxpayer's prospecting licence.
- Exploration expenditure can be excluded from a project and held over to a later project for which it qualifies.
- Where a prospecting or development licence is surrendered, cancelled or expires that expenditure may potentially be transferred to another project.
- Exploration expenses can be reduced by various types of income earned by the taxpayer during the exploration phase.

Specific rules deal with the conversion of a petroleum project to a gas project and where there are adjustments to members' entitlements under a co-ordinated development.

While not explicitly a tax, the PNG government conditions for issuing a petroleum production licence includes the right of a free carry. The PNG government reserves the right to take up to 22.5% of a petroleum project which it pays for either out of foregone production or by refinancing. This amounts to riskless entry into a petroleum project for the government at the point the production licence is issued, which is paid for at cost.

6.5.5 Specific Gas Tax Provisions

The designation of a petroleum/gas field as either a petroleum or gas field depends on a prescribed calculation of gas to oil ratio produced by the project. The rate of tax applicable to a gas project is 30% regardless of whether the taxpayer is a resident or non-resident corporation. In addition, there is no dividend withholding tax on distributions of profit to shareholders.

The definition of ACE of a gas project does not include expenditure on ships and aircraft unless this expenditure is specifically included as ACE by virtue of a gas agreement concluded with the PNG government.

Gas projects are subject to a royalty of 2% of net well head value of gas produced. Gas projects are also subject to a development levy of 2% of net wellhead value of gas produced which is deductible for income tax purposes. Where a project pays both levies then the royalty is claimable as a credit against income tax payable.

A point to note is that the developers of the gas project led by Exxon Mobil have negotiated an increase in the infrastructure tax credit beyond what is provided in the general income tax provisions available to other resource companies.

6.6 Additional Profits Tax

In addition to income tax, gas projects are also subject to an additional profits tax (APT) based on the cash flow of the project. Broadly speaking, the tax is imposed when the compounded value of net cash receipts becomes positive. For these purposes, “net cash receipts” includes all income of a project, all exploration, capital expenditure and tax payments. There are two calculations being Accumulation rate X (17.5%) and Accumulation rate Y (20%). The taxpayer does have the option of selecting an alternative rate which is then calculated as either 14.5% plus the Producer Price Index inflation rate in the USA (Accumulation rate X) or 17% plus the Producer Price Index inflation rate in the USA (Accumulation rate Y).

The rate of APT is 7.5% for amounts taxed under Accumulation rate X and 10% for amounts taxed under Accumulation rate Y. Put simply then, APT is a tax which applies when the rate of return of a gas project exceeds the specified compounding rates. Once a project pays APT the amount subject to compounding is reset to zero.

On the plus side of APT, however, additional deductions for ACE are available for a gas project on a sliding scale if the rate of return for the project falls below specified levels.

6.7 Tax credit

The Tax Credit Scheme is a voluntary PNG national government scheme under which up to 0.75% of gross assessable income can be made available to fund infrastructure projects approved by the government and delivered by oil companies as works in kind.

Tax Credit monies are used to upgrade and deliver infrastructure projects such as schools, aid posts and roads, predominantly around project affected areas.

The money is paid to PNG vendors of the mining company (preferably from the project areas) to provide materials and services using company contracting processes.

6.8 Salaries and Wages Tax

Salary & Wages Tax is the personal income tax remitted by oil companies and its affiliates, and paid for on behalf of all expatriate & citizen employees and directors who earn salaries and wages across all project areas. Personal income tax is calculated at marginal rates, with a top rate of 42% for salaries of PGK 250,000 or more.

6.9 Stamp Duty

Stamp duty (duty) in Papua New Guinea is payable on the transfer, agreement for sale, declaration of trust over, or grant of certain real property. The amount of duty payable will depend on the type of property and its value. Duty is calculated on the market value of the property.

Where the value does not exceed K35,000.00	K5.00 or an amount equal to 2 per cent of the value, whichever is the greater
Where the value exceeds K35,000.00 but does not exceed K70,000.00	An amount equal to 3 per cent of the value
Where the value exceeds K70,000.00 but does not exceed K140,000.00	An amount equal to 4 per cent of the value
Where the value exceeds K140,000.00	An amount equal to 5 per cent of the value

Duty is payable by the purchaser or the person deemed to be the purchaser, or the person to whom the property is agreed to be conveyed.

6.10 Foreign contractor's withholding tax

Broadly, this tax applies when a non-resident contractor is engaged by a PNG resident to perform a contract for prescribed purposes. The foreign contractor is liable for tax on 25% of the gross contract value at the non-resident tax rate of 48%. The effective tax rate is 12% in such circumstances.

A non-resident contractor, with the expressed approval of the Commissioner General of Internal Revenue, may lodge an annual income tax return and be assessed on an actual net profit or loss basis. Prescribed purposes include construction, installation, use of industrial equipment, or provision of professional or consultancy services.

6.11 Goods & services tax

For the importation of goods into Papua New Guinea, GST is imposed at a rate of 10% of the value of the goods and services sold (or goods imported). Businesses which sell goods or services collect GST and pay it to the Internal Revenue Commission less the credit on the GST the business was charged on purchasing its supplies. This is done using a monthly GST return.

GST is not like Income Tax or Salary and Wages tax where tax is calculated on earnings. GST is a consumption tax that is added to the selling price (including profit) of goods and services.

GST is collected by both the Department of Customs (on imports) and the IRC.

6.12 Customs Duty

Where applicable, Customs duty is levied on the transaction value of the goods (the price actually paid for them). The rate of Customs duty is calculated by reference to the Customs Tariff Act and may vary from time to time.

A Goods and Services Tax (GST) of 10% is then calculated on the combined value of the goods and the amount of duty. If the goods are not imported as accompanied baggage and there are freight and/or insurance charges, these costs will also form part of the calculation for GST.

In addition to the payment of duty and tax, an import transaction fee of K10 (GST inclusive) may apply to commercial imports. The fee is payable at the same time that duty and GST is collected. A quick calculation is as follows:

> The value of the item + Freight and Insurance = Customs Value [CV]
> {Customs Value [CV] + Customs Duty [CD]} x 10% = GST Payable
> CD + GST = Total Amount Payable

6.13 Excise duty

Excise is generally an Inland Revenue or local tax levied or charged on certain goods/products legally described or declared as Excisable Products. The Commissioner of Customs has the powers to Administer and control the manufacture of excisable products and the collection of excise duties within the meaning of the Excise Act. Excisable products that attract Excise duties are Beer, Tobacco Products, Spirituous Liquors, Wine Products and Petroleum Products, manufactured or further manufactured in Papua New Guinea or imported.

6.14 Management Fees Withholding Tax

Management fees paid to non-residents for management services performed outside Papua New Guinea would be subject to tax at the rate of 17% of the gross management fees paid. This rate is reduced if the non-resident is a resident of a country, which Papua New Guinea has a Double Tax Agreements with, as follows:

Country	Withholding tax rate
Canada	Nil
Australia	Nil
Singapore	Nil
United Kingdom	10%
Malaysia	10%
China	Nil
South Korea	Nil
Fiji	15%

Additional treaties have been concluded with Indonesia and New Zealand.

The person making payment to the non-resident is required to deduct the withholding tax and remit it to the Internal Revenue Commission within 21 days of the following month. Late payment of tax deducted may lead to additional tax being imposed by way of penalty at the rate of 20% per annum on the amount remaining unpaid.

6.15 Interest withholding tax

Most interest derived by residents or from sources within PNG is subject to withholding tax at a rate of 15%. This tax is an interim tax except in the case of non-resident recipients.

6.16 Royalty Withholding Tax

Royalties paid to non-residents for provision of technical know-how, trademarks, secret formulas, patent, design or model, copyright would be subject to tax at the rate of 10%, if paid to an un-associated person and 30% if paid to an associate person.

The person making payment to the non-resident is required to deduct the withholding tax and remit it to the Internal Revenue Commission within 21 days of the following month. Late payment of tax deducted may lead to additional tax being imposed by way of penalty at the rate of 20% per annum on the amount remaining unpaid.

An attached statement (Section 357(1) Statement) must be completed and forwarded to this Officer, every time a royalty payment is made. Copies of Agreements entered into must be provided to the Commissioner General for her determination.

6.17 Business Payments Tax

Business Payments Tax is withheld from certain resident contractors by the Mining and Petroleum Tax payers, and results in a tax credit against the income tax of the contractor at year end. Payments are subject to the following rates:

- 10% from business payments made to persons or organisations that do not hold a 'Certificate of Compliance'. Deducted tax has to be remitted to the Internal Revenue Commission in the month after the tax was deducted. After the end of each year every business must lodge a tax return with the Internal Revenue Commission. On assessment of that return the Internal Revenue Commission will allow a credit for the tax deducted during the year to those businesses that have had tax deducted.
- NIL from those business payments made to persons or organisations that have provided a 'Certificate of Compliance' to the person making the payment.

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License Fees

Sector	Description
Oil and Gas	Fees payable for processing of licenses and renewals. We are yet to receive a breakdown of License fee rates from the Department of Petroleum and Energy.
Mining	Fees payable for processing of licenses and renewals: **Application Fee: K5,000.00** **Fees & Explanations** **AMOUNT** / **AREA** / **PERIOD** K90.00 / 1 Sub Block (3.41 km^2) / Year 1 & 2 Term 1 K180.00 / 1 Sub Block (3.41 km^2) / Year 2 & 3 Term 2 K470.00 / 1 Sub Block (3.41 km^2) / Year 3 & 4 onwards Term 3 & 4 onwards http://www.mra.gov.pg/de-de/explorationlicenseapplicationinformation/feesexplanations.aspx

Data Request Fees

Sector	Description
Oil and Gas	Fees payable for obtained geotechnical maps and taking photocopies copies of maps and other data
Mining	Fees payable for obtained geotechnical maps and taking photocopies copies of maps and other data http://www.mra.gov.pg/Portals/2/docs/Library%20Procedures.pdf

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Water and waste permits

These constitute fees payable for permits to discharge of waste and water under the Environment Act (2000) and Environment (Fees & Charges) Regulation 2002. These payments are not considered to be significant.

Mine Closure Bond

The developer is to establish a financial security bond for the purposes of mine closure. The financial security may include;

i. An irrevocable, unconditional letter of credit issued to the State by a Bank or a parent company,
ii. A security or guarantee issued to the State by a bank or a company legally able to do so,

iii. Security interests in unencumbered assets, goods, documents of title, securities, chattels, instruments, monies, intangibles or interest arising from assignments of accounts including a pledge of assets.

This may or may not be paid in cash to the State, but rather to a bank if paid at all. Therefore it is not expected that these amounts will be significant unless there is an event that triggers the security (i.e. unfinished remediation) and wouldn't be paid while a mine is operational.

Mandatory Social Payments

The Mining Policy and the Oil and Gas Act allow for Mandatory Social Payments to be agreed between the State and the Operator under Development/ Production Agreements. These agreements are confidential therefore it is not possible to ascertain what the mandatory payments are. They may include such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events as mandated under mining contracts.

Corporate Social Responsibility Payments

Companies make various non-mandatory payments which may include such things as Community Projects, Cash Donations to NGOs, NGO programs or National Events that are paid by companies in accordance with their Corporate Social Responsibility Programs.

Environmental bonds

The Environment Act 2000 allows for the payment of bonds in certain instances. It is not clear how much these bonds are, but they are not expected to be significant when compared to other revenue streams.

Decommissioning Bond

S139 of the OGA requires the licensee shall demonstrate such financial resources–

(*a*) by establishing a reserve account for abandonment costs in accordance with the report of a certified independent auditor; or
(*b*) by providing, in a form acceptable to the Minister, a financial undertaking (or in the case of a licensee which is a joint venture, several undertakings) in the form of a bond, letter of credit or guarantee or other instrument acceptable to the Minister; or
(*c*) by granting the Minister a charge or similar security over its assets and income.

The Decommissioning Bond is not necessarily required to be paid as outlined above.

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Sub Appendix 6.1: Royalty Payments and Production Levies for Oil and Gas Companies

2013 Royalty Payments	
PROJECTS	**AMOUNT (K)**
Hides PDL 01	3,077,814.89
Kubutu PDL 02	25,440,227.48
Moran PDL 02	8,069,612.84
Gobe Main PDL 03	1,682,025.72
South East Gobe PDL 04	2,408,874.78
Moran PDL 05	7,592,408.20
TOTAL	**48,270,963.91**

2013 Development Levies	
PROJECTS	**AMOUNT (K)**
Moran PDL 02	7,069,399.77
Moran PDL 05	6,651,324.15
North West Moran PDL 06	120,936.50
South East Mananda	95,333.24
TOTAL	**13,936,993.66**

Source: DPE

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Appendix 7: Role of State Owned Entities

	Terms of Reference	Link to EITI Standard
3.	Where applicable, and in accordance with EITI Requirement 3.6, investigate the role of state-owned companies in the extractive sector and suggest an approach for reporting on financial relationships between the government and SOEs, quasi-fiscal expenditures, and government ownership in oil, gas and mining companies operating in PNG.	3.6

EITI Requirement	
3.6	**Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:** a) An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing. b) Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing. The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures. c) Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. full-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.

7.1 Proposed restructures and current arrangements

There are current proposals subject to legislative approval to restructure the ownership of certain state owned assets, liabilities and entities. Accordingly the summary below might be out-of-date if the proposed restructure(s) occur.

<table>
<tr><th>Entity</th><th>Description</th><th>Suggested approach for reporting on financial relationships</th></tr>
<tr><td>Ok Tedi Mining Limited</td><td>The Ok Tedi Mine (Entity: Ok Tedi Mining Ltd) is 100% owned by the State.</td><td>Payment streams that a normal commercial operation (such as Barrick, Newcrest or St Barbara) pays to the government should be scoped in (Subject to the MSG approving which payment streams are included).

Additionally, the Mine pays dividends to State (or entities designated by the state under other agreements) if dividends are declared by the Board of Directors.</td></tr>
<tr><td>Petromin</td><td>Petromin PNG Holdings Limited is an independent company created by the State of Papua New Guinea to hold the State's assets and to maximise indigenous ownership and revenue gains in the mineral and petroleum sectors and is 100% owned by the State. Petromin PNG Holdings Ltd was established in 2007 as an operating company under the Companies Act 1997. Interests in Extractive Industries include:

<table><tr><th>Project</th><th>Description</th></tr><tr><td>Tolukuma</td><td>Tolukuma is 100% owned by Petromin

Tolukuma has eleven Exploration License Tenements (‘EL’) and Mining Lease (ML) 104. The ML 104 covers an area of approximately 8km2 whilst the eleven EL’s cover over 8,000 km2 located with a 40 minutes flying radius of the mine site.</td></tr></table></td><td>As above.

Under a proposed restructure Petromin will be renamed Kumul Minerals and will hold only interests in mining ventures in PNG.</td></tr>
</table>

(Table continued on next page)

Entity	Description	Suggested approach for reporting on financial relationships
Petromin (cont.)	**Project** **Description** Eda Oil: Eda Oil Limited is 100% owned by Petromin PNG Holdings Limited, an entity directly owned by the PNG Government to hold its interests in petroleum and mining resource projects. Eda Oil owns a 0.24% interest in the Project derived from its 20.5% interest in the Moran Petroleum Development Project.	
Mineral Resources Development Company Limited	The Mineral Resources Development Company Limited (MRDC) is a 100% State-owned Company. It was incorporated under the Companies Act and holds Landowner equity interests in mining and petroleum projects. MRDC is single biggest custodian of landowner wealth Minerals The MRDC manages funds held in trust on behalf of landowners. Since the transfer of the State equity interest (Eda Oil) to Petromin and withdrawal of Mineral Resource Lihir, MRDC currently holds and manages the following equity interest companies for MRDC and holds and manages the following equity interest companies for landowners: • Mineral Resources Star Mountains Limited (MRSM) - 3.1% indirect interest in Ok Tedi Mining Limited for the Ok Tedi landowners. • Mineral Resource Ok Tedi No. 2 Limited (MROT) - 3.1% indirect interest in the Ok Tedi Mining Limited for the Western Provincial Government. • Mineral Resource Enga Limited (MRE) - 2.5% interest in the Pogera Gold mine for the Pogera landowners and a further 2.5% for the Enga Provincial Government.	Per our discussions with MRDC it does not directly receive royalties. Royalties are received by Government prior to being paid across to MRDC for the landowners. MRDC does receive equity distributions.

(Table continued on next page)

Entity	Description	Suggested approach for reporting on financial relationships
Mineral Resources Development Company Limited (cont.)	• Petroleum Resources Kutubu Limited (PRK) - 6.75% interest in Petroleum Development Licence 2 (PDL 2) for the affected people in the Kutubu region of the Southern Highlands Province, the coastal people of Gulf Province whose land hosts the crude oil pipeline, and the provincial governments of the two provinces. • Petroleum Resources Gobe Limited (PRG) - 2.0% equity interest in the Gobe oil fields (PDLs 3 and 4) for the affected Kikori and Samberigi people. Oil and Gas MRDC is a direct equity participant in the PNG LNG project with a 2.8% interest held by the company on behalf of its subsidiary companies. The participating companies in the PNG LNG project are: • Gas Resources Kutubu Ltd – 1.1440 % • Gas Resources Gobe Ltd – 0.0237 % • Gas Resources Moran Ltd – 0.0199 % • Gas Resources Hides 4 Ltd – 1.3519 % • Gas Resources Gigira Ltd – 0.0237 % • Gas Resources Juha Ltd – 0.1324 % • Gas Resources Angore Ltd – 0.1327 % Source: http://www.mrdc.com.pg/subsidiaries/index.htm	

(Table continued on next page)

Entity	Description	Suggested approach for reporting on financial relationships
National Petroleum Company of Papua New Guinea	National Petroleum Company of PNG Limited (NPCP) is a wholly owned subsidiary of Independent Public Business Corporation of PNG (IPBC) which is a 100% State-owned company. IPBC was given the mandate by the National Executive Council in October 2008 to be the State's nominee with respect to the State's equity interest in the PNG LNG Project. IPBC established Kroton No. 2 Ltd as a special purpose organization through which the State's participation has been effected. The Kroton No.2 Limited name was changed in November 2010 to National Petroleum Company of PNG Limited. NPCP holds a 16.57% participating equity interest in the PNG LNG Project, making NPCP the third largest participant in the Project.	Royalties are received by Government prior to being paid across to MRDC for the landowners. MRDC will receive equity distributions, once PNG LNG begins paying out these distributions. Under a proposed restructure NPCP will be withdrawn from IPBC and will assume ownership of State interests in oil & gas projects.
Independent Public Business Corporation	The Independent Public Business Corporation of PNG (IPBC) is a 100% State-owned company. IPBC was created under the IPBC Act. It has shareholdings in a variety of public enterprises with holdings of extractive industries companies as follows: **Investment** — **Shareholding** Unlisted Equity Investments - National Petroleum Company of Papua New Guinea — 100% Listed Equity Investments - Oil Search Ltd — 17.56% - Highlands Pacific — 4.4%	IPBC should receive dividends from the National Petroleum Company of Papua New Guinea if dividends are declared by the Board of Directors. This should be scoped in if material for EITI purposes. The interests in Oil Search and Highland Pacific may result in dividends due to the State. These entities are not state owned oil companies. It is our understanding that the Government of PNG has borrowed against the Oil Search Shares. Under a proposed restructure, NPCP will assume ownership of the Oil Search shares and take on the associated financing burden.

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EITI Requirements

3.6	Standard	Descriptions
a)	An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing.	Dividends are due in accordance with each SOE's constitution. The controlling board members will have discretion as to whether or not to pay a dividend. The State can direct (NEC decision or MOA)an SOE such as Ok Tedi Mining Limited to make dividend payments to another party such as a provincial Government or Landowner/Landowner Group. Grants, equity contributions or re-investment from the state were not identified from available financial information. We have been unable to review the financial relationships of NPCP. Petromin has a BNP Paribas bank facility which is a rolling corporate facility organized through securitizing the Eda Oil assets oil based on production in 2012. The interest rate is at a margin of 5 % repayable every quarter. The first drawdown of USD12.1million was in December 2011. This was fully repaid in 2012. The current balance represents a new pre-export finance facility with ANZ bank entered into late December 2012 for USD30 million at interest rate of 4.5 % (interest plus LIBOR) for 3 years. http://www.petrominpng.com.pg/about/Petromin%202012%20Annual%20Report.pdf There are also lending arrangements for Petomin's interests in Solwara with BSP.
b)	Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing. The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.	State Owned mines, in particular Ok Tedi Mining Limited, make quasi-fiscal expenditures including: • payments for public infrastructure, • provide health services to impacted landowners • provide education within Western Province • provide services through the Ok Tedi Development Foundation (OTDF) for example: OTDF has a team of 120 comprising both full time employees and contractors.

(Table continued on next page)

3.6	Standard	Descriptions
b)	Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing. The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures (cont.).	Within the OTDF structure the three main groups to support the delivery of services and projects to the Western Province communities are: • Regional Development – this group engages in development projects that benefit people living in the North, Middle and South Fly Areas; • Project Support Services – this group manages services such as the Tax Credit Scheme, Special Support Grants and CMCA infrastructure projects; and • Finance and Logistics – this group comprises the CMCA Trust Administration Team, OTDF Logistics, Finance and Support teams. In 2013, OTDF completed 285 Trust Development Projects across the Province worth PGK 14.1 million (USD 6.2 million). The larger projects included: • sponsorship of 1,869 students to attend various education institutions across PNG - PGK 3.3 million (USD1.5 million); • building and housing infrastructure improvements benefiting 305 families PGK 4.3 million (USD 1.9 million); • Women and Children's Programme PGK 478,992 (USD 210,725); and • livelihood development programmes (food security, forestry, water supply) PGK 601,874 (USD 264,825). http://www.oktedi.com/media-items/publications/annual-review/220-2013-annual-review/file

(Table continued on next page)

3.6	Standard	Descriptions
c)	Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. full-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.	Beneficial ownership is outlined. This information is fairly readily available in annual reports of the companies and other publically available sources such as company websites other than for NPCP which is yet to issue its first annual report. It is likely with planned Government restructures that there will be changes in ownership structures moving forward. Information on responsibility to cover expenses is not so readily available and will need to be obtained from the NPCP. Ok Tedi Mining Limited and Petromin audited financial statements outline the costs incurred for their operations. We were unable to obtain details on debt servicing arrangements for the PNG LNG project, in particular whether credit arrangements were being paid through IPBC for the State's share of the PNG LNG project.

