LETTER FROM THE CHAIRMAN

In accordance with the Program Rules of Papua New Guinea Sustainable Development Program Ltd, I am pleased to provide the Annual Report for 2018.The Annual Report includes the financial statements and the report of the Auditor.

PNG Sustainable Development Program Ltd.'s focus in 2018 was to continue providing much needed development in the Western Province, managing the Long-Term Fund carefully and professionally and defending the Company from attempts by the State to take control through the Singapore High Court proceedings.

We have made significant progress in each of these areas as outlined below.

Development Initiatives:

In 2017, we launched a new agenda and we have continued to expand this during 2018. Progress is being made despite the loss of dividends following the expropriation of the Ok Tedi Mine in 2013. This has meant that PNGSDP spending is now limited to the interest and dividends earned by the Long-Term Fund in accordance with the Program Rules.

PNGSDP's spending remains focussed on education, health, providing access to remote communities and creating livelihoods in the cash economy. These priorities closely match the Provincial Government's development plan. We continue to work well with the Provincial Government to coordinate project selection and implementation. Our aim is to "complement and supplement" government services and the efforts of other agencies to avoid duplication of effort.

We are also continuing to engage with potential partners with multinational development experience with a view to introducing fresh ideas and best practices from around the world to our development initiatives in Western Province.

We progressed the following development initiatives during 2018:

School Grants:

We understand the importance of education as a pathway to a better future and recognise the struggle many Western Province families face when meeting the cost of educating their children.

In 2018, PNGSDP paid K10 million in education grants directly to schools for all enrolled students from Elementary through to Grade 12.

Care was taken to ensure that the money was spent as intended: on school equipment, supplies and facilities, not administration or staffing. We conducted a review at the end of 2018 and saw that most schools had used the funds well and this had resulted in new classrooms, teacher housing and teaching aids in the classrooms.

PAPUA NEW GUINEA SUSTAINABLE DEVELOPMENT PROGRAM LTD

- An independent company as confirmed by the recent Singapore High Court ruling.
- Manages the Long Term Fund carefully and professionally for the benefit of current and future generations.
- Can only use the interest earned by the LTF for its development initiatives.
- Implements a range of Western Province development initiatives (health, education, access and livelihoods) developed in consultation with the 4 elected Members in keeping with the Provincial Development Plan.

Telecommunications Upgrade:

PNGSDP has now completed a full upgrade of the telecommunications system in the Western Province, providing a 4G capacity throughout the Province. Final testing and optimisation is currently being conducted.

The total cost of this program was US$ 32.4 million (K105.3 million).

The provision of 4G phone and internet services will now be used to support the introduction of new ways of delivering health, education, agricultural extension and financial services.

Maintenance contracts are now in place to ensure the system remains reliable and does not deteriorate.

Rural Airstrips:

Air transport is the most important means of travel within the Province and to connect Western Province to the rest of Papua New Guinea. As of late 2017, only 12 rural airstrips in Western Province were operational, leaving tens of thousands of people cut off from access to the outside world. This disruption of essential services, health in particular, has led to a severe decline in the quality of people's lives.

PNGSDP is funding a major repair and maintenance program whereby all 75 provincial airstrips will be made operational again.

The Rural Airstrips Agency has been contracted to work with local communities to rectify the problem. By the end of 2018, 40 airstrips were operational, and all should be fully functional towards the end of 2020. Systems and funding are being put in place to keep them that way.

Aerial Health Patrols:

PNGSDP has been working with Missionary Aviation Fellowship and several experienced health care providers to develop an innovative health service that can change the lives of people living in remote rural communities and overcome the growing problem of health clinic closures.

Medical teams focused on both treatment and preventative measures will visit communities by aeroplane, using the refurbished airstrips. The teams will remain on-site for 3 to 4 days and return every 6 to 8 weeks.

The first aircraft has been purchased, personnel has been recruited and first health patrols are expected to commence around the middle of this year.

Other Medical Services:

PNGSDP continues to provide financial support to assist several NGO's undertake worthwhile work in the province (World Vision's WASH program; Marie Stopes family planning program; and Rotarians Against Malaria for the distribution of mosquito nets and related anti-malarials).

In due course we will use the upgraded telecommunications network to deliver tele-medicine as a cost-effective way of providing technical backup and support for village-based health clinics and mobile para-medics (e.g. remote diagnostic techniques; patient records; on-line advice) under a distributed system which takes the service to the patient rather than patients to centralised medical centres.

Education Services:

PNGSDP built 8 new classrooms in 2018 in the Western Province by providing Kina 5 million to the Digicel Foundation to implement the program in a timely and efficient manner. It has also committed a further Kina 25.4 million to build an additional 33 classrooms.

This initiative is part of an integrated program of building a safe, clean learning environment. These improved facilities will be coordinated with in-service teacher training and other initiatives to build community support for improved literacy and numeracy.

In addition, PNGSDP sponsored 16 Western Province students to attend the Kokoda Track Foundation teachers training college.

A major tele-education (e-learning) trial has been launched to support distance education for remote communities by improving teacher capabilities; providing tools for classroom activities and self-learning; and accessing world-class education content. Devices (tablets and solar charging equipment) are being distributed to some 9000 students as part of this innovative initiative. It also encompasses teacher training and parent awareness activities.

