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Lodgement of Market Briefing

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Market Briefing

LNG Limited Managing Director on strategy and outlook

Interview with Mr Maurice Brand (Managing Director & Joint CEO)

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Can you outline the strategy for LNG Limited?

Maurice Brand
LNG Limited's (LNGL) strategy is to become the market leader in the technology for, and development of, mid-scale LNG projects of between one and three million tonnes per annum (mtpa).

We believe we have a competitive advantage in our patented technology which will enable us to achieve this objective. The LNG processing technology, or OSMR as its known, can also be scaled up to larger LNG train sizes, producing major cost and efficiency benefits for LNG projects.

Our aim is to showcase this important strategic technology and the company's capabilities through the delivery of the Gladstone LNG Project at Fishermans Landing. The project delivery will also demonstrate the significance of our major shareholder and strategic partner, China's Huanqiu Contracting & Engineering Corporation (HQC), a wholly-owned subsidiary of China National Petroleum Corporation (CNPC).

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The OSMR technology appears to be a key to LNG Limited's future. Why do you believe it provides a competitive advantage for LNG Limited?

Maurice Brand
The Optimised Single Mixed Refrigerant or OSMR technology is central to our business model. Its primary benefits are around reduced costs and improved efficiencies. The technology allows us to capture the low capital expenditure benefits of smaller projects and combines this with delivering the higher efficiencies of the larger LNG projects. For example, in terms of higher efficiencies, the amount of gas used in the LNG process and plant is 30 per cent less than for traditional projects and the capital expenditure required on plant and equipment is less than half that used on the major Curtis Island (Gladstone) LNG projects.

The OSMR technology allows our business model the ability to complete projects in shorter timeframes than the traditional approaches. We are excited about the global opportunity for our technology, and through the significant resources of our Chinese partner HQC, it will allow us to roll out our technology and business model on a global basis.

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Can you provide any further detail in respect of your Chinese partner – HQC. What benefits do you expect HQC will provide LNG Limited?

Maurice Brand

HQC is 100 per cent wholly-owned by China National Petroleum Corporation (CNPC). CNPC is China's largest oil and gas producer and one of the largest global companies. HQC's vision is to become a leading global LNG engineering, procurement and construction (EPC) contractor.
It is critically important to have a proven, credible and financially strong EPC contractor for all LNG projects. Typically, the EPC contractor will provide a turnkey capital cost package including the payment of penalties for late delivery and LNG plant performance. They often provide assistance with project finance. With this in mind, having a strong technical and financial partner such as HQC is critical for LNG Limited in the delivery of the Gladstone LNG Project on Fisherman's landing. We see them as a partner in all aspects of the project delivery.

HQC has been involved as a contractor and developer of every LNG-receiving terminal in China since 2002 and is currently involved in the development and construction of three LNG-receiving or import terminals. This expertise can be utilised in the delivery of the Gladstone LNG export terminal, which are substantially the same but with the addition of an LNG plant. LNG Limited will provide the liquidation technology for the Fisherman's Landing LNG project.

HQC is also willing to support LNG Limited financially, as demonstrated by its participation in a recent share placement, which resulted in HQC becoming our majority shareholder. HQC is also providing technical support with the completion of a front-end engineering and design (FEED) study. This will also enable HQC to shortly provide a revised capital cost leading into an EPC contract.

In addition, LNG Limited also has gained the benefit of having two highly experienced representatives of HQC on the Board. Madam Wang Xinge is Executive Director and Joint Chief Executive Officer of LNG Limited and since January 2006 has been the Senior Vice President of the International Business Department for HQC. Mr Zhang Gaowu is a Non Executive Director of LNG Limited and is currently Deputy Director of the Finance and Assets Division of HQC.

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What is the current status of the Gladstone LNG Project at Fisherman's Landing?

Maurice Brand

As many shareholders are aware, construction commenced on the LNG project at Fisherman's Landing at Gladstone in October 2009. The project was put on hold in March 2010 pending sourcing of new gas supply. Approvals are in place to recommence construction when gas supply is secured.