Key Findings and Recommendations	
Finding	**Recommendation**
State owned enterprises and funding arrangements **EITI Requirement 3.6 provides "***Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:* *a) An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and <u>third-party financing.</u>* *b) Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and <u>national debt servicing.</u> The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.* *c) Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. full-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. <u>Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.</u>*	Treasury will need to disclose third party funding arrangements for mining, oil and gas projects including the PNG LNG project. The level of disclosure should be agreed by the MSG and where necessary consultation with the EITI Secretariat may be required as this is a new disclosure requirement under the revised standard.

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Appendix 8: Framework for reporting on revenue allocations and distributions

	Terms of Reference	Link to EITI Standard
4.	Propose a framework for reporting on revenue allocations and distribution of revenue, in accordance with EITI Requirements 3.7 and 3.8.	3.7 and 3.8

This will be updated based on final scoping. In particular the MSG will need to decide on the year end as this will determine entities to be included.

EITI Requirement	
3.7	**The EITI Report must describe the distribution of revenues from the extractive industries.** a) The EITI Report should indicate which extractive industry revenues, whether cash or in-kind, are recorded in the national budget. Where revenues are not recorded in the national budget, the allocation of these revenues must be explained, with links provided to relevant financial reports as applicable, e.g. sovereign wealth and development funds, sub-national governments, state-owned enterprises, and other extra-budgetary entities. b) Multi-stakeholder groups are encouraged to reference national revenue classification systems, and international standards such as the IMF Government Finance Statistics Manual.
3.8	**3.8 The multi-stakeholder group is encouraged to include further information on revenue management and expenditures in the EITI Report, including:** a) A description of any extractive revenues earmarked for specific programmes or geographic regions. This should include a description of the methods for ensuring accountability and efficiency in their use. b) A description of the country's budget and audit processes and links to the publicly available information on budgeting, expenditures and audit reports. c) Timely information from the government that will further public understanding and debate around issues of revenue sustainability and resource dependence. This may include the assumptions underpinning forthcoming years in the budget cycle and relating to projected production, commodity prices and revenue forecasts arising from the extractive industries and the proportion of future fiscal revenues expected to come from the extractive sector.

8.1 EITI Requirement 3.7

Treasury classes the State Budget and the Public accounts using Government Financial Statistics Manual 86 (GFS 86) and has recently begun going through a process to update to Government Financial Statistics Manual 2011 (GFS 2001). Per our discussions with Treasury, this will be a significant change and is likely to impact on how revenues will be reported going forward from the 2016 State Budget. The Government reports on a cash basis of accounting.

Ok Tedi Mining Limited Reports using the G4 Sustainability Reporting Guidelines
https://www.globalreporting.org/reporting/g4/Pages/default.aspx

Government Reporting Mechanism	Significant Revenue Streams reported by Mechanism	Other Comments
Extractive Industry Revenues Recorded in the **State Budget - (Waigani Public Accounts)** Taxation, customs and some dividends are reported through the Public Accounts.	Taxation and Customs Dividends (Petromin and Ok Tedi Mining Limited)	N/a
Joint Department of Petroleum and Finance Trust Accounts	Royalties License Fees	Royalty payments to clan groups to be disclosed. The MSG to decide if a lower level of disclosure if warranted
Finance Trust Accounts	Development Levies for Oil and Gas Royalties (from the beginning of PNG LNG)	Royalties for PNG LNG should be reported to and regulated by the Department of Petroleum. If Finance and Treasury are to own this process moving forward appropriate reporting and receipt compilation mechanisms will be required
Extractive Industry Revenues Recorded in Royalty Returns or the financial reports of **the Statutory Authorities** (MRA)	Mining: • Royalties • Production levies • License Fees	Consideration to disclosing royalty payments to clan groups. The MSG to decide if a lower level of disclosure if warranted
Extractive Industry Revenues Recorded in IPBC	Dividends (NPCP)	N/a
SOE Annual Reports	Equity in Oil/Gas and Mining (NPCP, Petromin, MRDC) Sale of Mineral Commodities (Ok Tedi, Petromin)	N/a

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8.2 EITI Requirement 3.8

In the first EITI report it would be advisable to focus on the mandatory requirements.

a) A description of any extractive revenues earmarked for specific programmes or geographic regions. This should include a description of the methods for ensuring accountability and efficiency in their use.	**Oil and Gas** The Oil and Gas Act sets out the process for benefits sharing including payments earmarked for specific regions. PNG LNG provides an example, however similar arrangements are granted for other oil and gas concessions: *PNG LNG* 1. **Royalty**: A royalty benefit of 2% is provided by the State to landowners, affected provincial governments and local level governments. Royalty is calculated on a 'wellhead value' basis per the terms of the Oil and Gas Act and will apply to volumes produced and then sold from the licensed area(s). 2. **Equity:** The UBSA provides a total of 2.78% free equity participating interest in PNG LNG to Project area landowners and local level governments for greenfield areas. UBSA also provides to Project area landowners and provincial governments the opportunity to buy-into indirect PNG LNG equity up to a collective maximum of 4.22% between 1 January and 30 June 2016. 3. **Development Levy:** A Development Levy of 2% of the wellhead value, calculated per the provision of the Oil & Gas Act and the LNG Gas Agreement, is available to the provincial governments and the local level governments. 4. **Infrastructure Development Grants (IDG):** An amount of K1.2 billion has been allocated by the State equally over two five year periods, commencing in 2010 for infrastructure development and maintenance in the affected Project areas and provinces. 5. **Business Development Grants (BDG):** The State has provided K120 million to assist landowner companies in business development activities under the PNG LNG Project. We were unable to extract data from DPE to review the re-allocation of funds.

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a) A description of any extractive revenues earmarked for specific programmes or geographic regions. This should include a description of the methods for ensuring accountability and efficiency in their use (cont.).	Mining The NEFC Provincial Government Budget Reports demonstrates the revenues that Provincial Governments received on page 11 of its 2013 Report: http://www.nefc.gov.pg/assets/publications/fiscalReports/2013_Budget_Fiscal_Report.pdf The most significant regional allocations are for 1. **Royalty**: A royalty benefit of 2% is provided by the State to landowners, affected provincial governments and local level governments. 2. **Equity:** Landowners have equity stakes in mining projects such as Pogera and Ok Tedi. 3. **Dividends:** Western Province has receives Dividends from Ok Tedi. 4. **Compensation Payments –** Landowners such as those on the Fly River receive a percentage of dividends from Ok Tedi 5. **Special Support Grant** is appropriated by the National Government to the mine host provincial government(s) to be used on approved social and economic infrastructure development projects. The grant shall be equivalent to 0.25% of net sales value of mine products from the project, a minimum of 20% of this grant shall be spent in the "mine affected areas", the administration and implementation of the SSG shall be done in accordance with the Special Support Grant Guideline, through the Department of National Planning and Monitoring. Accountability mechanisms Accountability mechanisms vary significantly depending on the entity receiving the allocation. Audits of Provincial, Local Government and Landowners Groups should occur on an annual basis but capacity constraints prevent this from occurring. Other mechanisms such as Board Mechanism or Government oversight also vary considerably depending on the entity receiving the distribution.

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b) A description of the country's budget and audit processes and links to the publicly available information on budgeting, expenditures and audit reports.	The Government publishes: • an annual Budget Strategy Paper, which is to assist the understanding of the fiscal situation and the Government's proposed Budget strategies; • a Mid-year Economic and Fiscal Outlook report, released by the end of July each year, which provides an update on the fiscal and economic forecasts in the Budget; and • a Final Budget Outcome report within three months of the end of the financial year that includes annual expenditure The Auditor General Publishes its reports, but is not currently up-to-date on all of its audits. http://www.ago.gov.pg/reports.html Royalties and Levies, particularly those received for Oil and Gas are held in Trust. The category, number and balance of Trust Accounts in use could not be reliably identified as highlighted by the Auditor General. Additionally, Trust Account Spending has not been incorporated into State Budget Expenditure. http://www.ago.gov.pg/docs/reports/2014/Report_No4_ManagementReportingTrustAccounts.pdf
c) Timely information from the government that will further public understanding and debate around issues of revenue sustainability and resource dependence. This may include the assumptions underpinning forthcoming years in the budget cycle and relating to projected production, commodity prices and revenue forecasts arising from the extractive industries and the proportion of future fiscal revenues expected to come from the extractive sector.	The annual Budget Strategy Paper, a Mid-year Economic and Fiscal Outlook report, and the Final Budget Outcome report sets out this information in sufficient detail.

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Key Findings and Recommendations	
Finding	**Recommendation**
Royalties not paid to the State In the Mining sector there are many instances where companies pay Royalties directly to the landowners (or landowner representative organisations) and provincial governments in accordance with benefit sharing agreements. Per the *Papua New Guinea Mining Policy:* *Mineral Royalty* *(a) All mineral royalties from mining in the PNG jurisdictions belong to the State as the sovereign owner of all minerals in PNG,* *(b) The holder of a mining lease is liable to pay a royalty to the State equivalent to 2% of the net proceeds of sale of minerals (calculated as net smelter return or f.o.b. export value, whichever is appropriate),* *(c) The State may elect to retain its right to royalty or to distribute it between the provincial government of a mine host province and the landholders of the land upon which the mineral resource is mined,* *(d) Where royalty is offloaded by the State, the landholders are entitled to at least 20% of the total amount of royalties paid to the State.*	The MSG will need to decide if mining royalties are to be reconciled in the First EITI Report in accordance with EITI Requirement 4.1. The following factors may be considered: • The practicality of reconciling receipts with Landowners (or landowner representative organisations) • Although not directly reconciling receipt flows, it might be more practical to reconcile payments made by companies to royalty data submitted returns to MRA (as the regulator for Mining) by companies. The MSG may consider seeking feedback from the EITI International Secretariat if in their view this satisfies the Requirement of the standard or if royalties not directly received by Government should be scoped out for the PNG EITI. According to discussions with MRA, in the Mining Sector, there are only a limited number of clan groups (approximately 40) that are paid. It may be practical to report payments made to clan reports, but reconciling payments made to lower levels would be difficult.
Compilation and Reconciliation of Receipt Data <u>Oil and Gas Royalties</u> Up until the beginning of the PNG LNG project Oil and Gas Royalties were paid via the Department of Petroleum and Energy. The PNG LNG project begun production in 2014 and Royalties are now paid through Ministry of Finance Trust Accounts. We have been unable to obtain compiled receipt data Royalty Data to date for 2013 or 2014 year to date.	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.

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Key Findings and Recommendations	
Finding	**Recommendation**
Compilation and Reconciliation of Receipt Data Oil and Gas Development Levies Oil and Gas Development Levies are paid to the Ministry of Finance. We have been unable to obtain compiled receipt data for Oil and Gas Development Levies for any period.	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.
Compilation and Reconciliation of Receipt Data Reconciliation of taxation deposits The IRC compiles taxpayer data through its two taxpayer software systems, SIGTAS and RAMS. There are various bank accounts where receipts are deposited that need to reconcile with taxpayer software systems. The deposit reconciliations (bank reconciliations) are not kept up-to-date.	Bank reconciliations should be kept up-to-date so that extractive industry taxpayer data can be compiled for EITI Purposes.
Compilation and Reconciliation of Receipt Data Mining Royalty Data – Future Generations and Infrastructure Trusts In certain instances Mining Royalties are paid to Finance Trust Accounts, specifically for Future Generations and Infrastructure Trusts. We were unable to obtain receipts royalty data paid into these trusts. We were also informed that these Trusts are not audited. The following mining projects have (or will soon have) these trust arrangements: • Ok Tedi • Porgera • Sinivit • Ramu • Simberi	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.

Key Findings and Recommendations	
Finding	**Recommendation**
Compilation and Reconciliation of Receipt Data NPCP Per our discussions with management, NPCP is yet to receive material equity receipts or to issue an annual report.	Receipts will need to be compiled by NPCP when these receipts are received.

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Appendix 9: License Registers and Allocations

	Terms of Reference	Link to EITI Standard
5.	Review the currently available information about license registers and license allocations, assess the completeness and timeliness of the information, and propose a mechanism for reporting and disclosure in accordance with EITI requirements 3.9 and 3.10.	3.9 and 3.10

EITI Requirement	
3.9	**Register of licenses** a) The term license in this context refers to any license, lease, title, permit, or concession by which the government confers on a company(ies) or individual(s) rights to explore or exploit oil, gas and/or mineral resources. b) Implementing countries are required to maintain a publicly available register or cadastre system(s) with the following timely and comprehensive information regarding each of the licenses pertaining to companies covered in the EITI Report: i. License holder(s). ii. Coordinates of the license area. iii. Date of application, date of award and duration of the license. iv. In the case of production licenses, the commodity being produced. It is expected that the license register or cadastre includes information about licenses held by all entities, including companies and individuals or groups that are not included in the EITI Report, i.e. where their payments fall below the agreed materiality threshold. Any significant legal or practical barriers preventing such comprehensive disclosure should be documented and explained in the EITI Report, including an account of government plans for seeking to overcome such barriers and the anticipated timescale for achieving them. c) Where the information set out in 3.9(b) is already publicly available, it is sufficient to include a reference or link in the EITI Report. Where such registers or cadastres do not exist or are incomplete, the EITI Report should disclose any gaps in the publicly available information and document efforts to strengthen these systems. In the interim, the EITI Report itself should include the information set out in 3.9(b) above.

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EITI Requirement	
3.10	**Allocation of licenses** a) Implementing countries are required to disclose information related to the award or transfer of licenses pertaining to the companies covered in the EITI Report, including: a description of the process for transferring or awarding the license; the technical and financial criteria used; information about the recipient(s) of the license that has been transferred or awarded, including consortium members where applicable; and any non-trivial deviations from the applicable legal and regulatory framework governing license transfers and awards. b) Where licenses are awarded through a bidding process during the accounting period covered by the EITI Report, the government is required to disclose the list of applicants and the bid criteria. c) Where the requisite information set out in 3.10(a) and 3.10(b) above is already publicly available, it is sufficient to include a reference or link in the EITI Report. d) The multi-stakeholder group may wish to include additional information on the allocation of licenses in the EITI Report, including commentary on the efficiency and effectiveness of these systems.

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9.1 Completeness and Timeliness of License Register

Department or Agency	Completeness of Data	Timeliness of Data	Proposed Mechanism for Reporting
Minerals Resource Authority	The Mineral Resource Authority is in the process of finalising the implementation of the first phase of the project including the implementation of a Mineral Tenement Management System based on the FlexiCadastre framework, the launch of an online web-map providing view only tenement data to the public, as well as the integration of MRA's Library Management System into the Mineral Tenement Management System. Phase One was concluded at the External Stakeholders Workshop, held on 28th May 2014, which was attended by government, industry and civil society representatives. The next phase of the project will focus on implementing an Online Transactional Mining Cadastre Portal (OTMCP) that will provide license holders real-time access to their tenement information, allow the payment of fees and the uploading of work reports. Subject to amendments to be introduced in the revised Mining Act of 2014, the OTMCP will then be enhanced to allow for online applications, renewals and other business processes. The MRA has a publically available paper registry. In certain instances the MRA commented that they did not have all information such as Mining development contracts, as they have not been provided by Government or the companies to the MRA.	Following completion of the data cleansing exercise which formed part of the systems upgrades described, the data is updated in the system in real time.	Per our discussions with MRA current legislation doesn't allow the MRA to disclose information other than what is currently included in the online web map http://portal.mra.gov.pg/Map/ The portal provides information consistent with EITI Requirement 3.9 other than the commodity being produced as required by 3.9b iv.

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Department or Agency	Completeness of Data	Timeliness of Data	Proposed Mechanism for Reporting
Department of Petroleum and Energy (DPE)	DPE does not have a computerised Mineral Tenement Management System (or equivalent) The DPE has a paper registry system and it is publically available.	The License Registry is updated on an ad-hoc basis. There are two registers maintained, the official register is paper based. An electronic spreadsheet that lists all the licenses is also produced.	The official register is recorded manually (written) in paper ledgers. This ledger is not organised sequentially on the basis of license numbers. New entries are made when applications are made. There is another spreadsheet maintained that lists license information to record which licenses have paid their fees. This spreadsheet is updated on an ad-hoc basis. The current spreadsheet registry would need to be populated with the necessary information as stipulated by Requirements 3.9 and 3.10 and included in the EITI report. There is currently a compliance review being undertaken to check the registry for three things: • Reporting requirements being adhered to • Work programs being implemented and valid • License fees being paid At this early stage of the compliance review 50% of all licenses appear to not comply with work program requirements of Oil and Gas Act and Regulations.

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9.2 Completeness and Timeliness of License Allocation data

Department or Agency	Completeness of Data	Timeliness of Data	Proposed Mechanism for Reporting
Minerals Resource Authority	The Online Transactional Mining Cadastre Portal (OTMCP) will provide license holders real-time access to their tenement information; allow the payment of fees and the uploading of work reports. Subject to amendments to be introduced in the revised Mining Act of 2014, the OTMCP will then be enhanced to allow for online applications, renewals and other business processes. The MRA has a publically available paper registry. In certain instances the MRA commented that they did not have all information such as Mining development contracts, as they have not been provided by Government or the companies to the MRA.	Following completion of the data cleansing exercise which formed part of the systems upgrades described, the data is updated in the system in real time.	We were informed that the Online Transactional Mining Cadastre Portal (OTMCP) contains sufficient detail to comply with EITI Requirement 3.9 and 3.10. However we were unable to access this as we were informed that only registered mining companies are allowed to register and access the site. Per our discussions with MRA current legislation doesn't allow the MRA to disclose information other than what is currently included in the online web map http://portal.mra.gov.pg/Map/ Currently there is no publically available information on the technical and financial criteria used to award a license nor non-trivial deviations from the applicable regulatory regime in awarding licenses.
DPE	The license registers are paper based and supplemented by spreadsheets. Requirement 3.10 requires disclosure of certain key information that is not currently included in the spreadsheet. There is currently a compliance review being undertaken to check the registry for three things: • Reporting requirements being adhered to • Work programs being implemented and valid • License fees being paid At this early stage of the compliance review 50% of all licenses appear to not comply with work program requirements of Oil and Gas Act and Regulations.	The License Registry is updated on an ad-hoc basis. There are two registers maintained, the official register is paper based. An electronic spreadsheet that lists all the licenses is also produced.	In the absence of Cadestre Portal, the spreadsheet will need to be populated with the appropriate information to satisfy the requirements of the Requirement 3.10.

Key Findings and Recommendations	
Register of Licenses - MRA	We were informed that the Online Transactional Mining Cadastre Portal (OTMCP) contains sufficient detail to comply with EITI Requirement 3.9. However we were unable to access the Portal and we were informed that only registered mining companies are allowed to register and access the website due to confidentiality reasons. Per our discussions with MRA current legislation doesn't allow the MRA to disclose information other than what is currently included in the online web map http://portal.mra.gov.pg/Map/ The portal provides information consistent with EITI Requirement 3.9 other than the commodity being produced as required by 3.9b iv. Recommendation The MRA may consider updating the portal to include 3.9b iv. However, this is not essential to meet the EITI requirement. In accordance with the EITI Board notes with respect to this requirement, trivial information missing will not result in this Requirement being assessed as not being met. Additionally, other publically available information exists as to the commodities being extracted by each operator is available.
Register of Licenses - Department of Petroleum	The official register is recorded manually (written) in paper ledgers. This ledger is not organised sequentially on the basis of license numbers. New entries are made when applications are made. There is another spreadsheet maintained that lists license information. This spreadsheet is updated on an ad-hoc basis. The current registry would need to be populated with the necessary information as stipulated by Requirements 3.9 and 3.10 and included in the EITI report. In the absence of a secure electronic system sufficient controls should be implemented to ensure that the integrity of the spreadsheet's data is maintained. It is envisaged that this spreadsheet will be attached the EITI report.
License Allocations and Deviation from Legislation - MRA	Currently the Portal does not include information on the technical and financial criteria used to award a license nor non-trivial deviations from the applicable regulatory regime in awarding licenses. Development agreements allow for deviations from the legal and regulatory agreement, with this information being included in official gazettes (statutory instruments). Recommendation The information will need to be collated for the first EITI Report.

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Key Findings and Recommendations	
License Allocation Process -DPE	Currently there is no publically available information on the technical and financial criteria used to award a license nor non-trivial deviations from the applicable regulatory regime in awarding licenses. Development agreements allow for deviations from the legal and regulatory agreement, with this information being included in official gazettes (statutory instruments). The license registers are paper based and supplemented by spreadsheets. Requirement 3.10 requires disclosure of certain key information that is not currently included in the spreadsheet. There is currently a compliance review being undertaken to check the registry for three things: • Reporting requirements being adhered to • Work programs being implemented and valid • License fees being paid At this early stage of the compliance review 50% of all licenses appear to not comply with work program requirements of Oil and Gas Act and Regulations. Recommendation The DPE may wish to consider implementing an online cadastral system suitable for use in the Oil and Gas industry. This register should be publically available. The impact of system implementations should be fully assessed and costed prior to making a decision to implement such a system. In absence of such a system, the spreadsheet will need to be populated with the appropriate data for the EITI Report and kept up to date.