Balimo Campus:

PNGSDP is committed to funding a major campus in Balimo, Western Province to train teachers and health workers who will be deployed in support of the overall health and education improvement initiative.

This initiative, which is being managed by Kokoda Track Foundation, is also supported by the local Member, Hon Roy Biyama, who has provided housing and building facilities to enable a rapid, low-cost launch. The local community also provided enthusiastic volunteer support by cleaning the facilities and cutting grass in preparation for the first student intake.

In March 2019, 105 FODE students were enrolled and we are working to enrol those who matriculate into teacher and health care programs for the 2020 academic year.

Co-funded Projects:

PNGSDP has made a commitment to providing up to K1 million or each of the four Western Province Members of Parliament as a kina-for-kina contribution towards approved projects they initiate.

In 2018, several projects were funded under this program.

- The Member for North Fly submitted a properly considered proposal for the construction of a water supply line from the Kiunga water treatment plant to Sare in Ward 5.
- The Governor and the Member for North Fly nominated several schools which are receiving new classrooms and teacher housing.
- The Member for South Fly has supported an initiative whereby filtration systems are being fitted to 8 wells on Daru, so they can provide clean drinking water.

Rubber Industry

In 2017, PNGSDP conducted a comprehensive review of the rubber industry in Western Province and formed the view that, with professional management, improved collection logistics, greater scale with new plantings by existing and new smallholders and improved extension services to increase yields, the industry can be made commercially viable so that it can operate successfully without ongoing subsidies.

We stand ready to fund and facilitate a restructuring effort that will introduce professional management and a “nucleus estate” business model subject to both North Fly Rubber and Fly Rubber signing onto the strategy and proposed commercialization reforms.

This proposed turnaround will enable the restructured industry to support some 18,000 smallholder families and directly employ 450 wage earners, thereby making a significant contribution to wealth-creation in the province.

Daru Hatchery

PNGSDP began the rehabilitation of our Daru barramundi hatchery at a cost of K2.5 million over 12 months for repairs and maintenance to produce fingerlings for restocking the river system.

However, we are not satisfied with progress and as a result we will be improving the manner in which this opportunity is managed.

A feasibility study is currently being undertaken by an experienced agribusiness company with a view to transforming this facility into a commercially viable export-oriented scheme that can provide cash livelihoods in the South Fly District.

Long-Term Fund

PNGSDP manages the Long-Term Fund in a careful and professional manner with guidance from world class expertise.

The fund is maintained as a low risk investment by adopting carefully formulated diversification measures covering different fund managers, different types of investment, different currencies and different geographies.

This has enabled us to improve the overall return on investment while maintaining a low risk profile, as required by the Program Rules. This new investment strategy is closely aligned with other similar and larger sized endowments from around the world.

Global financial markets are volatile. We saw short term fluctuations towards the end of 2018, when the global investment climate declined due to investor concerns about global growth, interest rates and trade tensions between the US and China.

However, PNGSDP takes a long-term view and this means we do not react to this type of short-term fluctuation. Our strategy has been vindicated by the fact that, by the end of April 2019, global financial markets had recovered and the Long-Term Fund stood at US$ 1.44 billion, up from US$ 1.35 billion at the beginning of 2017 notwithstanding the US$ 56 million spend on development initiatives over the same period.

PNGSDP will continue its efforts to protect the Long-Term Fund to make sure that it is used honestly and responsibly, as required under the Program Rules.

Singapore Litigation

After 5 years of litigation mounted by the State, the Singapore Supreme Court ruled in favour of PNGSDP in early 2019.

The judge's ruling confirmed that PNGSDP is a company which, like many other entities with development aims, is limited by guarantee. As such it does not issue any shares and therefore has no shareholders, but it must comply with the Program Rules; its accounts must be audited, and its Annual Reports made available for all to scrutinise; and it is subject to scrutiny by periodic independent reviews.

The judgement confirmed that PNGSDP is an independent organisation and that the State does not have any oversight rights or control over PNGSDP.

The State will have to pay court awarded costs to PNGSDP as a result of this favourable ruling and the Court will rule on magnitude of these costs before hearing the appeal lodged by the State.

Looking Forward

We will continue to implement our development initiatives in close consultation with the Provincial Government; Western Province communities; and other organisations actively engaged within the Province.

We look forward to sustaining our existing initiatives as well as launching new projects which will benefit the people of Western Province.

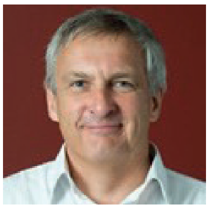
For example, we are working with agricultural experts to establish a nucleus estate in Oriomo that will produce vanilla and black pepper. This will provide synergies with the Daru hatchery to provide an integrated agriculture and aquaculture industry development in South Fly.

Now that the Singapore Court has made its favourable ruling, we are free to embark on a carefully managed process of board renewal. In keeping with this, I am pleased to announce that Mr. Robert Alphonse Kaiyun has been appointed to the PNGSDP Board. We are also working towards appointing other talented people to strengthen our Board. I welcome our new directors and feel confident they will make a valuable contribution to the future of PNGSDP.