HQC is supporting LNG Limited to secure gas supply and, through CNPC and its affiliates, proposes to purchase LNG from the first LNG train of a guaranteed 1.5 mpta capacity. HQC is also working with us to arrange project financing.

In August we announced the commencement of the Interim FEED Study with Jemena for the expansion of their Queensland Gas Pipeline (QGP) from Wallumbilla to Gladstone.

We expect that further updates on progress will be provided to the market over coming months.

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A critical success driver will be to secure a supply of gas for the LNG plant. How does LNG Limited plan to secure the required gas supply for this project? Do you have any timelines in which you expect to have some arrangements in place?

Maurice Brand

There are three parts to LNG Limited's gas supply plan. The first part focuses on aggregating gas supply from several gas sources at Wallumbilla gas hub, near Roma in Queensland. This will allow us to connect, after certain upgrades to gas infrastructure, into the existing QGP gas pipeline from Wallumbilla to Gladstone. This is currently the only gas pipeline to Gladstone. The timeline for the pipeline upgrade will allow for gas to be supplied to Fishermans Landing in late 2014 for the first LNG train of 1.5 million tonnes per annum, and in late 2015 for the second train for another 1.5 million tonnes per annum.

The second part of the plan is to establish a gas hub at Callide, which is 21 kilometres west of Gladstone. Up to six new pipelines will bring gas to the Gladstone region between 2013 and 2018. Some parties have indicated strong interest to supply gas to Fisherman's Landing once the first LNG train has been established. We have a pipeline licence (PPL 161) to connect gas from Callide to Fisherman's Landing.

The third part of the gas plan is to establish a gas hub in Ipswich, west of Brisbane. The Ipswich hub would be capable of receiving gas from suppliers in northern NSW such as Metgasco Limited. Gas supplied at Ipswich may be swapped with gas supply at Wallumbilla or interconnected between Ipswich and Wallumbilla with a gas pipeline.

Negotiations are progressing well with gas supply and we hope to be able to provide additional information on timing at this year's AGM on the 24th of November in Brisbane.

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LNG Limited has been increasing its ownership in Metgasco Limited recently. What are your intentions with your position in Metgasco? Do you believe LNG will secure gas supply from its relationship with Metgasco?

Maurice Brand

We have been a shareholder in Metgasco for well over 12 months. Metgasco now has substantial uncontracted 3P gas reserves. In late 2010 LNG Limited entered into an MOU with Metgasco to undertake a study into the supply of gas to Gladstone. As Metgasco is now looking to commercialise its gas reserves, one option for Metgasco is the supply of gas to Fishermans Landing. We hope that we can further develop this option with Metgasco in the next phase of its gas sales plans, but in the end, Metgasco's board and management will make its own judgement as to what is the best option for all of its shareholders.

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Is the timeline for Gladstone subject to finalising gas supply at Wallumbilla in the next few months? When do you envisage the company becoming cash flow positive?

Maurice Brand

In parallel with negotiations on gas supply to Wallumbilla, the owner of the existing Wallumbilla to Gladstone gas pipeline, Jemena, is progressing an Interim FEED Study to enable the upgrade of their QGP gas pipeline in order to supply first gas in late 2014. Barring any delays caused by weather conditions, we are aiming to recommence construction in the third or fourth quarter of calendar 2012. As the LNG construction time will be 30 months from finalising gas supply and gas delivery agreements, there is still a small window of opportunity to have the LNG project commissioned by the end of 2014, although it's more likely to be the first quarter of 2015.

In terms of cash flow, that will commence when the LNG plant is commissioned. We do however expect to receive license fees in 2012 for use of the OSMR technology.

A further update will be provided at our AGM, which is being held in Brisbane this year, as part of our commitment to engage with shareholders around Australia.

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Thank you Maurice.

For further information, please contact LNG Limited on
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