9.3 Allocation of Licenses

Sector	Process for awarding	Technical and Financial Criteria	Information about License Recipients	Non- Trivial Deviations
Mining	The process for awarding a license is outlined above.	The Technical and Financial Criterial used to award or transfer a license are not disclosed in accordance with confidentiality requirements.	http://portal.mra.gov.pg/Map/	Development projects are negotiated on a project by project basis. These terms are not disclosed. Licenses agreements are not disclosed publically. Accordingly it is not possible to identify non-trivial terms.
Oil and Gas	The process to award a license is referred to above. The process to transfer a license is a negotiation between companies. The DPE and Minister tend to approve these transactions and not will undertake an assessment of the transferee.	The Technical and Financial Criterial used to award or transfer a license are not disclosed in accordance with confidentiality requirements.	Information about License recipients included in Manual Registers is referred to above. This information will need to be collated from manual information for EITI Reporting purposes.	Development projects are negotiated on a project by project basis. These terms are not disclosed. Licenses agreements are not disclosed publically. Accordingly it is not possible to identify non-trivial terms.

Appendix 10: Production Data

	Terms of Reference	Link to EITI Standard
6.	Identify sources of production data and comment on the quality and reliability of the data.	3.5

EITI Requirement	
3.5	**The EITI Report must disclose production data for the fiscal year covered by the EITI Report, including:** a) Total production volumes and the value of production by commodity, and, when relevant, by state/region. b) Total export volumes and the value of exports by commodity, and, when relevant, by state/region of origin.

10.1 Production Data

10.1.1 Minerals Resource Authority

The companies provide production data to the MRA on a monthly basis as a part of the monthly royalty return lodgement process. The MRA performs reasonableness checks on the monthly data however it does not yet audit the data in detail although it has the authority to do so under the MRA Act. The MRA is still a relatively new institution and is currently building capacity to undertake a more rigorous approach to checking production data.

The MRA has the ability to compile the data by commodity and province. The MRA has not yet made a decision for EITI reporting purposes as to whether to report in Ounces or Tonnes. It is likely that they will need to report using both Ounces and Tonnes depending on the minerals being reported.

10.1.2 Department of Petroleum and Energy

The companies provided production data to the DPE on a monthly basis up until PNG LNG began production. DPE was not currently performing detailed reviews or audits of the data. The expected large inflow of receipts has not yet been matched by increases in human resources with the Department.

Under PNG LNG the data should now be received by the Departments of Finance or Treasury as recipients of the Royalties, we have yet to clarify if this occurring.

The information compiled includes:

- Volume produced (in Barrels (Oil) or Millions of British Thermal Units (Gas))
- Volume shipped (exported)
- Date of shipments

Produced gas is measured in volume (cubic meters or cubic feet), but once it is converted into LNG, it is measured in mass units, usually tons or million tons. (This is abbreviated as MMT or, more commonly, MT. Million tons should technically be abbreviated MMT; however, the LNG industry uses MT to represent million tons.) LNG ship sizes are specified in cargo volume (typically, thousands of cubic meters), and once the LNG has been reconverted to gas, it is sold by energy units (in millions of British thermal units, MMBtu).http://www.natgas.info/gas-information/what-is-natural-gas/lng

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10.2 Export Data

It is our understanding that relevant export data is available

Treasury provides the following export data by volume and value in the State Budget:

TABLE 4: VOLUME OF MAIN EXPORT COMMODITIES
('000 tonnes, unless otherwise specified)

	2012 Actual	2013 Est	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj
AGRICULTURE							
Copra	32.9	15.1	15.2	18.9	21.8	21.8	21.8
Cocoa	38.1	29.5	30.4	31.3	32.3	40.0	47.9
Coffee	55.5	42.0	43.5	46.5	48.0	52.8	58.1
Palm Oil	483.0	440.2	492.0	536.7	561.2	578.5	594.9
Rubber	5.1	5.3	5.6	5.9	6.3	6.6	7.0
Tea	3.8	3.0	3.5	3.5	3.5	3.5	3.5
Copra Oil	22.0	14.6	16.2	35.0	35.0	35.0	35.0
Logs	3148.0	3022.0	3022.0	3022.0	3022.0	3022.0	3022.0
Marine products	71.1	73.2	75.4	77.7	80.0	82.4	84.9
MINERAL							
Gold (tonnes)	46.8	52.9	53.4	56.8	57.9	64.6	64.8
Copper (tonnes)	125.3	129.2	108.1	105.7	82.0	76.8	76.8
Oil (million barrels)	8.9	5.8	5.1	4.4	3.8	3.2	3.2
LNG (Tbtu)			63.2	356.1	356.5	356.5	356.5
Condensate (MB)			2.7	11.2	11.3	11.1	11.1
Nickel (tonnes)	200	15866	25386	31732	31732	31732	31732
Cobalt (tonnes)	19.0	1428.0	2284.7	2855.9	2855.9	2855.9	2855.9

Source: Actuals from BPNG. Projections from Dept. of Treasury.

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TABLE 5: VALUE OF MAIN EXPORT COMMODITIES
(Kina Million)

	2012 Actual	2013 Est	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj
AGRICULTURE, FORESTRY, FISHERIES							
Copra	33.1	16.8	18.8	23.5	27.1	27.1	27.1
Copra Oil	56.1	40.4	50.2	108.4	108.4	108.4	108.4
Cocoa	182.6	151.1	171.8	176.4	175.0	208.9	241.3
Coffee	478.5	274.5	278.6	320.9	323.3	355.6	391.2
Palm Oil	1009.9	789.6	912.2	1011.0	915.7	877.2	837.0
Rubber	33.1	34.3	42.0	39.0	38.1	36.6	35.3
Tea	11.7	7.9	8.9	8.3	8.0	8.0	8.0
Other Agriculture (a)	209.3	224.2	235.9	239.9	214.2	199.0	188.7
Forest Products	627.1	615.3	624.0	607.5	601.0	594.9	589.2
Marine Products	329.5	299.7	191.7	207.4	224.3	242.6	262.3
Total Agricultural, Forestry, Fishing Exports	**2970.9**	**2453.8**	**2534.1**	**2742.5**	**2635.1**	**2658.3**	**2688.6**
MINERAL							
Gold	5202.8	5392.6	5447.8	5826.2	6037.0	6765.6	6848.0
Copper	2071.5	2044.1	1766.5	1729.0	1356.3	1285.3	1279.5
Silver	114.9	88.1	84.8	84.7	90.2	73.5	57.4
Oil	2134.3	1360.8	1239.8	1032.6	876.7	738.2	753.7
LNG			1810.4	10346.0	10766.8	11071.0	11071.0
Condensate			491.2	1998.7	1903.5	1816.9	1816.9
Nickel	0.0	546.2	889.7	1129.7	1145.0	1157.9	1169.5
Cobalt	0.0	77.9	139.9	185.8	196.7	218.6	218.6
Refined Petroleum Products	680.2	444.8	473.7	463.9	467.4	471.7	490.9
Total Mineral Exports	**10203.7**	**9954.6**	**12343.8**	**22796.7**	**22839.7**	**23598.7**	**23705.5**
TOTAL EXPORT VALUE	**13194.5**	**12408.4**	**14877.9**	**25539.2**	**25474.8**	**26257.0**	**26394.1**

Source: Actuals from BPNG. Projections from Dept. of Treasury.
(a) Includes Oil Palm by-products, canned tuna and vanilla.

10.3 Sources of Data

Source of Production and Export Data	Types of Data	Quality and Reliability
Department of Petroleum and Energy	Production and Export Data	The data provided by the companies is not independently verified by DPE. DPE receive data from the operators every month. As payments are now made to Finance, further clarity is required as to how this data is captured going forward.
Minerals Resource Authority	Production and Export Data	The data provided by the companies is not independently verified by MRA. MRA have manual systems to capture the data reported by the mining companies based on their monthly royalty returns.
Companies	Production and Export Data	This will vary by entity, but the entities keep appropriate records of production and export data.

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Sub Appendix 10.1: 2013 Oil and Gas Production and Export Volumes

Month	Kutubu		Agogo		Moran		SEM		SEG		Gobe Main		PNG Total Production		
	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil (stbopd)	Gas (Mscf)	Oil Exported (bbls)
January	342,331	4,985,118	127,464	1,885,565	329,490	1,761,395	2,229	19,303	40,601	842,585	76,126	1,192,163	**575,910**	**5,701,011**	**622,302**
February	269,599	4,626,288	106,300	1,390,000	288,752	1,625,789	369	2,342	30,397	685,217	51,355	1,091,727	**477,173**	**4,795,075**	**568,164**
March	329,389	4,466,914	124,600	1,720,000	321,380	1,528,499	1,060	15,276	26,552	494,154	35,850	749,755	**509,442**	**4,507,684**	**1,186,670**
April	271,573	3,630,687	114,500	1,450,000	374,590	1,672,936	3,758	50,520	34,708	813,019	56,833	1,397,625	**584,389**	**5,384,100**	**641,758**
May	320,007	4,108,584	115,500	1,620,000	332,418	1,529,845	4,401	66,750	37,755	1,056,107	53,080	1,270,499	**543,154**	**5,543,201**	**649,765**
June	371,637	5,013,446	127,200	1,171,000	349,630	1,692,505	3,766	71,560	30,617	926,897	39,832	1,024,635	**551,045**	**4,886,597**	**1,301,377**
July	429,366	5,401,509	120,700	1,560,000	387,538	1,917,473	2,662	54,402	34,877	1,029,506	39,832	1,024,365	**585,609**	**5,585,746**	**650,152**
August	391,413	4,796,966	131,700	1,760,000	387,903	1,905,041	2,662	54,402	34,170	1,290,688	35,340	1,140,232	**591,775**	**6,150,363**	**1,301,941**
September	376,248	4,911,446	112,367	1,482,000	334,733	1,887,896	395	15,558	28,974	973,945	33,664	1,176,681	**510,133**	**5,536,080**	**650,116**
October	473,106	4,770,703	100,750	1,450,000	333,445	1,990,309	820	26,179	23,497	752,655	35,452	1,321,436	**493,964**	**5,540,579**	**1,004,851**
November	429,140	4,450,699	97,580	1,580,000	320,579	1,881,094	1,672	32,655	16,222	418,512	30,192	1,068,897	**466,245**	**4,981,158**	**789,100**
December	411,887	4,775,128	90,070	1,250,000	363,335	2,197,977	3,296	26,647	20,083	586,879	29,724	1,325,482	**506,508**	**5,386,985**	**1,240,943**
Total	**4,415,696**	**55,937,488**	**1,368,731**	**18,318,565**	**4,123,793**	**21,590,759**	**27,090**	**435,594**	**358,453**	**9,870,164**	**517,280**	**13,783,497**	**6,395,347**	**63,998,579**	**10,607,139**

Source: DPE

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Sub Appendix 10.1: 2013 Oil and Gas Production and Export Volumes (cont)

2013 TOTAL GAS SALES TO PORGERA GOLD MINE PLUS CONDENSATE, DIESEL, NAPTHA AND RESIDUE SALES

2013 RAW MONTHLY HIDES SALES STATISTICS.						IN BARRELS(bbl)				
	Gas	Condensate	Naptha	Diesel	Residue	Gas	Condensate	Naptha	Diesel	Residue
MONTH	(mmscf)	(m^3)	(m^3)	(m^3)	(m^3)	(mmscf)	(bbl)	(bbl)	(bbl)	(bbl)
JANUARY	492.387	1674.83	1024.323	286.877	62.290	492.387	10534.35	6442.786805	1804.398955	391.791642
FEBRUARY	434.007	1508.725	998.308	248.532	69.056	434.007	9489.58	6279.157658	1563.216574	434.3484288
MARCH	448.394	1568.939	1106.625	264.974	68.026	448.394	9868.31	6960.449925	1666.633465	427.8699348
APRIL	460.873	1612.01	1066.268	272.037	71.176	460.873	10139.22	6706.612466	1711.058323	447.6828048
MAY	395.581	1401.655	943.783	228.701	63.89	395.581	8816.13	5936.206313	1438.48355	401.855322
JUNE	465.823	1619.044	1206.738	282.005	85.41	465.823	10183.46	7590.140672	1773.755049	537.211818
JULY	430.058	1489.138	1162.311	252.306	96.039	430.058	9366.38	7310.703728	1586.954279	604.0661022
AUGUST	491.091	1712.98	1213.63	294.399	85.186	491.091	10774.30	7633.489974	1851.71083	535.8029028
SEPTEMBER	404.833	1402.119	1080.433	256.582	76.451	404.833	8819.05	6795.707483	1613.849464	480.8614998
OCTOBER	471.343	1643.628	1265.839	287.263	106.463	471.343	10338.09	7961.874142	1806.826817	669.6309774
NOVEMBER	429.251	1510.494	1166.088	284.84	79.153	429.251	9500.71	7334.460302	1791.586632	497.8565394
DECEMBER	491.536	1275.163	1287.47	310.326	90.393	491.536	8020.52	8097.928806	1951.888475	568.5538914
Total	**5415.177**	**18418.725**	**13521.816**	**3268.842**	**953.533**	**5415.177**	**115850.10**	**85049.51828**	**20560.36241**	**5997.531863**

TAKE NOTE:

1. *Hides Gas is sold to a local Gold mining company by way of Gas To Electricity (GTE), A microstill unit (Mini Refinery) is also used to refine petroleum products including Conensate, Naptha, Diesel and Residue at Hides. Most of these products are sold to the local mining company while some are locally consumed and at times given as charity to nearby Healt Centers and schools*
2. *Please oberver that the units for gas is given in mmscf (millions of standard cubic feet of gas)*
3. *The units for condensate, Naptha, Diesel and Residue is given in both m^3 (cubic meters) and bbls (barrels) by muliplying by a conversion factor of 6.2898*
4. *All gas produced from oil fields (associated fields) is sold to the PNG LNG Project.*

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Sub Appendix 10.1: 2013 Oil and Gas Production and Export Volumes (cont)

Summary Oil & Gas Production Volumes for the fiscal year ending 31 December 2013

Fields	Oil (stbopd)		Gas (Mscf)		Royalty (PGK)	Export Value
	Production	Export	Production	Export		
Kutubu	4,415,696	-	55,937,488	-	25,440,227	1,272,011,374
Agogo	1,368,731	-	18,318,565	-	-	-
Moran	4,123,793	-	21,590,759	-	7,592,408	379,620,410
SEM	27,090	-	435,594	-	8,069,613	403,480,642
SEG	358,453	-	9,870,164	-	2,408,875	120,443,739
Gobe Main	517,280	-	13,783,497	-	1,682,026	84,101,286
Hides	See detail below for H	-	5,415,177	-	3,077,815	153,890,745
Total Production / Export	**10,811,043**	**10,607,139**	**125,351,244**	**-**	**48,270,964**	**2,413,548,196**

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Sub Appendix 10.2: Mine Production and Export Volumes

Name of Mine	1. Porgera Joint Venture					2. Lihir Gold Limited (LGL)		
Description	Gold Produced	Silver Produced	Gold Shipped	Silver Shipped	Royalty	Gold Produced	Gold Shipped	Royalty
Units	oz	oz	oz	oz	PGK	oz	oz	PGK
Jan-13	37,785	7,213	41,062	7,830	4,161,642	50,088	46,898	3,261,650
Feb-13	36,364	7,192	35,611	7,005	3,464,529	47,874	30,158	2,077,067
Mar-13	40,483	7,979	37,391	7,379	2,998,325	73,728	68,306	-
Apr-13	41,598	7,927	34,937	6,721	1,334,001	60,059	77,458	4,635,155
May-13	38,604	6,497	47,832	8,711	3,518,985	71,000	59,362	4,318,561
Jun-13	45,174	8,893	35,803	6,462	2,762,753	70,039	55,776	3,292,817
Jul-13	39,696	8,019	49,515	10,100	3,513,713	66,000	96,988	5,653,698
Aug-13	39,082	7,266	35,708	6,536	2,762,753	61,000	-	3,152,764
Sep-13	36,298	6,527	34,728	6,657	1,475,325	68,268	55,495	3,583,394
Oct-13	43,292	8,075	48,132	8,537	3,743,613	54,000	57,417	3,640,258
Nov-13	48,610	9,572	35,054	7,055	2,699,428	67,000	59,550	3,684,954
Dec-13	54,359	10,109	-	-	3,779,270	66,791	77,923	3,570,145
2013 YTD	**501,346**	**95,267**	**435,771**	**82,994**	**36,214,337**	**755,847**	**685,331**	**40,870,463**

Source: MRA

Deloitte.

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Name of Mine	3. Ok Tedi Mining Limited (OTML)						
Description	**Copper Produced**	**Gold Produced**	**Silver Produced**	**Copper Sold**	**Gold Sold**	**Silver Sold**	**Royalty**
Units	**tonne**	**ozs**	**ozs**	**tonnes**	**oz**	**oz**	**PGK**
Jan-13	8,457	26,042	86,412	7,375	24,788	59,601	4,574,419
Feb-13	9,051	28,100	70,860	10,268	30,768	80,248	3,895,627
Mar-13	10,046	34,819	68,452	7,133	24,049	49,448	4,463,434
Apr-13	7,365	26,110	67,900	11,668	37,321	91,444	2,196,324
May-13	8,197	26,520	70,250	12,747	43,468	108,476	2,245,317
Jun-13	8,301	33,844	95,191	9,544	31,594	93,583	2,898,970
Jul-13	9,005	40,000	104,000	6,813	31,574	82,140	2,434,409
Aug-13	20,963	2,000	70,000	9,845	37,041	115,561	3,407,624
Sep-13	6,632	20,842	80,658	3,704	20,233	54,120	4,473,414
Oct-13	8,372	30,000	88,000	6,680	22,968	77,244	2,408,383
Nov-13	9,101	11,000	42,000	7,466	25,399	69,358	3,500,518
Dec-13	16,081	23,000	62,000	6,971	21,750	48,066	3,473,166
2013 YTD	**121,571**	**302,278**	**905,723**	**100,214**	**350,954**	**929,289**	**39,971,605**

Source: MRA

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Name of Mine	4. Morobe Mining Joint Venture(MMJV)					5. Simberi Gold Mine				
Description	Au Produced	Ag Produced	Gold Shipped	Silver Shipped	Royalty	Au Produced	Ag Produced	Gold shipped	Silver Shipped	Royalty
Units	oz	oz	oz	oz	PGK	oz	oz	oz	oz	PGK
Jan-13	11,606	155,817	9,370	125,979	795,050	4,514	790	6,056	790	398,207
Feb-13	11,523	101,667	11,903	151,359	948,665	4,951	488	4,287	488	191,497
Mar-13	14,848	153,818	15,069	147,702	1,100,068	5,657	340	4,612	340	296,054
Apr-13	12,756	110,379	14,810	147,924	1,273,663	5,209	430	6,194	430	358,443
May-13	13,953	120,571	15,142	120,143	766,322	3,682	1,486	4,414	1,486	333,885
Jun-13	19,748	151,909	17,140	145,252	1,012,793	4,036	1,611	3,375	1,611	170,100
Jul-13	16,208	170,759	18,484	171,911	1,174,685	4,804	590	3,553	590	192,287
Aug-13	17,577	185,606	14,709	177,085	1,259,637	4,106	620	4,918	620	251,560
Sep-13	16,067	149,627	17,167	146,832	1,219,793	2,832	708	3,599	708	230,126
Oct-13	14,643	137,078	15,891	146,145	1,206,492	2,579	1,130	3,083	1,130	193,603
Nov-13	16,579	184,343	18,976	195,947	1,275,471	3,424	796	1,949	796	122,919
Dec-13	18,361	223,999	12,601	176,772	967,751	2,906	1,173	3,108	1,793	181,100
2013 YTD	**183,869**	**1,845,573**	**181,262**	**1,853,051**	**13,000,390**	**48,700**	**10,162**	**49,148**	**10,782**	**2,919,782**

Source MRA

Deloitte.

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Name of Mine	6. Ramu Nickel & Cobalt Mine (MCC)						7. Mt.Sinivit			
Description	Nickel Produced	Cobalt Produced	Nickel (Ni) Shipped, Est	Cobalt (Co) Shipped, Est.	Chromite (Cr) Produced	Limestone Produced	Au Produced	Ag Produced	Gold Shipped	Silver Shipped
Units	t	t	t	t	t	t	oz	oz	oz	oz
Jan-13	805	70	855	75	**23,045**	21,868	57	30	57	30
Feb-13	690	70	731	74	**6,095**	11,284	152	44	152	44
Mar-13	788	68	871	81	**3,689**	11,934	85	20	85	20
Apr-13	1,119	114	1,108	112	**5,186**	16,068	**144**	**47**	**144**	**47**
May-13	844	84	950	98	**2,379**	27,222	137	24	137	24
Jun-13	898	85	1,006	97	**3,715**	47,152	132	15	132	15
Jul-13	1,049	101	1,049	101	**2,287**	32,958	165	39	165	39
Aug-13	98	83	990	84	**1,556**	35,392	134	46	134	46
Sep-13	1,050	104	1,050	104	**3,979**	39,620	49	21	49	49
Oct-13	1,384	132	1,383	132	**1,968**	28,872	67	29	67	29
Nov-13	1,480	128	1,480	128	**1,982**	38,780	29	11	29	11
Dec-13	1,445	139	1,445	139	**2,214**	41,888	33	13	33	13
2013 YTD	**11,650**	**1,178**	**12,918**	**1,224**	**58,095**	**353,038**	**1,183**	**339**	**1,183**	**368**

Source: MRA

Deloitte.