We are also taking active steps to recruit and mentor a small management team, predominantly PNG nationals with the qualifications, dedication and integrity to sustain our current efforts into the future.

While PNGSDP has made significant progress during 2018, there remains much to do.

With the court ruling safely behind us, we are in a position to increase the momentum of our programs and continue to protect and grow the Long-Term Fund so that PNGSDP can benefit both the current and future generations of Western Province.



Philip Bainbridge
Chairman

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ANNUAL REPORT MEETING

Date: **30 July 2019**

Venue: **Holiday Inn, Port Moresby**

Time: **11am**

FINANCIAL STATEMENTS

PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED AND ITS SUBSIDIARIES

(Incorporated in Singapore. Registration Number: 200106898W)

ANNUAL REPORT

For the financial year ended 31 December 2018

DIRECTORS' STATEMENT
For the financial year ended 31 December 2018

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2018 and the balance sheet of the Company as at 31 December 2018, the statement of comprehensive income and the statement of changes in equity of the Company for the financial year ended 31 December 2018.

In the opinion of the directors,

(a) the statement of comprehensive income, balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages 7 to 75 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance and changes in equity of the Group and of the Company and cash flows of the Group for the financial year covered by the financial statements; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Philip James Bainbridge
Donald Wabirao Manoa
Lim How Teck
David Sode
Sir Wilson Kamit CBE
Betty Lovai
John Malcolm Wylie

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, any other body corporate.

Directors' interests in shares, debentures and share options

The Company is limited by guarantee and has no share capital, debentures, share options or unissued shares. None of the directors had any interest in the shares, debentures or share options of any related corporations.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

PHILIP BAINBRIDGE Director	SIR WILSON KAMIT Director

LIM HOW TECK
Director (Audit Committee Chairman)

30 May 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of PNG Sustainable Development Program Limited ("the Company") and its subsidiaries ("the Group") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the financial performance of the Group and the Company statement of changes in equity of the Group and the Company and consolidated cash flows of the Group for the financial year ended on that date.

Emphasis of matter
We draw attention to Note 19(c) to these financial statements, which describe the uncertainty related to the outcome of certain legal proceedings initiated by the Government of Papua New Guinea against the Company in the Singapore Courts in relation to the assets under the Company's control. Our opinion is not qualified in respect of this matter.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2018;
- the statement of comprehensive income of the Company for the financial year ended 31 December 2018;
- the balance sheet of the Group as at 31 December 2018;
- the balance sheet of the Company as at 31 December 2018;
- the consolidated statement of changes in equity of the Group for the financial year then ended;
- the statement of changes in equity of the Company for the financial year then ended;
- the consolidated statement of cash flows of the Group for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether itthe other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED** (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED (continued)

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 30 May 2019

PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED AND ITS SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Note	Group 2018 US$	Group 2017 US$	Company 2018 US$	Company 2017 US$
Revenue					
Investment income	4	**21,788,059**	129,918,071	**20,428,021**	127,357,462
Revenue from other activities, net	4	**3,304,378**	7,187,907	**-**	-
		25,092,437	137,105,978	**20,428,021**	127,357,462
Expenses					
Other investment losses	5	**(51,534,611)**	(1,305,906)	**(51,534,611)**	(1,305,906)
Governance costs	5	**(1,066,439)**	(1,130,404)	**(956,742)**	(1,001,750)
Administration costs	5	**(6,002,312)**	(6,073,835)	**(1,448,198)**	(883,667)
Fund management costs	5	**(6,186,873)**	(4,410,069)	**(6,186,873)**	(4,410,069)
		(64,790,235)	(12,920,214)	**(60,126,424)**	(7,601,392)
Operating (deficit)/surplus before development program costs		**(39,697,798)**	124,185,764	**(39,698,403)**	119,756,070
Development program costs	5	**(32,406,885)**	(24,844,614)	**(32,406,885)**	(24,844,614)
Impairment gain/(loss) on financial assets		**603,426**	(585,165)	**(1,929,974)**	-
Other losses - net	5	**(2,010,598)**	(1,053,568)	**-**	(277,033)
Share of results of joint venture	11	**73,890**	(72,789)	**-**	-
(Deficit)/surplus before income tax		**(73,437,965)**	97,629,628	**(74,035,262)**	94,634,423
Income tax expense	7	**(2,370,560)**	(2,857,319)	**(1,787,873)**	(1,628,675)
(Deficit)/surplus from operations		**(75,808,525)**	94,772,309	**(75,823,135)**	93,005,748
Other comprehensive deficit:					
Currency translation difference arising from consolidation					
- Losses		**(194,225)**	(86,416)	**-**	-
		(194,225)	(86,416)	**-**	-
Total comprehensive (deficit)/surplus		**(76,002,750)**	94,685,893	**(75,823,135)**	93,005,748
(Deficit)/surplus from operations attributable to:					
Equity holders of the Company		**(75,611,884)**	94,705,738	**(75,823,135)**	93,005,748
Non-controlling interests		**(196,641)**	66,571	**-**	-
		(75,808,525)	94,772,309	**(75,823,135)**	93,005,748
Total comprehensive (deficit)/surplus attributable to:					
Equity holders of the Company		**(75,795,230)**	94,625,377	**(75,823,135)**	93,005,748
Non-controlling interests		**(207,520)**	60,516	**-**	-
		(76,002,750)	94,685,893	**(75,823,135)**	93,005,748

