



PRESS RELEASE: RESPONSE TO ALLEGATIONS AGAINST MRDC

PORT MORESBY: In recent days news articles have been published by the *Post Courier* about MRDC and Petroleum Resources Kutubu Limited. The articles contain very malicious and damaging insinuations as well as factually untrue statements. I refer to various articles by *Mohammad Bashir* and in particular the articles of Monday 2nd and Tuesday, 3rd of May 2011. I fail to understand why due care and diligence was not accorded in getting the facts right before publication. I do not wish to comment directly on matters before the Courts but rather briefly touch on facts about what MRDC has been doing and an overview of PRK's performance to-date.

1. BRIEF FACTS ABOUT MRDC

Since its inception in 1975, MRDC has established itself as a reputable State entity and trustee capable of managing landowners' interests in mining and petroleum projects. This role and function is mandated by the Oil and Gas Act. In over 36 years of its operations, MRDC has built solid and credible systems and processes, infrastructure, and experience as a trustee company. There is no other trustee company in PNG with such a track record.

Under my management, MRDC has given corporate governance, accountability and transparency its number one priority resulting in an overhaul and restructure of the entire organization followed by review of operations and establishment of key result areas to drive the organization forward. The review resulted in the up-skilling of staff, upgrade of its information & communication technology capacity and launching of the new MRDC website in November 2010. The investment policies and guidelines for the MRDC Group was also reviewed and benchmarked and aligned against the industry and best practice before it was approved for implementation.

As a result of prudent and strategic application of our Investment Policies, *MRDC's combined group investment portfolio grew from K678.95 million in 2007 to K1,021.7 billion as at 31 December 2010, representing a growth of 50.5% in just 3 years.* This is only the investment interest and does not include the equity interest in the mining and petroleum projects.

This speaks loud of MRDC's management's credibility and ability to manage our stakeholders' interests with utmost diligence and in a professional manner as their trustee.

MRDC has also for the first time published annual reports last year for our managed entities and they are public documents. All audits are completed and compliance requirements are met.

Hevilift Investment

Thorough due diligence was conducted in Hevilift Limited prior to the purchase of a half share in that company. The due diligence was independently assessed and verified by a reputable international accounting firm and a specialist Australian aviation company.

The fair market value of Hevilift as at 31 December 2008 took into account the net asset position and earnings potential of assets within Hevilift. The highest fair value of Hevilift was assessed at K172 million, 50% of which is K86 million. MRDC Group paid K75 million for a 50% interest in Hevilift.

The enterprise value of Hevilift as at 31st December 2010 was placed at K185 million, 50% of which is K92.5 million. This indicates an increase in value of MRDC's share value by K17.5 million or 23%.

Post Courier's report suggesting that the book value of Hevilift was K30 million, is incorrect. Currently Hevilift has a fleet of 42 aircrafts with 15 fixed wings and 27 helicopters operating in PNG, Indonesia, Myanmar, and Australia and it has recently acquired Air Operating Licenses (AOC) to operate in Thailand, Cambodia, Malaysia and Singapore.

Hevilift is the only PNG company that is recognized by Exxon Mobil as an EPC Contractor for the PNG LNG Project after successfully passing Exxon's rigorous bidding process.

2. LEADERSHIP ISSUE IN PRK

MRDC is mandated by the Oil and Gas Act to manage the affairs of PRK in accordance with the constitution of PRK, the Trust Deed and the Management Agreement. MRDC does not have any control over the affairs of the Namo'Aporo Landowners Association Inc (Association). The Association is a separate legal entity independent of MRDC and PRK. As such MRDC and PRK do not have the legal mandate to be involved in the leadership disputes that are currently being experienced at the Association level. Those are in-house matters for the Association to resolve.

The court action described as OS 647 of 2010 between John Kapi Natto, Mark Sakai and MRDC has been referred to the Alternate Dispute Resolution (ADR) track for mediation and the terms of reference have been filed in Court. The ADR track has not allocated a date for hearing.

MRDC's view is that the leadership issue in relation to the chairmanship of the Association is still in dispute and MRDC does not wish to be involved in the

Association's internal matters. Being the trustee of PRK, MRDC maintains a neutral stand, as the Association is a separate legal entity that is governed by its own constitution.

The stakeholders and beneficiaries of PRK not only include the Fasu Landowners, who come under the Namo'Aporo Landowners Association, but also:

1. Southern Highlands Provincial Government;
2. Gulf Provincial Government;
3. Foe Landowners; and
4. Kikori Pipeline Landowners.

Hence, it is also in their best interest that the due process is complied with in relation to the issue of Chairmanship or Directorship of PRK.

3. PRK BOARD- APPOINTMENT AND REMOVAL OF DIRECTORS

The PRK constitution provides for the method by which directors are appointed and by which they are terminated. The constitution also provides for the management of the company in that the business and affairs of the company must be managed by or under the supervision of the company's board of directors. Directors are appointed and shall hold office until his/her removal in accordance with the constitution. Directors can vacate office or be removed for being absent for three consecutive meetings, resign, become disqualified such as being of unsound mind or convicted of an indictable offence, or dies. Directors can also be removed by ordinary resolution passed at a meeting called for that purpose. In regards to the Chairman of PRK, his status will be decided in accordance with the PRK constitution. Management of MRDC does not have the mandate to appoint or remove Directors of the PRK board. This is a function of the shareholders of PRK.

Significant Growth in Value of PRK

Between 2007 and 2010, the shareholders' equity and net asset position of PRK has grown from K587 million to K736 million, an increase of K149 million in value, representing a growth of 25.4%. This value excludes the 1.1% equity interest in the PNG LNG Project which carries a substantial commercial value.

PRK has paid a total dividend of K62 million to its beneficiaries in the last four years (2007 – 2009). The 2008 PRK annual report has been completed and was published last year. The 2009 and 2010 annual reports will be available this year.

Other Major Achievements

i. Financing of PRK's Interest in the PNG LNG Project

Through MRDC's initiative PRK raised US\$65million (K215 million) internally to finance its equity contribution in the PNG LNG Project. If the funds were not raised, set aside and committed, the government would have carried the interest. This would have meant that the dividend would be shared with the rest of the PNG LNG area landowners through a State approved benefit sharing formula, thus diluting the total benefits to PRK.

This decision has made PRK the largest landowner beneficiary in the PNG LNG Project from its equity proceeds compared to other Landowner Groups despite, contributing less than 20% of the gas to the Project.

ii. Acquisition of additional interest in Kutubu Pipeline License

In 2009 when AGL sold its interest in the Kutubu Pipeline License, PRK acquired 50% of the interest using its pre-emptive rights, which increased its interest in the pipeline from 6% to 13%.

This is a strategic asset that will derive continuous tariff benefits from all existing and new oil and condensate fields in the Southern Highlands Province.

I want to assure the beneficiaries of PRK that your wealth is in good hands. I also want to urge John Kapi Natto and Mark Sakai to reconcile their differences in the true spirit of the constitution of the Namo'Aporo Landowners Association. MRDC should not be unnecessarily dragged into this landowner Association dispute.

**AUGUSTINE S. MANO
MANAGING DIRECTOR**