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Name of Mine	8. Tolukuma Gold Mine					
Description	Royalty	Gold (Au) Produced	Silver (Ag) Produced	Gold Shipped	Silver (Ag) Shipped	Royalty
Units	PGK	Oz	Oz	oz	oz	PGK
Jan-13	3,905	1,229	6,751	1,941	4,182	88,400
Feb-13	10,252	1,035	3,209	1,350	2,751	-
Mar-13	5,649	1,140	3,213	578	1,239	-
Apr-13	**14,000**	228	2,368	847	1,887	-
May-13	12,900	276	672	-	-	-
Jun-13	12,000	949	3,618	1,548	3,549	95,484
Jul-13	14,600	1,349	3,652	1,265	1,592	76,841
Aug-13	12,700	1,025	1,791	387	500	42,976
Sep-13	4,000	683	1,785	465	550	22,436
Oct-13	4,217		-	109	159	-
Nov-13	1,807		-			10,320
Dec-13	3,000		-			-
2013 YTD	**99,030**	**7,914**	**27,059**	**8,490**	**16,409**	**336,457**

Industry Consolidated Figures - 2013

Units	Gold (Au)	Silver(Ag)	Copper(Cu)	Nickel	Cobalt(Co)	Chromite(Cr)
	Oz	Oz	tonnes	tonnes	tonnes	tonnes
Total Production Volumes	1,801,137	2,884,124	121,571	11,650	1,178	58,095
Total Export Volumes	1,712,140	2,892,892	100,214	12,918	1,224	
Total Royalty	133,412,064	(Kmillion)				
Production Levy	18,308.62	(Kmillion)				
Total Licence Fees	707,164					

1. That Tolukuma data is still missing a few months on production and sales in 2013
2. Source: MRA

Deloitte.

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Summary Mine Production Volumes for the fiscal year ending 31 December 2013

Company Name Provided by MRA	Gold (Au) (in oz)		Silver(Ag) (in oz)		Copper(Cu) (in tonnes)		Nickel (Ni) (in tonnes)	
	Production	Export	Production	Export	Production	Export	Production	Export
Porgera Joint Venture	501,346	435,771	95,267	82,994	-	-	-	-
Lihir Gold Limited (LGL)	755,847	685,331	-	-	-	-	-	-
Ok Tedi Mining Limited (OTML)	302,278	350,954	905,723	929,289	121,571	100,214	-	-
Morobe Mining Joint Venture(MMJV)	183,869	181,262	1,845,573	1,853,051	-	-	-	-
Simberi Gold Mine	48,700	49,148	10,162	10,782	-	-	-	-
Ramu Nickel & Cobalt Mine (MCC)	-	-	-	-	-	-	11,650	12,918
Mt.Sinivit	1,183	1,183	339	368	-	-	-	-
Tolukuma Gold Mine	7,914	8,490	27,059	16,409	-	-	-	-
Total Production / Export	**1,801,137**	**1,712,140**	**2,884,124**	**2,892,892**	**121,571**	**100,214**	**11,650**	**12,918**

Source: MRA

Deloitte.

Sub Appendix 10.2: Mine Production and Export Volumes (Cont)

Summary Mine Production Volumes for the fiscal year ending 31 December 2013 (cont)

Company Name Provided by MRA	Cobalt(Co)		Chromite(Cr)		Royalty(PGK)	Export Value
	Production	Export	Production	Export		
Porgera Joint Venture	-	-	-	-	36,214,337	1,810,716,850
Lihir Gold Limited (LGL)	-	-	-	-	40,870,463	2,043,523,150
Ok Tedi Mining Limited (OTML)	-	-	-	-	39,971,605	1,998,580,250
Morobe Mining Joint Venture(MMJV)	-	-	-	-	13,000,390	650,019,511
Simberi Gold Mine	-	-	-	-	2,919,782	145,989,112
Ramu Nickel & Cobalt Mine (MCC)	1,178	1,224	58,095	-	*TBD	*TBD
Mt.Sinivit	-	-	-	-	99,030	4,951,494
Tolukuma Gold Mine	-	-	-	-	336,457	16,822,846
Total Production / Export	**1,178**	**1,224**	**58,095**	**-**	**133,412,064**	**6,670,603,212**

** To be determined since Ramu Nickel & Cobalt Mine (MCC) has not yet paid royalty for 2013*

*** This data is provided by Mineral Resources Authrority (MRA) PNG*

**** This data does not include total production and export value by commodity*

***** The lump sum of export value is recalculated from the royalty figures*

Source: MRA

Appendix 11: Analysis of Revenue Streams

	Terms of Reference	Link to EITI Standard
7.	Undertake a comprehensive analysis of the payments and government revenue streams related to the extractive sector, noting in particular the revenue streams that must be covered in accordance with EITI Requirement 4.1(b). The analysis should also cover (where relevant) revenue related to the sale of the State's share of production or other revenues collected in-kind (4.1.c), infrastructure provisions and other barter arrangements (4.1.d), mandatory and voluntary social expenditures (4.1.e), and transportation payments (4.1.f).	4.1

EITI Requirement	
4.1	The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies. 4.1 Defining the taxes and revenues to be covered in the EITI Report a) In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be included in the EITI Report. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.

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11.1Mandatory provisions

EITI Requirement	
4.1	b) The following revenue streams should be included: i. The host government's production entitlement (such as profit oil). ii. National state-owned enterprise production entitlement. iii. Profits taxes. iv. Royalties. v. Dividends. vi. Bonuses, such as signature, discovery and production bonuses. vii. Licence fees, rental fees, entry fees and other considerations for licences and/or concessions. viii. Any other significant payments and material benefit to government. Any revenue streams or benefits should only be excluded where they are not applicable or where the multi-stakeholder group agrees that their omission will not materially affect the comprehensiveness of the EITI Report.

The scoping has focused on 2013 revenue streams, as this is likely to be the first reporting period chosen by the PNG MSG. Any government restructuring of entities or payment recipients beyond 2013 will need to be addressed.

The mandatory revenue streams have been analysed in TOR Steps 1-8 to above. Specific challenges in PNG have been analysed further and include:

11.1.1Mining Royalties

Mining royalties are not paid directly to the State but are paid to various parties under benefit sharing agreements. Using the Porgera Mine as an example, it pays the following beneficiaries Royalties under benefit sharing agreements:

- Enga Provincial Government
- Porgera Development Authority
- Small landowners
- Children's Trust
- Porgera Landowners Association
- Young Adults.

These types of arrangements are replicated across other mining projects. Initially it will not be possible to reconcile these payments due to the large and disparate number of beneficiaries.

11.1.2 Petroleum royalties and development levies

Petroleum royalties are paid directly to the State. Under benefit sharing agreements, these are redistributed from trust accounts managed by DPE and the Department of Finance to various parties. Appendix 17 below addresses the disclosure of benefit sharing arrangements.

11.1.3 Dividends

Dividends are paid directly or indirectly to a variety of government entities. Some of these entities have been engaged by the PNG MSG, and some have not.

Entity	Explanation	Currently on PNG MSG
IPBC	Oil Search Dividends, Highlands Pacific (no dividends currently)	No
MRDC	Various landowner and provincial government dividend receipts	No
Treasury	Ok Tedi and Petromin Dividends	Yes

11.1.4 Equity

Distributions are received, or will be received, by a number of SOE's. Some of these entities have been engaged by the PNG MSG and some have not.

Entity	Explanation	Currently on PNG MSG
MRDC	Various landowner and provincial government venture receipts	No
Petromin	Various receipts from venture partners	Yes
NPCP	Will receive PNG LNG receipts once due	No

11.2 The State's share of production or other revenues collected in-kind

EITI Requirement	
4.1	**c) Sale of the state's share of production or other revenues collected in-kind:** Where the sale of the State's share of production or other revenues collected in-kind is material, the government, including state-owned enterprises, are required to disclose the volumes sold and revenues received. The published data must be disaggregated to levels commensurate with the reporting of other payments and revenue streams (Requirement 5.2.e). Reporting could also break down disclosures by the type of product, price, market, and sale volume. Where practically feasible, the multi-stakeholder group is encouraged to task the Independent Administrator with reconciling the volumes sold and revenues received by including the buying companies in the reporting process.

Upon discussion with stakeholders, Deloitte was not made aware of any instances where the State's share of production or other revenues are collected in kind, in either the Petroleum or the Mineral Sectors. We were not provided with any contracts between the State and Companies.

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11.3 Infrastructure provisions and barter arrangements

EITI Requirement	
4.1	**d) Infrastructure provisions and barter arrangements:** The multi-stakeholder group and the Independent Administrator are required to consider whether there are any agreements, or sets of agreements, involving the provision of goods and services (including loans, grants and infrastructure works), in full or partial exchange for oil, gas or mining exploration or production concessions, or physical delivery of such commodities. To be able to do so, the multi-stakeholder group and the Independent Administrator need to gain a full understanding of the terms of the relevant agreements and contracts, the parties involved, the resources which have been pledged by the State, the value of the balancing benefit stream (e.g. infrastructure works), and the materiality of these agreements, relative to conventional contracts. Where the multi-stakeholder group concludes that these agreements are material, the multi-stakeholder group and the Independent Administrator are required to ensure that the EITI Report addresses these agreements, providing a level of detail and transparency commensurate with the disclosure and reconciliation of other payments and revenues streams. Where reconciliation of key transactions is not feasible, the multi-stakeholder group should agree an approach for unilateral disclosure by the parties to the agreement(s) to be included in the EITI Report.

Upon discussion with stakeholders, Deloitte was not made aware of any instances where there were infrastructure provisions and barter arrangements in either the Petroleum or the Mineral Sectors. Note that Deloitte has not been provided with any contracts between the State and Companies to verify this.

11.4 Mandatory social expenses

EITI Requirement	
4.1	e) Social expenditures: Where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, the EITI Report must disclose and, where possible, reconcile these transactions. i. Where such benefits are provided in-kind, it is required that the EITI Report discloses the nature and the deemed value of the in-kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e. not a government agency, it is required that the name and function of the beneficiary be disclosed. ii. Where reconciliation is not feasible, the EITI Report should include unilateral company and/or government disclosures of these transactions. iii. Where such benefits are provided in-kind, it is required that the EITI Report discloses the nature and the deemed value of the in-kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e. not a government agency, it is required that the name and function of the beneficiary be disclosed. iv. Where reconciliation is not feasible, the EITI Report should include unilateral company and/or government disclosures of these transactions.
4.1 (cont.)	v. Where the multi-stakeholder group agrees that discretionary social expenditures and transfers are material, the multi-stakeholder group is encouraged to develop a reporting process with a view to achieving

EITI Requirement		
		transparency commensurate with the disclosure of other payments and revenue streams to government entities. Where reconciliation of key transactions is not possible, e.g. where company payments are in-kind or to a non-governmental third party, the multi-stakeholder group may wish to agree an approach for voluntary unilateral company and/or government disclosures to be included in the EITI Report.

11.4.1 Minerals

The Government does not require reporting of mandatory social obligation to the MRA. Ok Tedi Mining Limited and the Porgera project operator, Barrick, currently report some of these items to the MRA voluntarily. Other entities do not yet report. Typical items reported by Ok Tedi and Porgera operators include:

- Compensations to landowners
  - General Compensation
  - Environmental Compensation
  - Community relocation
  - Land compensation (Leases)
- Education Payments
  - Scholarships
  - University Sponsorships
  - Other training costs
- Infrastructure Development
  - Tax Credit Schemes
  - Infrastructure Development Programmes
- Community Development Programs
- Business Development Programs
- Health Programs
- Townships Development.

11.4.2 Petroleum

There is no mandatory reporting of contracted or legislated social obligation to DPE. Oil Search published social expenditure in its sustainability report. Oil Search's transparency report focuses on payments to Government such as royalties and taxation.

Note that Deloitte has not been provided with any contracts between the State and Companies to verify the contractually agreed social obligation payments. The data disclosed to stakeholders by Petroleum Companies appear to include both voluntary and mandatory payments.

Sources:

http://www.oilsearch.com/Media/docs/Oil%20Search%202013%20Sustainability%20Databook_Rev2-f1652dab-8df0-4fc7-bf7f-fad9c127bc9c-0.pdf

http://www.oilsearch.com/media/docs/Oil%20Search%202013%20Transparency%20Report-d60f4c12-dc6a-48a6-96ef-c93f941e2486-0.pdf

11.5 Transportation

EITI Requirement	
4.1	a) Transportation: Where revenues from the transportation of oil, gas and minerals constitute one of the largest revenue streams in the extractive sector, the government and state-owned enterprises (SOEs) are expected to disclose the revenues received. The published data must be disaggregated to levels commensurate with the reporting of other payments and revenue streams (Requirement 5.2.e). The EITI Report could include: i. A description of the transportation arrangements including: the product; transportation route(s); and the relevant companies and government entities, including SOE(s), involved in transportation. ii. Definitions of the relevant transportation taxes, tariffs or other relevant payments, and the methodologies used to calculate them. iii. Disclosure of tariff rates and volume of the transported commodities. iv. Disclosure of revenues received by government entities and SOE(s), in relation to transportation of oil, gas and minerals. v. Where practicable, the multi-stakeholder group is encouraged to task the Independent Administrator with reconciling material payments and revenues associated with the transportation of oil, gas and minerals.

Upon discussion with stakeholders, we were not made aware of any instances where the Transportation arrangements described above existed in either the Petroleum or the Mineral Sectors. We were not provided with any contracts between the State and Companies.

<table>
<tr><th colspan="2">Key Findings and Recommendations</th></tr>
<tr><td>Mining Royalties</td><td>Observation
Practically, it will be difficult to match royalties from companies to the various recipients. In particular, landowners and landowner groups are spread throughout PNG where there are genuine outreach, security, time and logistical constraints with respect to accessing these areas.
Recommendation
The mining companies should disclose which groups they pay mining royalties to. Using Porgera as an example, the following could be reported:

Provincial Government
Development Authority
Small landowners
Future Benefits Trusts
Landowners Association
Other.

Initially these should be unilateral disclosures by companies.</td></tr>
<tr><td>Mandatory Social Payments</td><td>Observation
MRA and DPE do not compile mandatory social payments on an industry-wide basis.
Recommendation
The mining and petroleum companies will need to collate the mandatory social payments. For example the following could be reported:

Compensations to landowners

General Compensation
Environmental Compensation
Community relocation
Land compensation (Leases)

Education Payments

Scholarships
University Sponsorships
Other training costs

Infrastructure Development

Tax Credit Scheme
Other Infrastructure Development Programmes

Community Development Programs
Business Development Programs
Health Programs
Townships development.

Initially these will be unilateral disclosures by companies.</td></tr>
<tr><td>Voluntary Social Payments</td><td>Observation
MRA and DPE do not compile voluntary social payments for all companies. Companies report social payments to stakeholders in a variety of different forums. Companies often do not distinguish between mandatory and voluntary social payments.
Recommendation
The mining and petroleum companies may consider disclosing voluntary social payments. For example the following could be reported:

Voluntary Sponsorships
Voluntary education payments
Voluntary Infrastructure development

Infrastructure tax credits
Other Infrastructure Development Programmes

Health
Other Voluntary Corporate Social Responsibility programs.

Initially these will be unilateral disclosures by companies.</td></tr>
</table>

Appendix 12: Materiality of Payment Streams

	Terms of Reference	Link to EITI Standard
8.	Review revenue data and make recommendations over which of these tax payments and government revenue streams should be considered material for the purposes of EITI reporting in line with the PNG EITI work plan. Based on this determination, outline the process by which a determination of materiality and potential scope of EITI reporting in PNG can be established and suggest materiality thresholds for company disclosure if appropriate	4.1

EITI Requirement	
4.1	**4.1 Defining the taxes and revenues to be covered in the EITI Report** a) In advance of the reporting process, the multi- stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be included in the EITI Report. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.

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12.1 Revenue Streams for the year ended 31 December 2013

Revenue/Payment Stream	Amount 2013 (Kina)	Sector	Source of data	Percentage of known total revenue	Receiving entity	Rationale for including
Mine Closure Bond	To be determined	Mining	Legislation	To be determined	Department of Environment	**1**
Decommissioning Bonds	To be determined	Petroleum	Legislation	To be determined	Department of Environment	**1**
Mandatory social expenditure	To be determined	Mining and Petroleum	Companies	To be determined	Not applicable - MRA and DPE did not receive this data for all companies in 2013.	**2**
Dividend Withholding Tax	To be determined	Mining and Petroleum	IRC	To be determined	IRC	**3**
Royalty Withholding Tax	To be determined	Mining and Petroleum	IRC	To be determined	IRC	**3**
Management Fee Withholding Tax	To be determined	Mining and Petroleum	IRC	To be determined	IRC	**3**
Infrastructure Tax Credits	To be determined	Mining and Petroleum	IRC	To be determined	Reported to IRC	**4**
Mining and Petroleum Tax (Corporate Income Tax)	666,742,122	Mining and Petroleum	IRC	42.66%	IRC	
Group Tax (Taxes Withheld on employees' salaries)	516,959,169	Mining and Petroleum	IRC	33.08%	IRC	
Royalties	181,683,028	Mining and Petroleum	MRA and DPE	11.63%	State, Provinces of PNG, Landowner groups	
Equity Distributions	85,552,000	Petroleum	Petromin	5.47%	MRDC, Petromin	**5**
Import Taxes	20,072,982	Mining and Petroleum	Customs	1.28%	Customs	
Production Levy	18,308,620	Mining	MRA	1.17%	MRA	
Goods and Services Tax	17,890,671	Mining and Petroleum	IRC	1.14%	IRC and Customs	

(Table continued on next page)

Revenue/Payment Stream	Amount 2013 (Kina)	Sector	Source of data	Percentage of known total revenue	Receiving entity	Rationale for including
Business Payments Tax	17,830,129	Mining and Petroleum	IRC	1.14%	IRC	
Dividends	17,495,518	Mining and Petroleum	State Budget, Ok Tedi and Petromin 2013 Financial Statements	1.12%	IPBCC Oil Search, Treasury for Petromin, Ok Tedi, Treasury	6
Development Levy	13,936,994	Petroleum	DPE	0.89%	Department of Finance	
License Fees	5,010,900	Petroleum	DPE	0.32%	DPE	
Application, Renewal , Renewal penalty and transfer Fees	707,164	Mining	MRA	0.05%	MRA	
Interest Withholding Tax	439,731	Mining and Petroleum	IRC	0.03%	IRC	
Data Sale Fees	117,097	Mining	MRA	0.01%	MRA	
Sundry Fees	78,904	Petroleum	DPE	0.01%	DPE	
Additional Profits Tax	-	Petroleum	IRC	0.00%	IRC	
Total	**1,562,825,029**					

Footnote:

1 - Potentially could be large, data not yet available.

2 - The data that is available indicates that this expenditure is significant and companies make key contributions to PNG.

3 - IRC are still locating the numbers, if not material for 2013, it is likely with PNG LNG producing these numbers will increase significantly from 2014/2015.

4 - Total Infrastructure credits across the whole of PNG were 92.8 million Kina. For any individual project, yearly tax credit infrastructure spending appears to be key indicator of development contribution from a mine

5 - Calculated on the basis of Joint Ventures Profit before tax, and not on received as this couldn't be extracted from the annual financial statements. No data from MRDC or (NPCP if applicable for 2013) was made available.

6 - No dividends were announced or paid by the Ok Tedi Mining Limited Board of Directors. In all previous years there were significant dividends 2012: 723 million in total was paid out by Ok Tedi.

12.2 Determination of Materiality

	EITI Definition
Materiality	A threshold amount or percentage to determine if a company or a payment is significant to an outcome. Multi-stakeholder groups in EITI implementing countries often set materiality levels based on company or payment size.
Material Payments	Important or relevant revenue streams. The EITI requires that all material benefit streams be published. According to the EITI Validation guide, a benefit stream is “material if its omission or misstatement could materially affect the final EITI Report.” It is typically the responsibility of the national multi-stakeholder group to decide how to define material in quantitative or qualitative terms.

12.3 Analysis of Payment Stream Materiality

A threshold that the MSG could consider is that all payment streams above 1% of total receipts are included in the First EITI report. There are a number of payment streams where data has not yet been collated. Accordingly, it is suggested that these terms are included in the First EITI report due to their potential size and their qualitative nature.

Specifically it would be useful for:

- The total universe of national taxes paid to the IRC and customs to be captured within the EITI process, and accordingly all national taxes paid are included for the First EITI report. The IRC have yet to locate all of this data for the scoping process, therefore we are suggesting that all are included.
- For industry, NGOs and Government to get a sense of the total universe of decommissioning and other environmental bonds that are paid each year, these payment streams should be included in the First EITI Report.
- Mandatory social payments data is not yet collated by Government on an industry-wide basis. These costs are considerable to the companies that we surveyed. Accordingly it would useful for the EITI to be a mechanism that enables industry and government to collate this data on an annual and systematic basis.

Using the materiality definition above, the payments streams included in 12.1 are material except for data sales fees and sundry fees due to their relatively low value. License fees and development levies should be included in accordance with EITI Requirement 4. The MSG should consider including Withholding Taxes as a part of the total universe of tax payments, and Additional Profits Tax, as this payment stream is expected to be a significant generator of future receipts once PNG LNG comes fully on line.

This may require an updated scoping exercise to be undertaken for the second and subsequent EITI reports, based on data collected from the First EITI Report. It is expected that after the First EITI report is completed a more accurate picture of the Universe of Payments will emerge.