The accompanying notes form an integral part of these financial statements

BALANCE SHEETS
As at 31 December 2018

	Note	Group 2018 US$	Group 2017 US$	Company 2018 US$	Company 2017 US$
ASSETS					
Current assets					
Cash and cash equivalents	8	**106,421,393**	89,707,992	**102,472,233**	86,265,025
Financial assets, at FVPL	9	**35,969,078**	55,624,285	**-**	8,826,854
Other receivables	10	**6,922,925**	12,373,463	**49,647,078**	61,277,098
Current income tax assets	7	**597,546**	-	**-**	-
		149,910,942	157,705,740	**152,119,311**	156,368,977
Non-current assets					
Financial assets, at FVPL	9	**1,226,101,240**	1,292,162,883	**1,226,101,240**	1,292,162,883
Other receivables	10	**11,006,228**	10,743,918	**-**	-
Investments in joint ventures	11	**4,392,023**	4,501,479	**-**	-
Investments in subsidiaries	12	**-**	-	**2**	2
Property, plant and equipment	13	**200,808**	200,808	**200,808**	200,808
		1,241,700,299	1,307,609,088	**1,226,302,050**	1,292,363,693
Total assets		**1,391,611,241**	1,465,314,828	**1,378,421,361**	1,448,732,670
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	14	**23,345,215**	19,975,822	**8,488,366**	1,584,307
Provisions for employee leave		**354,463**	327,150	**-**	-
Current income tax liability	7	**-**	982,281	**-**	-
		23,699,678	21,285,253	**8,488,366**	1,584,307
Non-current liabilities					
Deferred income tax liability	15	**86,516**	-	**-**	-
Total liabilities		**23,786,194**	21,285,253	**8,488,366**	1,584,307
NET ASSETS		**1,367,825,047**	1,444,029,575	**1,369,932,995**	1,447,148,363
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	16	**17**	17	**17**	17
Funds, comprises:		**1,362,596,387**	1,438,375,747	**-**	-
- General Fund	17	**-**	-	**-**	-
- Long Term Fund	17	**-**	-	**1,349,371,594**	1,407,152,434
- Development Fund	17	**-**	-	**20,561,384**	39,995,912
Foreign currency translation reserve		**5,258,230**	5,441,576	**-**	-
		1,367,854,634	1,443,817,340	**1,369,932,995**	1,447,148,363
Non-controlling interests		**(29,587)**	212,235	**-**	-
Total equity		**1,367,825,047**	1,444,029,575	**1,369,932,995**	1,447,148,363

The accompanying notes form an integral part of these financial statements

PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Group	Note	Members subscriptions US$	Total funds US$	Foreign currency translation reserve US$	Total US$	Non-controlling interests US$	Total equity US$
2018							
Balance as at 31 December 2017		**17**	**1,438,375,747**	**5,441,576**	**1,443,817,340**	**212,235**	**1,444,029,575**
Adoption of FRS 109	2.1.1(b)	-	(167,476)	-	(167,476)	(34,302)	(201,778)
Balance at 1 January 2018		**17**	**1,438,208,271**	**5,441,576**	**1,443,649,864**	**177,933**	**1,443,827,797**
Deficit from operations		-	(75,611,884)	-	(75,611,884)	(196,641)	(75,808,525)
Other comprehensive deficit		-	-	(183,346)	(183,346)	(10,879)	(194,225)
Total comprehensive deficit		-	(75,611,884)	(183,346)	(75,795,230)	(207,520)	(76,002,750)
End of financial year		**17**	**1,362,596,387**	**5,258,230**	**1,367,854,634**	**(29,587)**	**1,367,825,047**
2017							
Beginning of financial year		**17**	**1,343,670,009**	**5,521,937**	**1,349,191,963**	**151,719**	**1,349,343,682**
Surplus from operations		-	94,705,738	-	94,705,738	66,571	94,772,309
Other comprehensive deficit		-	-	(80,361)	(80,361)	(6,055)	(86,416)
Total comprehensive surplus/(deficit)		-	94,705,738	(80,361)	94,625,377	60,516	94,685,893
End of financial year		17	1,438,375,747	5,441,576	1,443,817,340	212,235	1,444,029,575

The accompanying notes form an integral part of these financial statements

PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED
AND ITS SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY - COMPANY
For the financial year ended 31 December 2018

Company	Note	Members' subscriptions US$	General fund US$	Long term fund US$	Development fund US$	Total US$
2018						
Balance as at 31 December 2017		**17**	**-**	**1,407,152,434**	**39,995,912**	**1,447,148,363**
Adoption of FRS 109	2.1.1(b)	-	-	-	(1,392,233)	(1,392,233)
Balance at 1 January 2018		**17**	**-**	**1,407,152,434**	**38,603,679**	**1,445,756,130**
Total comprehensive deficit	17	**-**	(2,422,170)	(40,358,670)	(33,042,295)	(75,823,135)
Transfer between funds		**-**	2,422,170	(17,422,170)	15,000,000	**-**
End of financial year		**17**	**-**	1,349,371,594	20,561,384	**1,369,932,995**
2017						
Beginning of financial year		17	-	1,331,751,245	22,391,353	1,354,142,615
Total comprehensive (deficit)/surplus	17	-	(3,062,589)	119,463,778	(23,395,441)	93,005,748
Transfer between funds		-	3,062,589	(44,062,589)	41,000,000	-
End of financial year		17	-	1,407,152,434	39,995,912	1,447,148,363

The allocation of revenues and expenses and transfers from the General Fund to the Long Term Fund and the Development Fund are determined in accordance with the rules of the Company (refer Note 2.1.13).

The accompanying notes form an integral part of these financial statements

PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	Note	**2018** **US$**	2017 US$
Cash flows from operating activities			
(Deficit)/surplus from operations		**(75,808,525)**	94,772,309
Adjustments for:			
- Income tax expense		**2,370,560**	2,857,319
- Fair value losses/(gains) on financial assets, at FVPL		**51,534,611**	(104,268,682)
- Interest income		**(10,558,747)**	(14,162,232)
- Share of (profit)/loss of joint ventures		**(73,890)**	72,789
- Unrealised currency translation differences		**(21,472)**	(197,059)
		(32,557,463)	(20,925,556)
Change in working capital:			
- Other receivables		**4,986,490**	(847,985)
- Sundry creditors and accruals		**3,396,706**	(2,915,297)
Cash generated from operations		**(24,174,267)**	(24,688,838)
Interest received		**10,558,747**	14,162,232
Withholding and other taxes paid		**(3,853,318)**	(4,760,504)
Purchases of financial assets, at FVPL		**(1,048,611,171)**	(1,702,097,117)
Proceeds from sale of financial assets, at FVPL		**1,082,793,410**	1,567,912,040
Net cash provided by/(used in) operating activities		**16,713,401**	(149,472,187)
Net increase/(decrease) in cash and cash equivalents		**16,713,401**	(149,472,187)
Cash and cash equivalents at the beginning of financial year	8	**89,707,992**	239,180,179
Cash and cash equivalents at the end of financial year	8	**106,421,393**	89,707,992

The accompanying notes form an integral part of these financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

PNG Sustainable Development Program Limited ("PNGSDP" or the "Company") is incorporated and domiciled in Singapore. The address of its principal place of business is Level 1, Harbourside West Building, Stanley Esplanade, PO Box 1786, Port Moresby, Papua New Guinea. The address of its registered office is 10 Collyer Quay, #10-01 Ocean Financial Centre, Singapore 049315.

The principal activities of the Company are to promote sustainable development within Papua New Guinea, and advance the general welfare of the people of Papua New Guinea, particularly those of the Western Province of Papua New Guinea, through supporting programs and projects in accordance with the Program Rules.

The principal activities of the subsidiaries are stated in Note 12.

2.1 Significant accounting policies

2.1.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement when applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions. Areas involving significant judgements, complexities, assumptions and estimates are disclosed in Note 3.

As disclosed in Notes 3.1(b), 11, 19(b) and 19(c) the Company is in dispute with the Government of Papua New Guinea ("PNG Government"). On 2 April 2019, the Company received a favourable ruling on the actions brought against it by the PNG Government in Singapore High Court. The PNG Government has since lodged an appeal, the outcome of which is uncertain. However, the directors are of the view that the courts will uphold the earlier judgement.

2.1 Significant accounting policies (continued)

2.1.1 Basis of preparation (continued)

The Company has restructured its operations and reduced its ongoing administration expenditure. These financial statements are prepared on the basis that the Company retains its control over the recorded assets of the Company at balance sheet date and continues to manage those assets in accordance with the Program Rules for the foreseeable future.

(a) Interpretations and amendments to published standards effective in 2018

On 1 January 2018, the Group adopted the new or amended FRS and Interpretations of FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial year except for the following:

(b) Adoption of FRS 109 Financial Instruments

The Group and Company have adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

(i) Impairment of financial assets

The Group and Company has loans to related parties and receivables subject to the expected credit loss impairment model under FRS 109.

The impairment methodology for each of these classes of financial assets under FRS109 are different as disclosed in Note 2.1.15 and Note 20(ii).

Details of additional impairment allowances recognised at 1 January 2018 on adoption of FRS 109 is disclosed in Note 20(ii).

(ii) Classification and Measurement of financial assets

For financial assets held by the Group on 1 January 2018, management has assessed the business models that are applicable on that date to these assets so as to classify them into the appropriate categories under FRS 109. There were no reclassifications resulting from management’s assessment. The accounting policy for classification and measurement under FRS 109 is disclosed in Note 2.1.15.

2.1 Significant accounting policies (continued)

2.1.2 Revenue recognition

(a) Dividend income

Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefit associated with the dividend will flow to the Group, and the amount of the dividend can be reliably measured.