As it was not practicable to survey all Government institutions receiving payments from extractive industry companies the following analysis was based on payments from companies to Government summarised in section 3.3

Mining and Petroleum		
Category	**Payees**	**Explanations**
Other Govt. fees & charges	PNG Finance Department or the applicable government Regulation/Act owner, including Minerals Resource Authority, Department of Environment & Conservation, Department of Transport, Immigration, Internal Revenue Commission, and Department of Labour & Industrial relations etc.	Different fees and charges paid to the PNG government for the provision of services or compliance with applicable statutory requirements. Fees and charges include in-house customs agency fees, manufacturer licence, PNG passports and visas, PNG work permit fees, telecommunication licences and drivers' licences. Rationale as to why not likely to be material: Although required, these costs are incidental to operating in the extractive industry. From an analysis of Oil Search's Transparency report which includes items that we would expect to be significant such as License fees, data request fees that have been separated out already, the total amount of these costs will be less than 10% of a company's payments to Government. Other routine transactions with Government and SOE that non-extractive industry entities would be required to pay other than taxes should be included in the Scope of PNG EITI. For example payments to PNG Power or the Government owned Telecom provider.

Provincial Government and Local Level Government

The NEFC's Fiscal and Budget Report of 2013 compiles what it considers to be the material revenue streams which includes GST Distributions, Book Makers Tax, Own Source Revenues, Royalties and Dividends.

Own Source Revenues comprise:

- sales and service tax
- licences for liquor outlets
- licences for gambling establishments
- motor vehicle registration and license fees
- proceeds from business activities, rents, sale of assets
- provincial road users tax
- court fees & fines and
- other fees & charges

Extractive resource companies will pay these expenses as at provincial level, but indications from the companies are that these costs are not material therefore should be scoped out of the PNG EITI.

Source:
NEFC Transparency Report.
Oil Search Transparency Report 2013.

Appendix 13: Disaggregation of Data

	Terms of Reference	Link to EITI Standard
9.	Assess the levels of disaggregation of the data described above and determine whether it will satisfy the requirements of the EITI Standard and the PNG EITI work plan.	5.2

EITI Requirement	
5.2	e) The multi-stakeholder group is required to agree the level of disaggregation for the publication of data. **It is required that EITI data is presented by individual company, government entity and revenue stream**. Reporting at project level is required, provided that it is consistent with the United States Securities and Exchange Commission rules and the forthcoming European Union requirements.

Tax Data

The IRC was only able to provide us with data that is disaggregated to the level of the Total aggregated amount paid by category of tax type as reported. Tax Data is not disaggregated by project or by entity due to confidentiality constraints as discussed in Appendix 18 below.

Customs Data

The Customs department provided us with the total amount for Import Taxes. This amount is aggregated to include GST imports, customs duties and excise duties. The data disaggregated at the level of taxpayer is set-out in Sub Appendix 13.1.

Royalty Data

Royalty Data is disaggregated by project but not by Recipient. Refer to Sub Appendices 10.1 & 10.2.

Dividend data

Dividend data is disaggregated as set out in Sub Appendix 13.2.

Equity Data

Equity data is incomplete as set out in Sub Appendix 12.1 above. MRDC will need to be engaged by the PNG MSG.

Production Levies

Production levies were provided by MRA in total and not disaggregated at an entity level.

Development Levies

Production levies were provided by DPE by project as per Sub Appendix 6.1.

Fee Data

MRA provided license receipts data that is disaggregated by tenement and by license type.

DPE provided license receipts data by monthly collections. This will need to be disaggregated by license and license type.

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Sub Appendix 13.1: Customs Duties and Taxes

Import and Export Tax for Mining Companies for the fiscal year ending 31 December 2013

Company Name Provided by Custom Department	Mine Name	Company Name	Tax File No	Imports (K)	Exports (K)
Allied Gold / Simberi Gold Co.	Simberi	Simberi Gold Company Ltd	TC 42584	290,831	-
Barrick Nugini Ltd	Porgera	Barrick Gold	TC 8231	2,694,738	-
Lihir Mining	Lihir	Lihir Gold Limited (LGL)	TC 32117	12,626	-
Macmin (PNG) Ltd	Sinivit	New Guinea Gold	TC 32417	18,923	-
Newcrest Mining Ltd	Hidden Valley	New Crest- Harmony / Morobe Mining Joint Ventures (MMJV).	TC 30190	14,815,529	-
Ok Tedi Mining Ltd	Ok Tedi	Ok Tedi Mining Company	TC 8315	154,169	-
Tolukuma Gold Mine	Tolukuma	Petromin	TC 16940	3,021	-
Total				**17,989,837**	**-**

- All mining, petroleum and gas companies are on tax exemptions (Custom Duty and Excise Duty) and only pay import GST, hence the imports tax in above table represent only import GST

- No tax revenues was received from exports as the companies listed are exempted as per the ***Custom Tariff Act***

Import and Export Tax for Oil/Gas Companies for the fiscal year ending 31 December 2013

Company	Tax File No	Imports (K)	Exports (K)
Exxonmobil PNG Ltd	TC 19994	68,535	-
Interoil Corporate PNG Ltd	TC 53987	53,349	-
Oil Search Ltd	TC 388	1,961,261	-
Total		**2,083,145**	**-**

- All mining, petroleum and gas companies are on tax exemptions (Custom Duty and Excise Duty) and only pay import GST, hence the imports tax in above table represent only import GST

- No tax revenues was received from exports as the companies listed are exempted as per the ***Custom Tariff Act***

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Sub Appendix 13.2: Dividend Data

Entity	Amount in Kina	Rationale
OTML	-	No dividends were not announced or paid by the OTML Board of Directors. In all previous years there were significant dividends 2012: 723 million in total was paid out by OTML.
Petromin	450,000	Refer to 2013 annual financial statements on file
Highland pacific	-	http://www.highlandspacific.com/financial-reports
Oil Search	17,045,518	http://www.oilsearch.com/media/docs/Oil%20Search%202013%20Transparency%20Report-d60f4c12-dc6a-48a6-96ef-c93f941e2486-0.pdf
Total	17,495,518	

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Appendix 14: Preliminary List of Companies to report

	Terms of Reference	Link to EITI Standard
1	Based on the proposed materiality definition, develop a preliminary list of the companies that make material payments and should be covered in the EITI Report (as well as those companies tentatively expected to make material payments in the immediate foreseeable future). Where materiality thresholds are proposed, this should include an estimate of the proportion of payments that will be disclosed relative to total government revenues from the sector. It should also identify the total contribution of companies not required to report (i.e. those that fall below the materiality threshold), with a clear indication of the relative size of each company.	4.2

<table>
<tr><th colspan="2">EITI Requirement</th></tr>
<tr><td>4.2</td><td>The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies.

4.2 Defining which companies and government entities are required to report

a) The EITI Report must provide a comprehensive reconciliation of government revenues and company payments, including payments to and from state owned enterprises, in accordance with the agreed scope (Requirement 4.1). All companies making material payments to the government are required to comprehensively disclose these payments in accordance with the agreed scope. An entity should only be exempted from reporting if it can be demonstrated that its payments and revenues are not material. All government entities receiving material revenues are required to comprehensively disclose these revenues in accordance with the agreed scope.
b) Unless there are significant practical barriers, the government is additionally required to provide, in aggregate, information about the amount of total revenues received from each of the benefit streams agreed in the scope of the EITI Report, including revenues that fall below agreed materiality thresholds.

Where this data is not available, the Independent Administrator should draw on any relevant data and estimates from other sources in order to provide a comprehensive account of the total government revenues.

c) State-owned enterprises (SOEs): The multi-stakeholder group must ensure that the reporting process comprehensively addresses the role of SOEs, including material payments to SOEs from oil, gas and mining companies, and transfers between SOEs and other government agencies.
d) Sub-national payments: It is required that the multi-stakeholder group establish whether direct payments, within the scope of the agreed benefit streams, from companies to sub-national government entities are material. Where material, the multi-stakeholder group is required to ensure that company payments to sub-national government entities and the receipt of these payments are disclosed and reconciled in the EITI Report.</td></tr>
</table>

EITI Requirement	
	e) Sub-national transfers: Where transfers between national and sub-national government entities are related to revenues generated by the extractive industries and are mandated by a national constitution, statute or other revenue sharing mechanism, the multi-stakeholder group is required to ensure that material transfers are disclosed in the EITI Reports. The EITI Report should disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant sub-national entity. The multi-stakeholder group is encouraged to reconcile these transfers. The multi-stakeholder group is encouraged to ensure that any material discretionary or ad-hoc transfers are also disclosed and where possible reconciled in the EITI Report. Where there are constitutional or significant practical barriers to the participation of sub-national government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 1.5.

Generally it is expected that the Government will receive the majority of its revenues from companies that have a development or production license. Although some entities with production license may not yet be producing.

14.1 Mining

There are only 8 producing mines in Papua New Guinea. Some statistics on the relative size of the mines are included below.

Mine Name	Company	Primary Mineral(s) produced	Size	Estimated Output per annum	Ownership
Ok Tedi	Ok Tedi Mining Limited	Copper, Gold	Large	500,000 oz Au 170,000t, Cu	100% owned by the State
Porgera	Barrick Gold	Gold, Silver	Large	500,000 oz Au 90,000 oz Ag	95% Barrick Subsidiary. Mineral Resource Enga Limited (MRE) - 2.5% interest in the Porgera Gold mine for the Porgera landowners and a further 2.5% for the Enga Provincial Government.
Lihir	Lihir Gold Limited (LGL)	Gold, Silver	Large	500,000 oz Au	100% owned by Newcrest Ltd.
Ramu	MCC Ramu NiCo Limited	Nickel, Cobalt	Large	31, 000 Ni 3,300t Co	The Project is an unincorporated joint venture between MCC Ramu (85%); MRML (2.5%) and MRRL (with 3.94%) two subsidiaries of MRDC on behalf of PNG government and landowner interests; and RNL (8.56%), a subsidiary of former developer Highland Pacific Ltd. Ramu NiCo Management (MCC) Limited, as the Manager of the Project appointed by all joint venture parties, is fully responsible for construction, development and operation of the Project.
Hidden Valley	New Crest Harmony	Gold, Silver	Large	200,000 oz Au	JV between subsidiaries of Newcrest (50 per cent) and Harmony Gold Mining Company Limited of South Africa (50 per cent),

(Table continued on next page)

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Mine Name	Company	Primary Mineral(s) produced	Size	Estimated Output per annum	Ownership
Tolukuma	Petromin	Gold	Medium to Small	60,000 oz Au	100% shares held by Petromin
Simberi	Simberi Gold Company Ltd	Gold	Medium to Small	72,000 oz Au	100% Shares NORD PACIFIC LIMITED, (St Barbara)
Sinivit	New Guinea Gold	Gold	Medium to Small	5-8000 ox Au	Ownership: 90% New Guinea Gold, 10% (Toronto) Goldmines of Niugini Holdings (NGG holds 22% of Goldmines of Niugini Holdings).

14.2 Oil and Gas

The current entities with production licenses as of 2014 are:

Licence Details		
Permit	**Operator/Partners**	**% Interest**
PDL 1	*Esso Highlands Ltd. (ExxonMobil)	36.812500
Hides	Oil Search (Tumbudu) Ltd.	16.662500
	Santos (Hides) Ltd.	19.375000
	Lavana Ltd. (Santos)	4.650000
	Kroton No. 2 Limited	20.500000
	Gas Resources Gigira Ltd.	2.000000
PDL 1 (Hides GTE)	*Oil Search (Tumbudu) Limited	100.000000
PL 1		
PDL 2	*Oil Search (PNG) Limited	60.046458
Iagifu Hedinia Usano Agogo Kutubu Field Complex	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	11.611825
	Merlin Petroleum Co. (NOEX)	18.685467
	Merlin Pacific Oil Co. NL (ExxonMobil)	2.906250
	Petroleum Resources Kutubu Ltd.	6.750000
PDL 2	*Oil Search (PNG) Limited	60.046458
Kutubu Export Line	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	11.611825
	Petroleum Resources Kutubu Ltd.	12.688362
	Merlin Pacific Oil Co. NL (ExxonMobil)	2.906250
SE Mananda	*Oil Search (PNG) Limited	72.266413
	Merlin Petroleum. Co. Ltd. (NOEX)	19.837181
	Petroleum Resources Kutubu Ltd.	7.896406
PDL 3	*Barracuda Ltd. (Santos)	15.921718
SE Gobe	Oil Search (PNG) Limited	36.359740
	Southern Highlands Petroleum Co. Ltd. (JPE)	40.149650
	Cue PNG Oil Co. P/L	5.568892
	Petroleum Resources Gobe Ltd.	2.000000
PDL 4	*Oil Search (PNG) Limited	10.000000
Gobe Main	Merlin Petroleum Co. Ltd (NOEX)	73.481925
	Ampolex (Highlands) Ltd (ExxonMobil)	14.518075
	Petroleum Resources Gobe Ltd.	2.000000
SE Gobe Unit	*Oil Search (PNG) Limited	25.552246
PDL 3: 59.0%	Merlin Petroleum Co. Ltd (NOEX)	30.127589
PDL 4: 41.0%	Southern Highlands Petroleum Co. Ltd. (JPE)	23.688294
	Barracuda Ltd. (Santos)	9.393814
	Ampolex (Highlands) Ltd (ExxonMobil)	5.952411
	Cue PNG Oil Co. P/L	3.285646
	Petroleum Resources Gobe Ltd.	2.000000

(Table continued on next page)

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Licence Details		
Permit	**Operator/Partners**	**% Interest**
Gobe Common	*Oil Search (PNG) Limited	17.776123
Facilities	Merlin Petroleum Co. (NOEX)	51.804757
SEG: 50%	Southern Highlands Petroleum Co. Ltd.	11.844147
GM: 50%	Ampolex (Highlands) Ltd (ExxonMobil)	10.235243
(Includes PL3)	Barracuda Ltd. (Santos)	4.696907
	Petroleum Resources Gobe Ltd.	2.000000
	Cue PNG Oil Co. P/L	1.642823
PDL 5	*Esso Highlands Ltd. (ExxonMobil)	36.812500
Moran	Oil Search (PNG) Limited	40.687500
	Eda Oil Ltd. {Petromin(PNG Govt)}	20.500000
	Petroleum Resources Moran Ltd.	2.000000
PDL 6	*Oil Search (PNG) Limited	71.066666
NW Moran	Ampolex (Highlands) Ltd (ExxonMobil)	18.358340
	Merlin Petroleum Co. (NOEX)	8.575000
	Petroleum Resources North West Moran Ltd.	2.000000
Greater Moran Field	*Oil Search (PNG) Limited	49.509233
PDL 2: 44%	Esso PNG Moran Ltd. (ExxonMobil)	20.246875
PDL 5: 55%	Eda Oil Ltd. {Petromin(PNG Govt)}	11.275000
PDL 6: 1%	Merlin Petroleum Co. (NOEX)	8.307355
	Ampolex (PNG Petroleum) Inc. (ExxonMobil)	5.109203
	Ampolex (Highlands) Inc. (ExxonMobil)	0.183583
	Petroleum Resources Kutubu Ltd.	2.970000
	Merlin Pacific Oil Co. NL (ExxonMobil)	1.278750
	Petroleum Resources Moran Ltd.	1.100000
	Petroleum Resources North West Moran Ltd.	0.020000
PDL 7	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (Tumbudu) Ltd.	40.687500
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Gas Resources Hides No.4 Ltd.	2.000000
PDL 8	*Esso Highlands Ltd. (ExxonMobil)	36.812500
	Oil Search (Tumbudu) Ltd.	40.687500
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Gas Resources Angore Ltd.	2.000000
PDL 9	*Esso PNG Juha Limited (ExxonMobil)	21.707750
	Oil Search (Tumbudu) Ltd.	24.420405
	Ampolex (Papua New Guinea) Ltd. (ExxonMobil)	21.684345
	National Petroleum Company of PNG (Kroton) Ltd.	20.500000
	Nippon Papua New Guinea LNG LLC	9.687500
	Gas Resources Juha No.1 Ltd.	2.000000

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Appendix 15: Company Details

	Terms of Reference	Link to EITI Standard
11.	For each company, identify where available: • Company's Tax Payer Identification Number • Sector and phase of operation, i.e. exploration, production, oil, gas, mining etc. • Type of license(s) held and the license number(s).	N/a

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15.1 Mining

Name	Company	Ownership	Tax Payer Identification Number	Phase	Type of License	License Number(s)
Ok Tedi	Ok Tedi Mining Limited	100% - the State (subject to legal dispute)	Information not available	Production	SML	SML1 (O)
Porgera	Barrick Gold	Barrick (Nuigini) Limited 70%, Barrick (Goldfields PNG Holdings) Limited 25%, Mineral Resources Enga Limited 5%	Information not available	Production	SML, ML	SML 1 (P), ML 101
Lihir	Lihir Gold Limited (LGL)	100% owned by Newcrest Ltd.	Information not available	Production	SML, ML	SML 6, ML 125, 126
Ramu	MCC Ramu NiCo Limited	The Project is an unincorporated joint venture between MCC Ramu (85%); MRML (2.5%) and MRRL (with 3.94%) two subsidiaries of Mineral Resource Development Corporation (MRDC) on behalf of PNG government and landowner interests; and RNL (8.56%), a subsidiary of former developer Highland Pacific Ltd. Ramu NiCo Management (MCC) Limited, as the Manager of the Project appointed by all joint venture parties, is fully responsible for construction, development and operation of the Project.	Information not available	Production	SML., ML	SML 8, ML 149

(Table continued on next page)

Name	Company	Ownership	Tax Payer Identification Number	Phase	Type of License	License Number(s)
Hidden Valley	New Crest Harmony	JV between subsidiaries of Newcrest (50 per cent) and Harmony Gold Mining Company Limited of South Africa (50 per cent). Per http://portal.mra.gov.pg/Map/ Morobe Consolidated Goldfields Limited 50% Newcrest PNG 1 Limited 50%	Information not available	Production	ML	ML 151
Tolukuma	Petromin	100% shares held by Petromin	Information not available	Production	ML	ML 104
Simberi	Simberi Gold Company Ltd	100% Shares NORD PACIFIC LIMITED, (St Barbara)	Information not available	Production	ML	ML 136
Sinivit	New Guinea Gold	Ownership: 90% New Guinea Gold, 10% (Toronto) Goldmines of Niugini Holdings (NGG holds 22% of Goldmines of Niugini Holdings).	Information not available	Production	ML	ML 122

Notes:
1. Some companies have multiple licenses some of which may be licenses adjacent to other licenses or may be completely separate operations.
2. The tax authorities are unable to release tax payer numbers without consent from the companies. Although it might have been possible to obtain consent from some companies
SML - Special Mining Lease
ML – Mining Lease
http://portal.mra.gov.pg/Map/

15.2 Oil and Gas

As above, no tax payer details are available. Sector and phase of operation and the license number will be collated by DPE.

15.3 State Owned Entities

State owned entities and their subsidiaries are included in Sub Appendix 15.1. The IRC was not able to provided tax identification numbers which they explained as being due to confidentiality restrictions.

Sub Appendix 15.1: Subsidiaries of State Owned Enterprises

Group	Name	Relevance	Source
Petromin	Petromin PNG Holdings	Equity, Pays Dividends to Government	Financial Statements
Petromin	Eda Oil Limited	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Eda Minerals Limited	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Eda LNG Limited	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Eda Kopa	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Eda Energy	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Petromin Energy	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements
Petromin	Tolukuma Gold Mines Limited	Equity, receipient of paymentds from companies, payment of social payments	Financial Statements

Sub Appendix 15.1: Subsidiaries of State Owned Enterprises (Cont)

Ok Tedi	Ok Tedi Mining Limited	Dividends to Government	Financial Statements
Ok Tedi	Ok Tedi Development Foundation Limited	Receipient of payment from mining companies, payment of social payments	Financial Statements
Ok Tedi	OTML Shares in Success Limited	Receipient of payment from mining companies, payment of social payments	Financial Statements
Ok Tedi	Ok Tedi Australia Pty Limited	Receipient of payment from mining companies, payment of social payments	Financial Statements
MRDC	Mineral Resources Star Mountains Limited	Equity	Per discussions and website
MRDC	Mineral Resources Ok Tedi No. @ Limited	Equity	Per discussions and website
MRDC	Mineral Resources Ramu Limited	Equity	Per discussions and website
MRDC	Mineral Resources Madang Limited	Equity	Per discussions and website
MRDC	Mineral Resoureces Enga Limited	Equity	Per discussions and website
MRDC	Petroleum Resources Kutubu Limited	Equity	Per discussions and website
MRDC	Petroleum Resources Gobe Limited	Equity	Per discussions and website
MRDC	Petroleum Resources Moran Limited	Equity	Per discussions and website
MRDC	MRDC LTd	Equity	Per discussions and website
IPBC	IPBC	Receives Dividends from Oil Search and NPCP (2014)	Per website
NPCP	National Petroleum Company of Papua New Guinea	Equity	Per discussions and website

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Appendix 16: List of Government Entities Required to Report

	Terms of Reference	Link to EITI Standard
12.	Based on the proposed materiality definition, identify which government entities will be required to report revenue information**. It should be noted that the government is required to disclose all revenues, regardless of the materiality (EITI Requirement 4.2.b).** Thus, where materiality thresholds for company disclosures are established, a reconciliation of the company payments and government revenues in accordance with the materiality threshold would be appropriate. Any additional government revenues **(i.e. from companies below the materiality threshold)** would also need to be disclosed in the EITI Report, as per requirement 4.2.b. The consultant should also identify transfers from one collecting agency to another.	4.2

The Government Entities required to report in 2013 are:

Entity	Rationale as to why scoped in
Internal Revenue Commission	Receipt of Taxation and Stamp Duties
Customs	Receipt of Customs, GST and Excise Duties
Minerals Resource Authority	Receipt of Production Levies Receipt of Royalties. Note: • Where Royalties are paid by a company to a landowner (or landowner representative/ association), MRA should be receiving a royalty return that shows amounts paid to landowners which should agree back to company data. **Note that actual cash flows won't necessarily be received by MRA but the cash is received by landowners, local or provincial governments as set in the development agreements**. • In the case of State Owned Companies such as Ok Tedi Mining Limited, a State controlled entity pays Royalties to a Landowner Trust such as the Ok Tedi Landowners Royalty Investment Trust. Company Representatives control these disbursements.
Department of Petroleum and Energy	Receipt of Royalties
Department of Finance	Receipt of Development Levies
Independent Public Business Corporation	Receipt of Oil Search Dividends (and NPCP dividends from 2014/2015 if any)
Department of Treasury	Receipt of Ok Tedi Mining Limited Dividends Receipt of Petromin Dividends
The Department of Mineral Policy and Geohazards Management	Receipt of Ok Tedi Mining Limited Dividends, to be distributed to landowners impacted by environmental damage along the fly river
The Department of Environment	Receipt of Decommissioning and Mine Closure Bonds

(Table continued on next page)

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Entity	Rationale as to why scoped in
MRDC Subsidiaries or Trust Funds	Receipt of benefits on behalf of provincial governments. • **Mineral Resource Ok Tedi No. 2 Limited (MROT)** - 3.1% indirect interest in the Ok Tedi mine for the Western Provincial Government. • **Mineral Resource Enga Limited (MRE)** - a 2.5% interest for the Enga Provincial Government. • **Petroleum Resources Kutubu Limited (PRK)** - 6.75% interest in Petroleum Development Licence 2 (PDL 2) for the affected people in the Kutubu region of the Southern Highlands Province, the coastal people of Gulf Province whose land hosts the crude oil pipeline, and the provincial governments of the two provinces.
Sub-National Entities: • Western Province • Gulf • Central • South Highlands • Enga • Morobe • New Ireland • Madang	As per Appendix 17 below

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Appendix 17: Sub-National Entities Required to Disclose

	Terms of Reference	Link to EITI Standard
13.	In considering which government entities should be disclosed, the consultant should identify whether sub-national government entities receive direct or indirect revenues from the extractive sector, in accordance with Requirement 4.2(d).	4.2(d) & (e)

EITI Requirement	
4.2	d) Sub-national payments: It is required that the multi-stakeholder group establish whether direct payments, within the scope of the agreed benefit streams, from companies to sub-national government entities are material. Where material, the multi-stakeholder group is required to ensure that company payments to sub-national government entities and the receipt of these payments are disclosed and reconciled in the EITI Report.