(b) Interest income

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

(c) Other gains

On disposal of a financial asset, the difference between the net sale proceeds and its carrying amount is recognised in profit or loss. Gains arising from changes in fair value of investment in securities (Note 2.1.15) that have been designated as “Financial assets, at FVPL” are included in revenue in “fair value gains/losses on financial assets, at FVPL in the financial year in which the changes in fair value arise”.

(d) Rental income

The Group recognises rental income on a straight-line basis over the lease term.

2.1.3 Group accounting

(a) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (contined)

(a) Subsidiaries (continued)

(i) Consolidation (continued)

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to Note 2.1.6 for the subsequent accounting policy on goodwill.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (continued)

(a) Subsidiaries (continued)

(iii) Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.1.4 for the accounting policy on investments in subsidiaries.

(b) Transactions with non-controlling interests

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(c) Joint ventures

Joint ventures are entities over which the Group has joint control as a result of contractual arrangements, and rights to the net assets of the entities.

Joint ventures are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

(i) Acquisitions

Investments in joint ventures are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on joint ventures represents the excess of the cost of acquisition of the joint venture over the Group's share of the fair value of the identifiable net assets of the joint venture and is included in the carrying amount of the investments.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (continued)

(c) Joint ventures (continued)

(ii) Equity method of accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise Group's share of its joint ventures' post-acquisition profits or losses of the investee in profit or loss and its share of movements in other comprehensive income of the investee's other comprehensive income. Dividends received or receivable from the joint ventures are recognised as a reduction of the carrying amount of the investments. When the Group's share of losses in a joint venture equals to or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. Interest in a joint venture includes any long-term loans for which settlement is never planned nor likely to occur in the foreseeable future.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred. The accounting policies of joint ventures are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(iii) Disposals

Investments in joint ventures are derecognised when the Group loses significant influence or joint control. If the retained equity interest in the former joint venture is a financial asset, the retained equity interest is measured at fair value. The difference between the carrying amount of the retained interest at the date when joint control is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

Please refer to the Note 2.1.4 "Investments in subsidiaries and joint ventures" for the accounting policy on investments in joint ventures in the separate financial statements of the Company.

2.1 Significant accounting policies (continued)

2.1.4 Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are carried at cost, less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.1.5 Property, plant and equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recognised at cost. Buildings and leasehold land are subsequently carried at their costs less accumulated depreciation and accumulated impairment losses.

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) Depreciation

Depreciation on property, plant and equipment is calculated using a straight line method to allocate their depreciable amounts of plant and equipment over their estimated useful lives. The annual rates used for this purpose are as follows:

	Annual Rates %
Motor vehicles	20
Leasehold improvements	$33^{1}/_{3}$
Buildings	2
Leasehold land	Nil

2.1 Significant accounting policies (continued)

2.1.5 Property, plant and equipment (continued)

(b) Depreciation (continued)

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. Repair and maintenance expense are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

2.1 Significant accounting policies (continued)

2.1.6 Impairment of non-financial assets

Property, plant and equipment
Investments in subsidiaries and joint ventures

Property, plant and equipment and investments in subsidiaries and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment is also recognised in profit or loss.

2.1 Significant accounting policies (continued)

2.1.7 Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

2.1.8 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group and the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expenses in profit or loss for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from business combination is adjusted against goodwill on acquisition.

2.1 Significant accounting policies (continued)

2.1.9 Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.1.10 Employee compensation

Employee benefits are recognised as an expense, unless they can be capitalised as an asset.

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Company pays fixed contributions into separate entities such as National Superannuation Fund and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The Group and the Company contributions to defined contribution plans are recognised as employee benefit expense when they are due.

(b) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date at the future expected cost.

2.1 Significant accounting policies (continued)

2.1.11 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group and the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in United States Dollar ("US$") which is the Company's functional currency.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
(ii) Income and expenses for each statement comprehensive income are translated at average exchange rates; and
(iii) All resulting currency translation differences are recognised in the foreign currency translation reserve in equity.

2.1 Significant accounting policies (continued)

2.1.12 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash and bank balances, treasury bills, commercial papers and certificates of deposit, which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings in the statement of financial position.

2.1.13 Long Term Fund, Development Fund and General Fund

In pursuing its object, the Company is able to invest and utilise its available resources from the Long Term Fund, the Development Fund and General Fund in accordance with the Rules of the Company.

Long Term Fund

The Long Term Fund represents 2/3 of net income received from Ok Tedi Mining Limited after deducting operating expenses and all other legal contractual obligations as specified in the rules of the program relating to the application of the income received.

Funds from the Long Term Fund must be invested to achieve low risk for the aggregate investment portfolio.

Before the mine closure date, investment income from the Long Term Fund will be used in the following order of priority:

(a) Operating expenses for next 6 months in accordance with the budget approved by the Board from time to time.

(b) To the extent the amounts under Rules clauses 9.2 (b) and 9.3 (b) and that part of the commitment which is undrawn are insufficient, to meet contractual obligations.

(c) To the extent the amount under clause 9.2 (c) is insufficient, if determined by the Board, to meet a call by Ok Tedi Mining Limited in accordance with clause 12 (further capital requirements by Ok Tedi Mining Limited),with the balance to be added to and form part of the Long Term Fund.