<u>NEFC Reporting</u>

Per the NEFC 2013 report the following sub-national entities receive payment streams:

- Western Province
- Gulf
- Central
- South Highlands
- Enga
- Morobe
- New Ireland

The NEFC report does not make a distinction between direct or indirect payments. We were unable to obtain any reporting from districts as to what payment streams they receive.

<u>Oil and Gas</u>

Provinces and local government receive payments indirectly from operators. That is the State is paid and then re-distributions are made to provincial and local governments.

There are only immaterial amounts paid directly to provincial and local governments for payment streams such as rates and local licenses.

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Mining

Provinces receive direct payment streams from Companies for:

- Royalties
- Dividends

Sources:

- Ok Tedi Mining Limited - Presentation to Regional Delegates, OTML "The Facts"
- Ok Tedi Mining Limited Annual Report 2013
- Pogera Information Booklet 2012
- NEFC Budget Fiscal Report 2013

EITI Requirement	
4.2	e) Sub-national transfers: Where transfers between national and sub-national government entities are related to revenues generated by the extractive industries and are mandated by a national constitution, statute or other revenue sharing mechanism, the multi-stakeholder group is required to ensure that material transfers are disclosed in the EITI Reports. The EITI Report should disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant sub-national entity. The multi-stakeholder group is encouraged to reconcile these transfers. The multi-stakeholder group is encouraged to ensure that any material discretionary or ad-hoc transfers are also disclosed and where possible reconciled in the EITI Report. Where there are constitutional or significant practical barriers to the participation of sub-national government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 1.5.

Stakeholder Feedback

Per our discussion with Treasury and IRC, there are no taxes, levies or other revenues levied by Provincial or Local Government.

Key Findings and Recommendations	
Sub-National Government entities that should be included in the First EITI Report	Per the *NEFC 2013 Budget and Fiscal Report* the following sub-national entities receive extractive industry payment streams: • Western Province • Gulf • Central • South Highlands • Enga • Morobe • New Ireland The NEFC report does not make a distinction between direct or indirect payments. We note that Madang did not yet receive any royalties but should be included as royalties will arise from Ramu Nickel mine.
Disclosure of benefits sharing formulas	There are number of benefit sharing formulas for mining and petroleum projects. <u>Recommendation</u> The Government will need to collate and compile the revenue sharing formulas for each project in accordance with 4.2(e).

(Table continued on next page)

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Key Findings and Recommendations	
Disclosure of benefit sharing transfer amounts	The amounts transferred between the National Government and the Sub-National Governments are compiled on an ad-hoc basis. The last published report from the NEFC utilised figures compiled from 2011. The transfer of benefits between the National and Sub-National Governments largely occurs in the Petroleum Sector. <u>Recommendation</u> The amount of funds transferred between the National Government and the Provincial and Local Governments will need to be compiled and disclosed in the First EITI report. To enable consistency with the Mining Sector benefit sharing transfers from Trust accounts to other beneficiaries should potentially be disclosed as follows: • Provincial Government • Local Governments • Development Authorities • Small landowners • Future Benefits Trusts • Landowners Associations • Infrastructure Development Grants • Business Development Grants
Involvement of Provincial Government	Provincial Governments have yet to be engaged by the PNG MSG. <u>Recommendation</u> The provincial governments that receive extractive industry receipts should be invited to participate in the PNG EITI. Consideration should be given to including the provincial governments on the PNG MSG. Outreach efforts may be required in terms of education at a provincial level.
Involvement of Local Level Government	We were unable to obtain data as to what amounts Local Level Governments (LLG) received in payment streams from extractive industry companies. It is our understanding that the most material payments streams relate to direct or indirect receipts of dividends, development levies, development levies and royalties. <u>Recommendation</u> Department of Finance and Treasury should compile a list of payments made to local governments with respect to the re-distribution of extractive industry receipts. It would not likely be practical to reconcile LLG receipts in the first EITI report due to the potential high number of LLGs receiving funds, their remote locations and their limited capacity to participate. The MSG should consider how to scope these receipts and engage with a select group of LLGs for subsequent EITI reports.

Appendix 18: Barriers

	Terms of Reference	Link to EITI Standard
14.	**Issue requiring specific attention** The consultant must identify any legal, regulatory, administrative or practical barriers to the comprehensive disclosure of EITI information and, where necessary, set out options and make recommendations for addressing these barriers.	4

18.1 Confidentiality of Contractual Information

As per Appendix 4.3 contractual information is not publically available

Key Findings and Recommendations	
Mining and Petroleum Contracts are not publically disclosed	In the absence of approval from Government and Companies, Government legislation, policy and practice provides restrictions on the public disclosure of mining and petroleum contracts. <u>Recommendation</u> The Government may wish to consider introducing legislation or policy that enables the disclosure of contracts. In the absence of enabling legislation and policy, appropriately authorised officials of the state and companies may wish to consider agreeing to disclose contracts for EITI purposes.

18.2 Confidentiality of tax payer data

In terms of scoping the IRC was unable to provide a list of taxpayers who pay resource taxes or the amount of tax they were due to pay. Therefore it may be very difficult for the Administrator to determine the companies that are material for EITI reporting purposes until a compilation of resource tax payers is completed in terms of Income Tax Act confidentiality provisions.

An additional complication exists as any single resource project will be represented by multiple companies who are considered resource companies for income taxation purposes. Consequently if a decision is made by the MSG to select license holders for EITI reporting purposes, entities who are participating in the project and subject to resource taxation provisions but not license holders, will not be identified for EITI reporting purposes.

Section 9 of the Income Tax Act provides the following:

Officers to observe secrecy.

*(1) In this section, **"officer"** means a person who is or has been appointed to or employed in the Public Service, and who, by reason of that appointment or employment, or in the course of that employment, may acquire or has acquired information respecting the affairs of any other person disclosed or obtained under the provisions of this Act.*

(2) Subject to this section, an officer shall not, either directly or indirectly except in the performance of a duty as an officer, and either while he is or after he ceases to be an officer, make a record of, or divulge or communicate to any person, any such information so acquired by him.

(3) An officer shall not be required to produce in any court a return, assessment or notice of assessment, or to divulge or communicate to any court any matter or thing coming under his notice in the performance of his duties as an officer, except when it is necessary to do so for the purpose of carrying into effect the provisions of this Act.

(4) Nothing in this section prevents the Commissioner General or an Assistant Commissioner, or a person authorized by the Commissioner General or an Assistant Commissioner, from communicating any information to–

(a) a person performing, in pursuance of any appointment or employment in the Public Service, any duty arising under any Act administered by the Commissioner General, for the purpose of enabling that person to carry out that duty; or

(b) the Review Tribunal constituted under Section 240; or

(c) the Board referred to in Section 367; or

(d) the Commissioner of Taxation for Australia, a Second Commissioner of Taxation for Australia and any Deputy Commissioner of Taxation for Australia if the Commissioner, Second Commissioner and any Deputy Commissioner is authorized by a law of Australia to afford similar information to the Commissioner General; or

(e) the person, known as the Controller of Foreign Exchange, acting under and in accordance with Section 61 or 61A of the Central Banking Act 2000*; or*

(f) a Review Tribunal appointed under Section 12(1) of the Industrial Development (Wage Subsidy) Act 1984*; or*

(g) the Tribunal established under Section 69.

(h)[1] *the Bank of Papua New Guinea, or any officer thereof, exercising powers and functions of the Bank of Papua New Guinea pursuant to Section 7 of the* Superannuation (General Provision) Act 2000*.*

(5) A person to whom information is communicated under Subsection (4), and any person or employee under his control, is, in respect of that information, subject to the same rights, privileges obligations and liabilities under Subsection (2) and (3), as if he were an officer.

(6) For the purposes of Subsections (2) and (5), an officer or other person shall be deemed to have communicated the information referred to in those subsections to another person in contravention of those subsections if he communicates that information to any Minister.

(7) An officer shall, if and when required by the Commissioner General or an Assistant Commissioner to do so, make an oath or declaration, in the manner and form prescribed, to maintain secrecy in conformity with the provisions of this section.

Penalty: For the breach of any of the provisions of this section, a fine of K10,000.00 or imprisonment for a term of 12 months.

Stakeholder Discussions

It is the view of the IRC that these Provisions would prevent them disclosing tax payer information for EITI Reporting purposes. The IRC further indicated that these confidentiality provisions may be waived if a taxpayer writes to the IRC and provides them with permission to provide information to the Administrator for EITI reporting purposes. The waiver would need to stipulate the correct level of aggregation of data to be disclosed.

Customs was of the view that taxpayer information could be disclosed as it provided taxpayer numbers as per Sub Appendix 13.1. This is inconsistent with the IRC view.

Key Findings and Recommendations	
Tax Payer Confidentiality	Section 9 of the Income Tax Act prevents disclosure of taxpayer information, however a properly drafted waiver may be allow the IRC to disclose data to the Administrator and in the EITI Report.

(Table continued on next page)

[1] Section 9 Subsection (4) amended by No. 22 of 2004, s. 2.

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Key Findings and Recommendations	

Tax Payer Confidentiality (cont.)	<u>Recommendations</u>
	
	1. The Government may wish to consider introducing legislation or policy that enables the disclosure of tax payer information for EITI purposes. In the absence of enabling legislation, policy or an updated MOU signed by all known material companies, a waiver will need to be drafted and provided to the companies for their consideration. The waiver will need to consider such matters as:
	• Level of aggregation of data including:
	  ○ Entities that will disclose
	  ○ Types of tax payments that will be disclosed or in aggregate
	• Whether the waiver applies for a particular period or indefinitely
	
	If waivers are opted for rather than change in legislation, the PNG MSG will need to decide if sufficient alternative data exists (e.g. license information from MRA or DPE) to select resource taxpayers.
	
	2. A survey of companies will need to be undertaken with their permission to determine the relevant legal entities that will report.

18.3 Reconciliation and compilation of data

<u>Receipt Data</u>

Government receipt data is reconciled and compiled on an ad-hoc basis.

Department	Description
Finance	Reconciliation of Trust bank accounts to receipts and Royalty and Development Levy data is currently not occurring on a regular and systematic basis.
Department of Petroleum and Energy	Reconciliation and compilation of receipt, production and export data is not undertaken on a regular basis
IRC	Reconciliation of bank accounts to receipts and tax payer accounts is currently not occurring on a regular and systematic basis.
MRA	We have been unable to determine if receipt, production and export data is reconciled or compiled on a regular basis as we have not yet received any receipt data.
IPBC	The MRDC have yet to be engaged in the EITI process. The IPBC will need to collate the relevant payments streams such in particular dividends.
MRDC	The MRDC have yet to be engaged in the EITI process. Per our discussions with MRDC they have not yet collated the necessary data to participate in the EITI
Landowner organisations	Landowner organisations are not currently engaged by the PNG EITI MSG. We have not contacted landowner organisations.
Provincial and Local Level Government organisations	Sub-National Government entities are not currently engaged by the PNG EITI MSG. We have not contacted Sub-National organisations.

The collation of data for the Papua New Guinea context is quite challenging due to the significant number of entities receiving petroleum revenues on behalf of the Government. This differs significantly to other EITI compliant countries such as Norway or Timor-Leste where most royalty and taxation receipts are received via a sovereign wealth fund.

Production Data
The companies produce production data. The MRA and DPE do not compile production data on a regular basis.

Key Recommendation	
Receipt Data	Where extractive industry revenues are being received, bank accounts should be reconciled at least on a monthly basis. All receipts data, production and export should then be compiled in terms of the EITI standard.
Provincial and LLGs collation of data	The EITI will need to consider if it wishes to engage with Provincial and LLGs. If provincial and LLGs are included in scope either for the first EITI report or subsequent reports, these entities will need to collate the necessary to report to the Administrator.
Production and Export Data	The MRA and DPE should introduce standard operating procedures with respect to the collation of production and export data.

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Appendix 19: Funds Established

	Terms of Reference	Link to EITI Standard
15.	**Issue requiring specific attention** The consultant should provide a summary of funds established and/or mandated by existing rules and regulations for the extractive industries.	

Current Funds Established

Sector	Name	Description
Oil and Gas	Multiple Trust Funds	Trust Funds set-up to receive Royalties and Development Levies managed by the Department of Finance
Mining	MRA Trust Funds	Holds Royalties under dispute.
	Mine Trust Funds	There are variety of funds established to receive royalties, dividends and compensation payments for landowners, provincial and local governments. *An Example:* As of 2013 the following funds were established to receive dividends from Ok Tedi Mining Limited • PNGSDP • MROT No 2 Ltd • MRSM Ltd • Western Province Non-CMCA Region People Dividends Trust Account • Western Province CMCA Region Peoples Dividends Account The Ok Tedi Landowners Royalty Investment Trust was established to receive Royalties for Landowners. Other mines have other Trust fund arrangements such as those set-up through MRDC below.
Mining, Oil and Gas	MRDC	Multiple entities to hold Landowner Royalty and Equity Shares for provincial Government
	Consolidated Fund	Receives Dividends from State owned corporations such as Ok Tedi Mining Limited and Petromin in addition to taxation, customs receipts
	IPBC	Equity Holdings in Oil Search and Highland Pacific Equity Holdings for Government of NPCC (Relevant from the year ended 2014)

Other Proposed Measures

In March 2013, the PNG Government announced a number of measures aimed at restructuring and consolidating the State's petroleum (and other) investments. This included a proposal to establish Kumul Petroleum Holding Limited (Kumul Petroleum). Kumul Petroleum is envisaged to be a State-controlled commercial enterprise that principally participates in the conduct of oil and gas activities, including midstream and downstream activities as the sole nominee of the State. The State will be permitted to nominate Kumul Petroleum to acquire assets and interests in petroleum projects directly, or through subsidiaries for the purposes of the OGA. The proposal now appears to have changed to the extent that it is proposed that NPCP will change its name and take up this role.

There have been various other proposals that might result in different outcomes that may impact on EITI Reporting after 2013.

Sovereign Wealth Fund Proposed

There are current proposals for a Sovereign Wealth Fund to be established to receipt significant extractive industry (particularly LNG) revenue inflows. Some legislation has been passed with further legislative amendments planned. An administrative structure has been set up to manage the fund and detailed proposals on the manner in which the SWF will operate within the framework of the Department of Treasury and its budget processes have been released.

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Appendix 20: Schedule and Regularity of Data Generation

	Terms of Reference	Link to EITI Standard
16.	**Issue requiring specific attention** The consultant must also provide information on the schedule and regularity of data generation and reporting by government agencies and industries.	

Type of Data	Government	Industry
Receipt Data	Government currently compiles receipts data on an ad-hoc basis.	Companies are required to account for corporate purposes in accordance with tax law, corporations' law and their head office reporting requirements. The EITI in PNG will be on a cash basis while most corporate accounting is undertaken on an accruals basis, so a separation data compilation exercise will need to be undertaken by each reporting company. The difficulty in compiling this data will depend on each company's systems and processes.
Production data	Government currently compiles production data on an ad-hoc basis.	Corporations are required to report internally on production volumes on a monthly basis. This data is reported to MRA on an ad-hoc basis.
Social Payments data	MRA receives social payment data for two entities. Going forward they are committing social payment reporting from all companies. DPE does not maintain a record of Social Payments.	Some companies generate and separately report social payment data on a quarterly or annual basis to stakeholders.

Key Recommendation	
Publish What You Pay	The MRA and DPE may wish consider establishing a "publish what you pay" portal that enables either the regulatory authorities or the extractive companies to publish key monthly statistics of respective mining and petroleum projects on a web based portal. Data could include payments, production statistics and social obligation payments. Alternatively the companies can remit the data to the regulatory authorities separately which must be compiled on a regular basis in accordance with Standard Operating Procedures.

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Appendix 21: Data Quality

	Terms of Reference	Link to EITI Standard
17.	An examination of the availability and reliability of data for EITI reporting purposes should also be provided. In accordance with EITI Requirement 5.2(b), the consultant should examine the audit and assurance procedures in companies and government entities that are likely to participate in the EITI reporting process, including the relevant laws and regulations, any reforms that are planned or underway, and whether these procedures are in line with international standards. The consultant should provide a description of revenue payment and collection systems and any gaps in data collection processes that might have an impact on the credibility of the EITI Report and measures to address these gaps. In accordance with EITI Requirement 5.2(c), the consultant should provide recommendations relating to auditing practices and propose assurances to be provided by the reporting entities to the Independent Administrator.	

Company assurance processes

With specific reference to sec 171(1) of the Companies Act 1997, the basic requirements are as follows:

If the company's total assets exceed K5 million OR the company has more than 25 shareholders OR the company has more than 100 employees at any time during the financial year, the company would usually require an audit. However, if the shareholders agree that an audit is not required, and the company has not tripped all three of the abovementioned thresholds, then an audit would usually not be required. There are however exceptions to this exemption, and that is that the following types of companies, even if they do not normally meet the thresholds for audit, would have to be audited in any event:

- A company that has registered a prospectus with the Registrar of Companies and that has allotted shares, debentures, or other interests pursuant to that prospectus
- A subsidiary of a company that has to be audited in terms of the Companies Act (i.e. if the parent company is not exempt from audit neither would the subsidiary be)
- A subsidiary (or branch) of an overseas company.

These exceptions to the exemption rule would also cascade down to subsidiary companies and their subsidiaries.

Therefore generally all mining and petroleum companies will be audited under the Corporations Act or will be audited for group reporting purposes (i.e. is a subsidiary of a US or Australian listed entity).

Limitations of corporate audits with regards to the EITI.

Corporate audits are generally done on financial statements prepared on an accruals basis (i.e. International Financial Reporting Standards or US General Accepting Accounting Principles). The data submitted for EITI purposes is generally to be prepared on a cash basis and is not required to be audited under for Corporation Law or group reporting purposes. The underlying controls and processes that produce the EITI data submitted may be audited as a part of a corporate audit but generally there will not be any specific requirements to audit this information. This is not inconsistent with practices in many other jurisdictions as it is not necessarily practicable for companies to engage auditors to undertake audits just for EITI purposes unless enabling legislation exists.

Government assurance processes

The Government publishes:

- an annual Budget Strategy Paper, which is to assist the understanding of the fiscal situation and the Government's proposed Budget strategies;
- a Mid-year Economic and Fiscal Outlook report, released by the end of July each year, which provides an update on the fiscal and economic forecasts in the Budget; and
- a Final Budget Outcome report within three months of the end of the financial year that includes annual expenditure

The Auditor General Publishes its reports to Parliament, but is not currently up-to-date on all of its audits.

http://www.ago.gov.pg/reports.html

Royalties and Levies, particularly those received for Oil and Gas are held in Trust. The category, number and balance of Trust Accounts in use could not be reliably identified as highlighted by the Auditor General. Additionally, Trust Account Spending has not been incorporated into State Budget Expenditure.

http://www.ago.gov.pg/docs/reports/2014/Report_No4_ManagementReportingTrustAccounts.pdf

Limitations of Government Audit Processes with respect to PNG EITI

Receipts

- Not all trust accounts receiving oil and gas royalties and development levies are audited. Specifically we were informed by Treasury that the Future Generations and Infrastructure Trusts were not audited.
- Mining royalties are paid directly to landowners which are not audited in many instances.
- Per our discussions with the Auditor General's office there are significant challenges obtaining extractive industry receipts data from the Provincial Governments to enable effective audits
- Per our discussions with the Auditor General's office there is limited audit activity at a Local Level Government.

Production

The Government does not independently audit production figures for resource companies.

Auditing of State Owned Enterprises

Ok Tedi Mining Limited and Petromin are audited externally by independent external auditors. MRDC are audited by the Auditor General of PNG and at the time of drafting this report, the financial reports and audit reports were not yet issued.

With potential restructures of SOE's, is it unclear what financial reporting and governance mechanism will be place moving forward.

<table>
<tr><th colspan="2">Key Recommendation</th></tr>
<tr><td>Senior Officials to sign-off on reporting templates</td><td>The reporting templates will need to be certified as being accurate by:
For reporting companies - a senior executive of the mining and petroleum companies
For reporting government agencies - a senior government official of the agency</td></tr>
<tr><td>Audit Scoping</td><td>All extractive industry receipts should be audited in accordance with International Standards on Auditing or an appropriate equivalent standard. The Auditor General in conjunction with the relevant agencies should undertake a survey on key bank accounts receiving extractive industry funds to ensure these are part of the reconciliation process.</td></tr>
<tr><td>Verification of Production and mandatory social payments</td><td>If enabling legislation, contracts and budgets allow, DPE and MRA may wish to consider performing independent verifications of production statistics. Options could include such things as:
Verifying flow meter calibrations are maintained for oil and gas projects following extraction, will in transit at pipelines and at point of shipment
Engaging independent quantity surveyors to review tonnage data at mine sites
Verifying the implementation of a sample of mandatory social payment projects</td></tr>
<tr><td>Improvement in Government revenue processes</td><td>The initial reporting government agencies have underdeveloped processes and capability to manage the relevant EITI processes as outlined above.

The work plan will need to consider these limitations while undertaking the EITI process. Particular focus will required as follows:

<table>
<tr><th>Entity</th><th>Issues to be addressed</th></tr>
<tr><td>Department of Petroleum and Energy</td><td>A royalty and levy return process will need to be created including a standardised royalty and levy return format.
A statement of royalties and levies received should be compiled
A single designated bank account should be created for all Royalties
Royalties and Levies Receipts should be audited annually in accordance with International Standards of Auditing (or local equivalents) by the Auditor General or an Independent Auditor</td></tr>
<tr><td>Department of Finance</td><td>The Department of Finance in conjunction with Treasury will need to identify all bank accounts that receive Royalties and Development Levies. There may be other bank account receiving extractive industry funds not identified by this report, Finance needs to be identifying these bank accounts and report these to the EITI MSG and the Independent Administrator once appointed.
Department of Finance is a key link in the re-distribution of amounts to Sub-Nationals. The amounts paid out to Provincial Governments and any other subnational governments entities will need to be compiled for EITI purposes.</td></tr>
</table></td></tr>
</table>

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Appendix 22: Comments on Work Plan

	Terms of Reference	Link to EITI Standard
	Examine the MSG's existing work plan and advice on any revisions necessary to make it compliant with the new Standard, plus other options for improvement. The consultant is expected to review any reports or minutes of meetings that have been produced by the MSG to see the progress made in achieving the objectives of the existing work plan and review any actions undertaken by the MSG to address pertinent issues and challenges encountered thus far. This will allow for a clear understanding of the objectives and scope of the PNG EITI implementation.	N/a

22.1 Reporting Periods

EITI Requirement	
2	**The EITI requires timely publication of EITI Reports.** ***Overview*** *– EITI Reports are most useful and relevant when published regularly and contain timely data. Requirement 2 establishes deadlines for timely EITI Reporting.* 14.3 Implementing countries are required to produce their first EITI Report within 18 months of being admitted as an EITI Candidate. Thereafter, implementing countries are expected to produce EITI Reports on an annual basis. 14.4 EITI Reports must cover data no older than the second to last complete accounting period, e.g. an EITI Report published in calendar/financial year 2014 must be based on data no later than calendar/financial year 2012. Multi-stakeholder groups are encouraged to explore opportunities to publish EITI Reports as soon as practically possible. In the event that EITI reporting is significantly delayed, the multistakeholder group should take steps to ensure that EITI Reports are issued for the intervening reporting periods so that every year is subject to reporting. 14.5 The multi-stakeholder group is required to agree the accounting period covered by the EITI Report.

The MSG will need to select either the year ended 31 December 2013 or 2014 as the reporting period for the first EITI report. This choice will impact on a number of things including:

- Reporting entities (Government and Companies)
- Reporting templates
- The reporting deadline
    - for a reporting period of 31 December 2013 the deadline is 31 December 2015
    - for a reporting period of 31 December 2014 the deadline is 18 March 2016

22.2 Establish the PNG EITI Secretariat

The PNG EITI Secretariat is yet to be established. The role of the PNG EITI Secretariat includes liaising with key stakeholders, arranging outreach activities, procuring and assisting the PNG EITI Administrator and EITI reporting. Finalising the creation of the Secretariat and providing it with appropriate resources will be important for the successful completion of EITI reporting.

22.3 Approval of Templates

Templates are not yet finalised and will need to be approved by the MSG.

22.4 MRDC Participation

Observation

Initial scoping indicates that MRDC will be a reporting entity as it receives royalties due to the State, but managed by MRDC on behalf of landowners and provincial government.

Recommendation

Consideration should be given to inviting MRDC as a member of the MSG.

22.5 Landowner Participation

Observation

Initial scoping indicates that landowners and landowner organisations receive significant amounts of royalties due to the State, directly from companies. Deloitte appreciates the significant challenges and resources required to liaise with landowners, landowner groups and associations.

Recommendation

Consideration should be given to involving landowners in the EITI process, either for the first report or subsequent reports. This should be further explored by the MSG and reflected in the work plan.

22.6 Sub-National Government Participation

Observation

Initial scoping indicates that Provincial and Local Level Government organisations receive significant amounts of royalties due to the State directly from companies. Deloitte appreciates the significant challenges and resources required to engage Sub-National entities.

Recommendation

Consideration to involving Sub-National entities in the EITI process, either for the first report or subsequent reports, should be further explored by the MSG and reflected in the work plan.

22.7 Oil and Gas Development Levies

Observation

Oil and Gas Development Levies are paid in arrears in accordance with the Oil and Gas Act. This will provide a significant inflow of funds to provincial and local governments when due.

Recommendation

The work plan and reporting templates will need to reflect that development levies for PNG LNG will only be due in accordance with the requirements of the Oil and Gas Act and not earlier, particularly if 2014 is the chosen reporting period. The following should be undertaken:

- Approve reporting templates
- Procure the administrator to do the work
- As this is the first report the administrator may need quite a lot of time to confirm data depending how familiar they are with PNG EITI, it will not be an easy process at first.

22.8 Outreach Programs

Observation

Civil Society Organisations, Government and some companies are still very new to the EITI process and their understanding of Government and Industry practices vary significantly from organisation to organisation.

Recommendation

The work plan should reflect increased outreach activities to Civil Society Organisations, Government and Companies.

22.9 Civil Society Organisation Representation

Observation

The Civil Society Organisations on the PNG MSG are:

- Business Against Corruption Alliance
- Consultative Implementation and Monitoring Council
- Institute of National Affairs
- PNG Council of Churches
- Transparency International PNG
- Papua New Guinea Mining Watch Group Association Inc.
- EcoForestry Forum

Recommendation

The PNG MSG should consider liaising with the EITI International Secretariat to determine if the CSOs on the MSG represent broad community representation particularly across the provinces of PNG.

Appendix 23: Key Findings and Recommendations

23.1 Reforms of Law and Disclosure Practices (Appendix. 4.5)

Finding	Recommendation
Mining and Petroleum Contracts are not publically disclosed In the absence of approval from Government and Companies, Government legislation, policy and practice provides restrictions on the public disclosure of mining and petroleum contracts.	The Government may wish to consider introducing legislation or policy that enables the disclosure of contracts. In the absence of enabling legislation and policy, appropriately authorised officials of the state and companies may wish to consider agreeing to disclose contracts for EITI purposes.

23.2 Proposed restructures and current arrangements (Appendix. 7.2)

Finding	Recommendation
State owned enterprises and funding arrangements **EITI Requirement 3.6 provides "***Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:* a) *An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and*	Treasury will need to disclose third party funding arrangements for mining, oil and gas projects including the PNG LNG project. The level of disclosure should be agreed by the MSG and where necessary consultation with the EITI Secretariat may be required as this is a new disclosure requirement under the revised standard.

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third-party financing.	

(Table continued on next page)

Proposed restructures and current arrangements (Appendix. 7.2) (cont.)	
Finding	**Recommendation**
b) Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing. The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures. *c) Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. full-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.* There are funding mechanisms in place for PNG LNG and Petromin's stake in Eda Oil (and potentially Solwara). The PNG LNG funding is not currently being separately reported through the Budget.	

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23.3 EITI Requirement 3.8 (Appendix. 8.2)	
Finding	**Recommendation**
Royalties not paid to the State In the Mining sector there are many instances where companies pay Royalties directly to the landowners (or landowner representative organisations) and provincial governments in accordance with benefit sharing agreements. Per the *Papua New Guinea Mining Policy:* *Mineral Royalty* *(a) All mineral royalties from mining in the PNG jurisdictions belong to the State as the sovereign owner of all minerals in PNG,* *(b) The holder of a mining lease is liable to pay a royalty to the State equivalent to 2% of the net proceeds of sale of minerals (calculated as net smelter return or f.o.b. export value, whichever is appropriate),* *(c) The State may elect to retain its right to royalty or to distribute it between the provincial government of a mine host province and the landholders of the land upon which the mineral resource is mined,* *(d) Where royalty is offloaded by the State, the landholders are entitled to at least 20% of the total amount of royalties paid to the State.*	The MSG will need to decide if mining royalties are to be reconciled in the First EITI Report in accordance with EITI Requirement 4.1. The following factors may be considered: • The practicality of reconciling receipts with Landowners (or landowner representative organisations) • Although not directly reconciling receipt flows, it might be more practical to reconcile payments made by companies to royalty data submitted returns to MRA (as the regulator for Mining) by companies. The MSG may consider seeking feedback from the EITI International Secretariat if in their view this satisfies the Requirement of the standard or if royalties not directly received by Government should be scoped out for the PNG EITI. According to discussions with MRA, in the Mining Sector, there are only a limited number of clan groups (approximately 40) that are paid. It may be practical to report payments made to clan reports, but reconciling payments made to lower levels would be difficult.
Compilation and Reconciliation of Receipt Data <u>Oil and Gas Royalties</u> Up until the beginning of the PNG LNG project Oil and Gas Royalties were paid via the Department of Petroleum and Energy. The PNG LNG project begun production in 2014 and Royalties are now paid through Ministry of Finance Trust Accounts. We have been unable to obtain compiled receipt data Royalty Data to date for 2013 or 2014 year to date.	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.

(Table continued on next page)

EITI Requirement 3.8 (Appendix. 8.2) (cont.)	
Finding	**Recommendation**
Compilation and Reconciliation of Receipt Data Oil and Gas Development Levies Oil and Gas Development Levies are paid to the Ministry of Finance. We have been unable to obtain compiled receipt data for Oil and Gas Development Levies for any period.	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.
Compilation and Reconciliation of Receipt Data Reconciliation of taxation deposits The IRC compiles taxpayer data through its two taxpayer software systems, SIGTAS and RAMS. There are various bank accounts where receipts are deposited that need to reconcile with taxpayer software systems. The deposit reconciliations (bank reconciliations) are not kept up-to-date.	Bank reconciliations should be kept up-to-date so that extractive industry taxpayer data can be compiled for EITI Purposes.
Compilation and Reconciliation of Receipt Data Mining Royalty Data – Future Generations and Infrastructure Trusts In certain instances Mining Royalties are paid to Finance Trust Accounts, specifically for Future Generations and Infrastructure Trusts. We were unable to obtain receipts royalty data paid into these trusts. We were also informed that these Trusts are not audited. The following mining projects have (or will soon have) these trust arrangements: • Ok Tedi • Porgera • Sinivit • Ramu • Simberi	Receipts should be compiled for EITI purposes. Where necessary bank reconciliations should be kept up-to-date to enable accurate data compilation.
Compilation and Reconciliation of Receipt Data NPCP Per our discussions with management, NPCP is yet to receive material equity receipts or to issue an annual report.	Receipts will need to be compiled by NPCP when these receipts are received.

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23.4 Completeness and Timeliness of License Allocation data (Appendix. 9.2)	
Finding	**Recommendation**
Register of Licenses - MRA We were informed that the Online Transactional Mining Cadastre Portal (OTMCP) contains sufficient detail to comply with EITI Requirement 3.9. However we were unable to access the Portal and we were informed that only registered mining companies are allowed to register and access the website due to confidentiality reasons. Per our discussions with MRA current legislation doesn't allow the MRA to disclose information other than what is currently included in the online web map http://portal.mra.gov.pg/Map/ The portal provides information consistent with EITI Requirement 3.9 other than the commodity being produced as required by 3.9b iv.	The MRA may consider updating the portal to include 3.9b iv. However, this is not essential to the meet the EITI requirement. In accordance with the EITI Board notes with respect to this requirement, trivial information missing will not result in this Requirement being assessed as not being met. Additionally, other publically available information exists as to the commodities being extracted by each operator is available.
Register of Licenses - Department of Petroleum	The official register is recorded manually (written) in paper ledgers. This ledger is not organised sequentially on the basis of license numbers. New entries are made when applications are made. There is another spreadsheet maintained that lists license information as per This spreadsheet is updated on an ad-hoc basis. The current registry would need to be populated with the necessary information as stipulated by Requirements 3.9 and 3.10 and included in the EITI report. In the absence of a secure electronic system sufficient controls should be implemented to ensure that the integrity of the spreadsheet's data is maintained. It is envisaged that this spreadsheet will be attached the EITI report.
License Allocations and Deviation from Legislation - MRA	Currently the Portal does not include information on the technical and financial criteria used to award a license nor non-trivial deviations from the applicable regulatory regime in awarding licenses. Development agreements allow for deviations from the legal and regulatory agreement and this information is included in official gazettes (statutory instruments)

(Table continued on next page)

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Completeness and Timeliness of License Allocation data (Appendix. 9.2)	
Finding	**Recommendation**
License Allocations and Deviation from Legislation – MRA (cont.)	<u>Recommendation</u> The information will need to be collated for the first EITI Report
License Allocation Process -DPE	Currently there is no publically available information on the technical and financial criteria used to award a license nor non-trivial deviations from the applicable regulatory regime in awarding licenses. Development agreements allow for deviations from the legal and regulatory agreement, this information is included in official gazettes (statutory instruments) The license registers are paper based and supplemented by spreadsheets. Requirement 3.10 requires disclosure of certain key information that is not currently included in the spreadsheet. There is currently a compliance review being undertaken to check the registry for three things: • Reporting requirements being adhered to • Work programs being implemented and valid • License fees being paid At this early stage of the compliance review 50% of all licenses appear to not comply with work program requirements of the Oil and Gas Act and Regulations. <u>Recommendation</u> The DPE may wish to consider implementing an online cadastral system suitable for use in the Oil and Gas industry. This register should be publically available. The impact of system implementations should be fully assessed and costed prior to making a decision to implement such a system. In absence of such a system, the spreadsheet will need to be populated with the appropriate data for the EITI Report.

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<table>
<tr><th colspan="2">23.5 Analysis of Revenue Streams (Appendix. 11.0)</th></tr>
<tr><th>Finding</th><th>Recommendation</th></tr>
<tr><td>Mining Royalties
Practically, it will be difficult to match royalties from companies to the various recipients. In particular, landowners and landowner groups are spread throughout PNG where there are genuine outreach, security, time and logistical constraints with respect to accessing these areas.</td><td>The mining companies should disclose which groups they pay mining royalties to. Using Porgera as an example, the following could be reported:
Provincial Government
Development Authority
Small landowners
Future Benefits Trusts
Landowners Association
Other.
Initially these should be unilateral disclosures by companies.</td></tr>
<tr><td>Mandatory Social Payments
MRA and DPE do not compile mandatory social payments on an industry-wide basis.</td><td>The mining and petroleum companies will need to collate the mandatory social payments. For example the following could be reported:
Compensations to landowners
General Compensation
Environmental Compensation
Community relocation
Land compensation (Leases)
Education Payments
Scholarships
University Sponsorships
Other training costs
Infrastructure Development
Tax Credit Scheme
Other Infrastructure Development Programmes
Community Development Programs
Business Development Programs
Health Programs
Townships development.
Initially these will be unilateral disclosures by companies.</td></tr>
<tr><td>Voluntary Social Payments
MRA and DPE do not compile voluntary social payments for all companies. Companies report social payments to stakeholders in a variety of different forums. Companies often do not distinguish between mandatory and voluntary social payments.</td><td>The mining and petroleum companies may consider disclosing voluntary social payments. For example the following could be reported:
Voluntary Sponsorships
Voluntary education payments
Voluntary Infrastructure development
Infrastructure tax credits
Other Infrastructure Development Programmes</td></tr>
</table>

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Analysis of Revenue Streams (Appendix. 11.0)	
Finding	**Recommendation**
Voluntary Social Payments (cont.)	• Health • Other Voluntary Corporate Social Responsibility programs. Initially these will be unilateral disclosures by companies.

23.6 Stakeholder Feedback (Appendix. 17.0)	
Finding	**Recommendation**
Sub-National Government entities that are not currently listed should be included in the First EITI Report	Per the *NEFC 2013 Budget and Fiscal Report* the following sub-national entities receive extractive industry payment streams: • Western Province • Gulf • Central • South Highlands • Enga • Morobe • New Ireland The NEFC report does not make a distinction between direct or indirect payments. We note that Madang did not yet receive any royalties but should be included as royalties from Ramu Nickel mine.
Disclosure of benefits sharing formulas There are a number of benefit sharing formulas for mining and petroleum projects.	The Government will need to collate and compile the revenue sharing formulas for each project in accordance with 4.2(e).
Disclosure of benefit sharing transfer amounts The amounts transferred between the National Government and the Sub-National Governments are compiled on an ad-hoc basis. The last published report from the NEFC utilised figures compiled from 2011. The transfer of benefits between the National and Sub-National Governments largely occurs in the Petroleum Sector.	The amount of funds transferred between the National Government and the Provincial and Local Governments will need to be compiled and disclosed in the First EITI report. To enable consistency with the Mining Sector benefit sharing transfers from Trust accounts to other beneficiaries should potentially be disclosed as follows: • Provincial Government • Local Governments

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Stakeholder Feedback (Appendix. 17.0)	
Finding	**Recommendation**
Disclosure of benefit sharing transfer amounts (cont.)	• Development Authorities • Small landowners • Future Benefits Trusts • Landowners Associations • Infrastructure Development Grants • Business Development Grants
Involvement of Provincial Government Provincial Governments have yet to be engaged by the PNG MSG.	The provincial governments that receive extractive industry receipts should be invited to participate in the PNG EITI. Consideration should be given to including the provincial governments on the PNG MSG. Outreach efforts may be required in terms of education at a provincial level.
Involvement of Local Level Government We were unable to obtain data as to what amounts Local Level Governments (LLG) received in payment streams from extractive industry companies. It is our understanding that the most material payments streams relate to direct or indirect receipts of dividends, development levies, development levies and royalties.	Department of Finance and Treasury should compile payments made to local governments with respect to the re-distribution of extractive industry receipts. It would not likely be practical to reconcile LLG receipts in the first EITI report due to the potential high number of LLGs receiving funds, their remote locations and their limited capacity to participate. The MSG should consider how to scope these receipts and engage with a select group of LLGs for subsequent EITI reports.

23.7 Confidential Contractual Information (Appendix. 18.1)	
Finding	**Recommendation**
Mining and Petroleum Contracts are not publically disclosed. In the absence of approval from Government and Companies, Government legislation, policy and practice provides restrictions on the public disclosure of mining and petroleum contracts.	The Government may wish to consider introducing legislation or policy that enables the disclosure of contracts. In the absence of enabling legislation and policy, appropriately authorised officials of the state and companies may wish to consider agreeing to disclose contracts for EITI purposes.

23.8 Confidentiality of tax payer data (Appendix. 18.1)	
Finding	**Recommendation**

Tax Payer Confidentiality
 	
Section 9 of the Income Tax Act prevents disclosure of taxpayer information; however a properly drafted waiver may allow the IRC to disclose data to the Administrator and in the EITI Report.
	The Government may wish to consider introducing legislation or policy that enables the disclosure of tax payer information for EITI purposes. In the absence of enabling legislation, policy or an updated MOU signed by all known material companies, a waiver will need to be drafted and provided to the companies for their consideration. The waiver will need to consider such matters as:
	
	• Level of aggregation of data including:
	    ○ Entities that will disclose
	    ○ Types of tax payments that will be disclosed or in aggregate
	• Whether the waiver applies for a particular period or indefinitely
	
	If waivers are opted for rather than a change in legislation, the PNG MSG will need to decide if sufficient alternative data exists (e.g. license information from MRA or DPE) to select resource taxpayers.
	
	A survey of companies will need to be undertaken with their permission to determine their legal entities that will report.