The Program Rules are applied taking into account that the Company no longer receives dividends from Ok Tedi Mining Limited and neither does the Company have any continuing obligations relating to Ok Tedi Mining Limited.

An annual budget is prepared and submitted to the Board of Directors for review and actual operating expenditure is monitored progressively against the approved budget. The budget is approved taking into account the Program Rules under clause 9.3 applicable to the funding of operating expenses from investment income received by the Company on the Long Term Fund prior to mine closure.

2.1 Significant accounting policies (continued)

2.1.13 Long Term Fund, Development Fund and General Fund (continued)

Long Term Fund (continued)

After mine closure the funds will be applied in the following order of priority:

(a) Operating expenses for next 6 months in accordance with the budget approved by the Board from time to time.

(b) To the extent that distributions and investment income received after the mine closure date are insufficient to meet contractual obligations as they fall due for payment.

(c) Calls from Ok Tedi Mining Limited (on Shareholders).

(d) To fund Sustainable Development Purposes in proportions to be determined by the Board of Directors in accordance with Rules clause 10.4.

Development Fund

The fund is to be used to support and fund programs and projects which promote sustainable development in accordance with the “Rules for the PNG Sustainable Development Program” scheduled to and forming part of the Articles of Association of the Company.

The Development Fund represents 1/3 of income received from OK Tedi Mining Limited investments after deducting operating expenses and all other contractual obligations as specified in the rules relating to the application of income received.

In accordance with Rules clause 9.2 (e), the funds are to be applied as follows:

(a) 1/3 of these funds to be used in accordance with the Objects of the Articles of Association of the Company and at the discretion of the Board for the benefit of the people of Western Province; and

(b) 2/3 of these funds to be used in accordance with the Objects of the Articles of Association of the Company and at the discretion of the Board for the benefit of the people of Papua New Guinea.

These funds will be used mainly to fund projects covering core areas in health, education, capacity building, economic development, infrastructure community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of the people of Papua New Guinea, in particular, the people of the Western Province.

An annual budget including development expenditure is prepared and submitted to the Board of Directors for review and actual expenditure is monitored progressively against the approved budget. The budget is approved taking into account the funds available for use in the Development Fund.

2.1 Significant accounting policies (continued)

2.1.13 Long Term Fund, Development Fund and General Fund (continued)

General Fund

In accordance with clause 14 of the "Rules for the PNG Sustainable Development Program", a yearly budget of administration costs must be prepared and approved by the Board of Directors.

The budget prepared for each year after the third year of the Program must reflect that the portion of the operating expenses attributable to the operation of the Company (but not to the running of the Program) should not exceed 15% of the average annual income of the Program during the immediate preceding 3 accounting years.

The administration costs cover the normal operating expenses of the Company and of the Program including (without limitation) establishment costs, Directors' fees, the cost of Directors' and officers' liability insurance, expenditure of the program manager and the program manager's remuneration, and any tax payable by the Company.

2.1.14 Grants

Grants provided to subsidiaries, joint ventures and third parties are expensed in the period in which the grants are released.

2.1.15 Financial assets

The accounting for financial assets before 1 January 2018 are as follows:

(a) Classification

The Group and the Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The designation of financial assets at fair value through profit or loss is irrevocable.

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with the documented Group and Company investment strategy.

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(a) Classification (continued)

(i) Financial assets, at fair value through profit or loss (continued)

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

Investments in debt and equity securities are designated by management as 'financial assets at fair value through profit or loss' upon initial recognition. They are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the reporting date or unless they will mature within that period, in which case they are included in current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets. Loans and receivables are presented as "other receivables", "finance lease receivables" and "cash and cash equivalents" on the statement of financial position.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the reporting date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group and the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised immediately in profit or loss.

(d) *Subsequent measurement*

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) *Impairment*

The Group and the Company assess at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(e) Impairment (continued)

(i) Loans and receivables

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

The cumulative loss that was recognised in the fair value reserve is transferred to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss on debt securities. The impairment losses recognised in profit or loss on equity securities are not reversed through profit or loss.

The accounting for financial assets from 1 January 2018 are as follows:

(f) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost; and
- Fair value through profit or loss (FVPL)

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(f) Classification and measurement (continued)

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

At subsequent measurement

(i) *Debt instruments*

Debt instruments mainly comprise of cash and cash equivalents, trade and other receivables, listed and unlisted debt securities and equity investments.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

- Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

- FVPL: Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVPL. Movement in fair values and interest income is recognised in profit or loss in the period in which it arises and presented in revenue in "fair value gains/losses on financial assets, at FVPL".

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(f) Classification and measurement (continued)

<u>*At subsequent measurement*</u> (continued)

(ii) *Equity investments*

The Group subsequently measures all its equity investments at their fair values. Equity investments are classified as FVPL with movements in their fair values recognised in profit or loss in the period in which the changes arise and presented in revenue in “fair value gains/losses on financial assets, at FVPL”. Dividends from equity investments are recognised in profit or loss as “dividend income”.

(g) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 20 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by FRS 109, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For cash and cash equivalents and other receivables, the general 3 stage approach is applied. Credit loss allowance is based on 12 month expected credit loss if there is no significant increase in credit risk since initial recognition of the assets. If there is a significant increase in credit risk since initial recognition, lifetime expected credit loss will be calculated and recognised.