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Appendix 24 Glossary

Terminology	Meaning:
Alluvial Mining	The process of alluvial mining involves digging and sifting through mud, sand and gravel using shovels, sieves, or even bare hands. Commonly known as artisanal and Small Scale Mining.
British thermal unit (BTU or Btu)	Traditional unit of energy equal to about 1055 joules. It is the amount of energy needed to cool or heat one pound of water by one degree Fahrenheit. In science, the joule, the SI unit of energy, has largely replaced the BTU.
Christmas Tree	The assembly of fittings and valves on the top of the casing which control the production rate of oil
Condensate	Natural-gas condensate is a low-density mixture of hydrocarbon liquids that are present as gaseous components in the raw natural gas produced from many natural gas fields. It condenses out of the raw gas if the temperature is reduced to below the hydrocarbon dew point temperature of the raw gas. The natural gas condensate is also referred to as simply condensate, or gas condensate, or sometimes natural gasoline because it contains hydrocarbons within the gasoline boiling range. The heavier natural gas components, such as pentane, hexane, iceptane and so forth, which are liquid under atmospheric pressure, also called natural gasoline or naphtha.
Downstream	The selling and distribution of products derived from upstream activities.
Equity	In a Papua New Guinea context equity generally refers to a share of project as a joint/co venture partner in a project
Feasibility study	A feasibility study is an evaluation of a proposed project to determine whether and how it can be mined economically. Detailed Feasibility Studies extend the evaluation to determine the maximum profit or most secure profit to be obtained and provide a blue print for implementation.
Fiscal Incentive	A monetary incentive provided by way of legislation or contract by a Government to a company that incentivises it to invest or undertake business. A non-fiscal incentive might be an incentive that is non-monetary in value that incentivises it to invest or undertake business.
Fraser Institute survey	The Fraser Institute has conducted an annual survey of mining and exploration companies to assess how mineral endowments and public policy factors such as taxation and regulation affect exploration investment. Survey results now represent the opinions of executives and exploration managers in mining and mining consulting companies operating around the world. The survey includes data on 112 jurisdictions worldwide, on every continent except Antarctica, including sub-national jurisdictions in Canada, Australia, the United States, and Argentina. The Fraser Institute is an independent non-partisan research and educational organization based in Canada.
Upstream	Includes the searching for potential underground or underwater oil and gas fields, drilling of exploratory wells, subsequent operating wells which bring the liquids and or natural gas to the surface.
Royalty	A percentage interest in the value of production from a lease that is retained and paid to the mineral rights owner.

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Appendix 25 The EITI Glossary

https://eiti.org/glossary

Terminology	Meaning:
Accountability	The obligation of an individual or organisation to account for its activities, to accept responsibility for them, and to disclose the results in an open manner.
Aggregation	A method of reporting which consolidates payments made by individual companies. This prevents individual company payments or government revenues being identified in a published EITI Report. Aggregation can also refer to the consolidation of different types of payments or revenues received so that individual payments or revenue streams cannot be identified.
Annual activity report	The annual activity report communicates the efforts a country implementing the EITI has undertaken during a specific year to meet and/or maintain compliance with the EITI Requirements. The report includes the progress made in achieving the objectives set out in the country's work plan and examples of the impact of the EITI in a particular year. The multi-stakeholder group is required to publish the annual activity report (Requirement 7.2) for a specific year no later than 1 July of the following year.
Artisanal mining	Mining activity carried out by persons or groups not employed by a mining company, but working independently, using their own resources.
Auditor	An organisation, typically an independent audit firm, licensed or otherwise certified to provide financial audits and related services by professional standards or chartering authority for auditors within a designated legal jurisdiction. In EITI context, the auditor is typically charged with the responsibility of inspecting the financial accounts and other information held by those companies and/or government agencies involved in the extractive industries, for purposes of ascertaining whether such accounts and information are accurately recorded and reported.
Barter	An agreement between an extractive company and the government where the company uses non-monetary exchange (usually infrastructure) for a country's natural resources. The resources involved may include exploration or production rights for oil, gas, and minerals, and other elements such as access to land, energy and water resources. The infrastructure projects may include railways, roads, ports, power plants, schools and hospitals. These agreements are also called: "infrastructure provisions", "barter agreements", and "minerals for infrastructure"deals.
Beneficial ownership	Describes the 'natural' person(s) who, directly or indirectly, ultimately own(s) or control(s) a corporate entity, a license or other property.
Brent crude	A major trading classification of sweet light crude oil comprising Brent Blend, Forties Blend, Oseberg and Ekofisk crudes (also known as the BFOE Quotation). Brent Crude is sourced from the North Sea. The Brent Crude oil marker is also known as Brent

Terminology	Meaning:
	Blend, London Brent and Brent petroleum.
Cadastre	An official register of oil, gas and mining licenses. These registers often include information such as the name of the company holding the license, the duration of the license and coordinates of the license area.
Candidate country	A country that has fully, and to the satisfaction of the EITI Board, completed the four sign-up steps set out in the EITI Standard. EITI Candidature is a temporary status that is intended to lead, in a timely fashion, to compliance with the EITI Requirements. When the EITI Board admits an EITI Candidate, it establishes deadlines for publishing the first EITI Report and undertaking Validation. The first EITI Report must be published within 18 months and Validation must commence within two and a half years.
Civil society organisation	Non-governmental organisations such as trade unions, issue-based coalitions, faith-based organisations, indigenous people's movements, the media, think tanks and foundations. The term civil society organisation is abbreviated with "CSO".
Compliant country	A country is designated as Compliant when the EITI Board considers that it has met all of the EITI Requirements. Compliant countries must undergo Validation every three years or upon the request from the EITI Board. Compliance with the EITI Requirements does not necessarily mean that a country's extractive sector is fully transparent, but that there are satisfactory levels of disclosure and openness in the management of the natural resources, as well as a functioning process to oversee and improve disclosure.
Contextual information	Refers to the requirement in the EITI Standard to provide information about the extractive sectors that allows the reader to understand the figures disclosed in an EITI Report.
Cost oil	Oil (or gas) produced that is shared with the contractor at a defined valuation, in accordance with a formula specified in the relevant production sharing contract. This enables the contractor to recover the costs spent on a project by the contractor.
Country Work plan	An action plan agreed by the national multi-stakeholder group. This includes the objectives and priorities for EITI implementation and associated activities.
Crude oil	Oil that is not treated or refined
Delisting	When a country is no longer recognised as implementing the EITI due to failure of adhering to the EITI Requirements or if the country's political environment makes the EITI process impossible.
Depletion allowances	An allowance that is deductible when calculating tax liabilities or when reporting financial profits (depending on the context). It relates to the depletion of an asset in the ground. The costs of producing wells and facilities, and the costs of leases are gradually written off over the life of an oil field or mineral deposit. The annual depletion allowance is calculated by relating the production for the year to the total producible reserves at the beginning of the year.

Terminology	Meaning:
Disaggregation	A method of reporting by which individual company payments made to a government are disclosed and can be identified separately. It can also refer further to reporting individual types of payments, so that each payment type (royalty, tax, etc.) can be identified.
Dividend	A payment to a partner or shareholder out of the profit of a company as a return on the investment made.
Dodd-Frank Act	In the EITI context, this typically refers to Section 1504 of the Dodd–Frank Wall Street Reform and Consumer Protection Act. 1504 requires companies listed on the US Securities and Exchange Commission (SEC) to report the payments made to governments for access to oil, gas and minerals.
Downstream	The activities in the oil and gas industry such as transportation, refining and marketing, that occurs after production.
EI value chain	Extractive industries value chain: The steps from the extraction of natural resources, to their processing and sale, all the way through to the ultimate use of the revenues.
EITI Association	The legal entity of the EITI, governed by the EITI Articles of Association.
EITI Candidate	Also called a Candidate country; a country that has fully, and to the satisfaction of the EITI Board, completed the four sign-up steps set out in the EITI Standard. EITI Candidature is a temporary status which is intended to lead, in a timely fashion, to compliance with the EITI Requirements. When the EITI Board admits an EITI Candidate, it establishes deadlines for publishing the first EITI Report and undertaking Validation. The first EITI Report must be published within 18 months and Validation must commence within two and a half years.
EITI Compliant	A country is designated as EITI Compliant when the EITI Board considers that it meets all of the EITI Requirements. Compliant countries must undergo Validation every three years or upon the request from the EITI Board. To be EITI Compliant does not necessarily mean a country's extractive sector is fully transparent, but that there are satisfactory levels of disclosure and openness in the management of the natural resources, as well as a functioning process to oversee and improve disclosure.
EITI Compliant	Describes a country that the EITI Board considers to have met all of the EITI Requirements. See also Compliant country.
EITI Countries	Countries implementing the EITI Standard. They are either Candidate or Compliant.
EITI Global Conference	The EITI Global Conference, or EITI Conference, brings together all stakeholders of the EITI. The EITI Conference is held at least every three years.

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Terminology	Meaning:
EITI International Secretariat	The EITI International Secretariat works closely with countries implementing the EITI and international partners to manage the EITI on the global level. The EITI International Secretariat supports the EITI Board and is located in Oslo, Norway.
EITI Member's Meeting	The main task of the Members' Meeting is to appoint an EITI Board for the next term (two to three years). The Members' Meeting is held during the EITI Conference.
EITI Report	All EITI countries publish annual EITI Reports, which allow citizens to follow the value of the country's natural resources from production all the way into government accounts. The report is compiled by an Independent Administrator.
EITI Requirements	These are the seven requirements for reaching Compliance. The requirements can be found in the Standard.
EITI Rules	This document is replaced by the EITI Standard, which was published in May 2013.
EITI Standard	It is the global transparency standard for improving governance of natural resources.
Export duties	Duty tax applied to the export of products. Oil and gas are usually exempt from export duties.
Extractive industries	Usually refers to the oil, gas and mining industries.
Financial audit	In the EITI context, this is a process of obtaining, verifying, potentially reconciling, and reporting financial or physical information relevant to the extractive industries.
Fiscal year	The period which a country calculates its financial year. This may differ from the calendar year.
Fiscalisation	The conversion of a unit of production (e.g. a barrel of oil) into monetary terms. For example, when oil is measured at the wellhead the measured quantity is then priced for purposes of calculating the government's tax or royalty.
Flow rate	The volume or quantity of oil or gas coming out of a well or flowing through a pipeline. The flow rate is often measured in oil field units, such as "barrels per day" or "millions of cubic feet per day".
Good governance	In international development literature this describes how public institutions conduct public affairs and manage public resources in sound ways.
Import duties	Duty tax applied to the import of products. Oil and gas are usually exempt from import duties.

Terminology	Meaning:
In-kind payments	Payments made to a government (e.g. royalty) in the form of the actual commodity (oil, gas, or minerals) instead of cash
Independent Administrator	An organisation, typically an auditing firm, appointed by the multi-stakeholder group to produce the EITI Report. The Independent Administrator is charged with comparing different sets of data, and investigating and explaining any discrepancies identified. The Independent Administrator does not usually carry out an actual audit of such transactions.
Institutional investor	An organisation that pools large sums of money and invests those sums in securities and other investment assets.
International accounting standards	Several accounting standards are commonly recognised as international accounting standards. For example, the International Financial Reporting Standards (IFRS), set by the International Accounting Standards Board (IASB).
Joint venture	A group of companies, which can include a state-owned company, that have joined together to conduct explorations and prospectively exploit minerals or hydrocarbons in a specified area under the terms of an agreed contract.
License	A permission granted by a licensor to a licensee, usually for a time-bound period and for a fee.
License fee	A fee/tax which must be paid to obtain a license to operate.
Liquefied Natural Gas	Natural gas consisting of nearly pure methane that has been cooled to 162°C to become a liquid. LNG occupies about 1/600 of its volume as a gas. For short: LNG.
LNG	Liquefied natural gas: Natural gas consisting of nearly pure methane that has been cooled to 162°C to become a liquid. LNG occupies about 1/600 of its volume as a gas.
Mapping of financial flows	A simplified illustration that traces payments to show which entity makes the payments and which entity receives them.
Material payments	Important or relevant revenue streams. The EITI requires that all material benefit streams be published. According to the EITI Validation guide, a benefit stream is "material if its omission or misstatement could materially affect the final EITI Report." It is typically the responsibility of the national multi-stakeholder group to decide how to define material in quantitative or qualitative terms.
Materiality	A threshold amount or percentage to determine if a company or a payment is significant to an outcome. Multi-stakeholder groups in EITI implementing countries often set materiality levels based on company or payment size.
MDTF	Short for Multi-Donor Trust Fund, which is a major fund for

Terminology	Meaning:
	technical and financial assistance to countries implementing the EITI. The World Bank administers the fund.
Memorandum of understanding	A document that describes the general principles of an agreement between parties, but does not amount to a legal contract. For short: MoU.
Minerals	Can include, but not limited to: bronze, coal, copper, diamonds, gold, iron ore, silver, uranium and zinc.
MoU	Memorandum of understanding: a document that describes the general principles of an agreement between parties, but does not amount to a legal contract.
MSG	Multi-stakeholder group: A group made up of government, company, and civil society representatives that oversee the EITI implementation in a country. The MSG develops the country Work plan, the production of the EITI Report and ensures that the EITI contributes to public debate.
Multi-Donor Trust Fund	A major fund for technical and financial assistance to countries implementing the EITI which is administered by the World Bank. Abbreviated with MDTF.
Multi-stakeholder group	A group made up of government, company, and civil society representatives that oversee the EITI implementation in a country. The MSG develops the country Work plan, the production of the EITI Report and ensures that the EITI contributes to public debate. For short: MSG.
National Coordinator	In most countries, the National Coordinator leads EITI process on a day-to-day basis in an implementing country, heads the national EITI secretariat and is part of or chairs the multi-stakeholder group. There is, however, no strict definition of the National Coordinator in the EITI Standard, so the role can vary from country to country.
National secretariat	The organisation responsible for carrying out the process and coordinating national efforts in implementing the EITI. Most implementing countries have national EITI secretariats with full-time staff. The national secretariats report to the multi-stakeholder group or line ministries.
Operator	An entity, which may be an oil company or group of oil companies, which operates an asset alone or on behalf of others. The asset could be an oil field or a number of oil fields. A joint operating agreement usually governs the agreement between the operator and the shareholders.
Payment stream	Refers to the individual methods by which money comes into a company, organisation and/or government. For example, tax is a payment stream, and bonus is a different payment stream.
Physical audit	The physical checking or measuring by controllers of the amount

Terminology	Meaning:
	of oil, gas and/or minerals that have been extracted, and the arrangements for transporting, processing or selling those resources.
Process audit	An audit to check the effectiveness of a system.
Production sharing agreement	A petroleum production arrangement in which the contractor bears all costs of exploration and production without such costs being reimbursable if no find is made in the contract area and in which the government and contractor are both paid in the resource produced. For short: PSA.
Production sharing contract	A petroleum production arrangement in which the contractor bears all costs of exploration and production without such costs being reimbursable if no find is made in the contract area and in which the government and contractor are both paid in the resource produced.
Project tax	A tax applied to a specific project.
Profit	The net excess of income over expenses, according to the appropriate accounting rules. Profit may be defined either before and/or after deducting applicable taxes owed.
Profit oil	A quantity of crude oil/gas which remains to be split between the government and contractor after the recovery of costs, through cost oil /gas, and payment of royalty and other taxes (if applicable) under a production sharing contract.
PSA	Short for production sharing agreement. A petroleum production arrangement in which the contractor bears all costs of exploration and production without such costs being reimbursable if no find is made in the contract area and in which the government and contractor are both paid in the resource produced.
Reconciler	A term sometimes used for Independent Administrator. An organisation, typically an auditing firm, appointed by the multi-stakeholder group to produce the EITI Report. The Independent Administrator is charged with comparing different sets of data, and investigating and explaining any discrepancies identified. The Independent Administrator does not usually carry out an actual audit of such transactions.
Reconciliation	Comparison of two sets of figures to reveal any differences between them.
Regulator	The government official or organisation lawfully specified as having the responsibility to administer rules and regulations. A regulator might have authority to develop and issue rules.
Remedial action	In EITI context, this usually refers to corrective measure(s), which must be undertaken in order to comply with the EITI

Terminology	Meaning:
	Requirements.
Resource curse	The phenomenon by which revenue from natural resources leads to poor standards of human development, bad governance, increased corruption and sometimes conflict.
Return on investment	The income that an investment produces for each unit (e.g. dollar) of capital invested. This is measured in percentage. For example, if $1 million invested produces $100,000 the next year, that is a 10 per cent return on investment.
Royalty	Refers specifically to the individual methods by which money comes into a company, organisation and/or government. For example, tax is a revenue stream, and bonus is a different revenue stream.
Scope	In EITI context, the features and functions included in an EITI Report or Work plan.
Scoping	On-going assessment of a situation, usually through monitoring, consultations, and discussions. In the context of the EITI, scoping tends to refer to the preparation of an EITI Report.
Secretariat Review	When the EITI International Secretariat assesses a country's progress in implementing the EITI against the EITI Requirements. This takes place when a Validation has deemed that the country has not met all of the EITI Requirements and the Board asks that the Secretariat checks that the corrective measures taken meet the requirements.
Service contract	An agreement whereby an oil company is contracted to produce oil/gas on a simple fee basis. Usually the state maintains sole rights over the resources, and the contractor is compensated by a fee per barrel, plus cost of recovery.
Signature bonus	Payment demanded by authorities in certain host countries in advance of exploration activities for the rights to develop an exploration area.
Small-scale mining	Mining activity carried out by persons or groups not employed by a mining company, but rather by working independently, using their own resources. This differs from artisanal mining in that a small scale mining operation could have employees.
Social expenditure	Contributions made by extractive companies to regional or local governments, communities, NGOs or other third parties in the areas where they operate. These contributions are in addition to taxes levied by central, regional and local governments. Social expenditures can take multiple forms, and may involve cash payments such as donations, grants or other types of cash transfers, the transfer of assets such as the construction of roads or schools, or the provision of services like training and health care. In some cases, these social expenditures are based on legal or contractual obligations. In other cases, companies make

Terminology	Meaning:
	voluntary social contributions. These transactions can also be called “corporate social responsibility”, “social payments”, or “social investments”.
SoE	State-owned enterprise: a company owned by a state.
State-owned enterprise	A company owned by a state. SoE in short.
Task Team Leader	Supports the processing of a grant application to the World Bank and ensures that the supervision requirements are met. The TTL is contracted by the World Bank.
Tax holiday	A government incentive programme that offers a tax reduction or elimination to businesses for a certain period of time. Tax holidays are commonly used by governments in developing countries to help stimulate foreign investment.
Tax justice	The term used by campaigners to call for global action against tax havens, tax evasion and mispricing.
Technical assistance	In EITI context, assistance provided to facilitate the implementation of the EITI.
Tender	An offer to enter into a contract.
Terms of reference	Describes the purpose, background and objectives for a project (e.g. EITI Report) or group (e.g. multi-stakeholder group). It also includes roles and responsibilities of those involved. For short: ToR.
The Association for the Extractive Industries Transparency Initiative	The legal entity of the EITI, governed by the EITI Articles of Association.
ToR	Terms of reference: Describes the purpose, background and objectives for a project (e.g. EITI Report) or group (e.g. multi-stakeholder group). It also includes roles and responsibilities of those involved.
Transfer price	The price at which one company buys and sells goods or services or shares resources with another division in the same company in another country. Aggressive transfer prices may inflate profits in low-tax jurisdictions and depress profits in high-tax countries. For example, the sale of mineral output from one subsidiary to another at a price under the market value may serve to reduce the revenue that the company reports to the government, and thus limit the tax payments that the company owes. Similarly, purchasing a good or a service from a related company at an inflated price, a company can raise its reported costs thereby increasing deductions and decreasing income tax liabilities.
Transparency	Openness and public disclosure of activities.

Terminology	Meaning:
TTL	Stands for Task Team Leader, who is contracted by the World Bank to supports the processing of a grant application and ensures that the supervision requirements are met.
Upstream	The exploration and production phases of the oil and gas industry.
Validation	An external, independent evaluation mechanism, undertaken by a Validator procured by the International Secretariat. It is intended to provide all stakeholders with an impartial assessment of whether EITI implementation in a country is consistent with the EITI Standard. The Validation report will also address the impact of the EITI, lessons learned in implementing the EITI, as well as any concerns stakeholders have expressed and recommendations for future implementation of the EITI.
Validation report	A report that is compiled by an independent validator assessing the country’s progress in implementing the EITI against the EITI Requirements.
Value added tax	A tax applied to each stage of the manufacture and sale of a product or service. For short: VAT. The rules for a VAT system are specified at country level and differ between countries. Typically, the VAT that the company pays on goods can be offset against any VAT it charges on the sale of goods or the provision of services. The difference is paid to (or received from) the government. Export of oil and gas is usually exempt from VAT.
VAT	Value added tax: a tax applied to each stage of the manufacture and sale of a product or service. The rules for a VAT system are specified at country level and differ between countries. Typically, the VAT that the company pays on goods can be offset against any VAT it charges on the sale of goods or the provision of services. The difference is paid to (or received from) the government. Export of oil and gas is usually exempt from VAT.
Work plan	In the EITI context, an action plan agreed by a multi-stakeholder group that includes the objectives and priorities for EITI implementation and associated activities. See Requirement 1.4.

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Appendix 26 Abbreviations

Abbreviation	Expanded Wording
Btu	British Thermal Units
DPE	Department of Petroleum and Energy
DMPGM	Department of Mineral Policy and Geohazards Management
Finance	Department of Finance
IPBC	Independent Public Business Corporation
IRC	Internal Revenue Commission
LBBSA	License-based benefits sharing agreements
LNG	Liquefied Natural Gas
MOU	Memorandum of Understanding
MRA	Mineral Resources Authority
MRDC	Mineral Resources Development Company Limited
MYEFO	Mid-Year Economic Financial Outlook (mid-year forecast to the end of the Fiscal Year)
NEC	National Executive Council
NEFC	National Economic & Fiscal Commissioner
NPCP	National Petroleum Company of PNG
PNGSDP	Papua New Guinea Sustainable Development Program
State	Independent State of Papua New Guinea
Treasury	Department of Treasury
UBSA	PNG LNG Umbrella Benefits Sharing Agreement

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