(h) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

2.1 Significant accounting policies (continued)

2.1.15 Financial assets (continued)

(h) *Recognition and derecognition* (continued)

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

2.1.16 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Financial asset, at FVPL

The Group and the Company uses market or quoted prices to fair value its financial assets. In cases where market or quoted prices are not used, fair value is determined by using valuation techniques and a set of key assumptions that are subject to change depending on the market conditions prevailing at the time in which fair value is determined. Furthermore, the Group and the Company follows guidance of FRS 109 to classify financial assets as financial assets, at FVPL. The current classification is based on the premise that these financial assets are managed on a portfolio basis and traded accordingly. Prevailing market conditions could change resulting in reassessment of the current classification.

3. Critical accounting estimates, assumptions and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

(b) Contingent assets

The Company is involved in significant litigation with the PNG Government. On 19 September 2013, the PNG National Parliament passed into law the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013 which effectively expropriated all of PNGSDP's shareholding in the share capital of Ok Tedi Mining Limited and transferred the 63.4% ownership previously held by PNGSDP to the PNG Government.

The Company disputes the expropriation of Ok Tedi Mining Limited and continues to seek restitution of the shares or compensation in respect of the shares in Ok Tedi Mining Limited taken over by the PNG Government through the enactment of the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013.

The directors are of the view that the Company has a strong case. As such the Company has disclosed this matter as a contingent asset. The value of the contingent asset is yet to be ascertained and is estimated to be representing the fair value of its investment in Ok Tedi Mining Limited as at 19 September 2013 upon expropriation of its shares in Ok Tedi Mining Limited, together with unpaid dividends that PNGSDP estimates would have been payable up until 19 September 2013.

The eventual outcome of the court cases (referred in Note 2.1.1) as well as any compensation which may be awarded in favour of the Company is uncertain and could be significantly different from that anticipated by the directors.

4. Revenue

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Interest income from commercial papers, certificates of deposits, bonds and cash balances	**10,558,747**	14,162,233	**9,198,709**	11,601,624
Fair value gains on financial assets, at FVPL	**-**	105,574,588	**-**	105,574,588
Dividend Income	**11,229,312**	10,181,250	**11,229,312**	10,181,250
	21,788,059	129,918,071	**20,428,021**	127,357,462
Revenue from other activities				
Interest income	**2,753,897**	6,484,339	**-**	-
Fee and deposit services income	**550,481**	703,568	**-**	-
	3,304,378	7,187,907	**-**	-
Total revenue	**25,092,437**	137,105,978	**20,428,021**	127,357,462

Dividends relates to dividends received from In-house Managed Funds (see Note 9).

5. Expenses

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Other investment losses				
Fair value losses on financial assets, at FVPL	**45,864,599**	-	**45,864,599**	-
Foreign exchange loss on local investments	**5,670,012**	1,305,906	**5,670,012**	1,305,906
	51,534,611	1,305,906	**51,534,611**	1,305,906
Governance costs				
Board of director's fees	**687,194**	785,505	**639,419**	721,568
Board administration	**163,238**	126,464	**154,853**	121,360
Audit fees	**143,063**	139,912	**89,526**	80,300
Annual report meeting expenses	**1,591**	2,043	**1,591**	2,043
Company secretary	**69,347**	75,327	**69,347**	75,327
Annual report	**2,006**	1,153	**2,006**	1,152
	1,066,439	1,130,404	**956,742**	1,001,750
Administration costs				
Employee compensation (Note 6)	**2,671,569**	2,562,368	**192,194**	161,575
Professional services	**479,821**	186,941	**437,264**	164,373
Travel	**280,012**	143,924	**232,585**	93,422
Insurance	**217,718**	228,336	**159,333**	165,176
Office rent and security expenses	**1,286,319**	1,532,147	**129,070**	130,928
Information services	**389,339**	457,116	**57,690**	85,465
Advertising and media cost	**93,035**	48,683	**48,014**	12,658
Motor vehicle expenses	**141,241**	129,169	**11,991**	10,786
Repairs and maintenance	**61,552**	112,949	**8,492**	-
Other expenses	**381,706**	672,202	**171,565**	59,284
	6,002,312	6,073,835	**1,448,198**	883,667
Fund management costs				
Investment service fees	**3,112,519**	3,428,003	**3,112,519**	3,428,003
Professional services	**3,074,354**	982,066	**3,074,354**	982,066
	6,186,873	4,410,069	**6,186,873****	4,410,069
Development program costs	**32,406,885**	24,844,614	**32,406,885**	24,844,614
	32,406,885	24,844,614	**32,406,885**	24,844,614
Other losses – net				
Foreign currency exchange loss, net	**2,010,598**	1,053,568	**-**	277,033
	2,010,598	1,053,568	**-**	277,033
Total expenses	**99,207,718**	38,818,396	**92,533,309**	32,723,039

**Investment service fees charged to the Long Term Fund and Development Fund were US$6,123,868 (2017: US$4,410,069) and US$63,005 (2017: US$Nil) respectively.

6. Employee compensation

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Wages and salaries	**2,404,781**	2,347,519	**192,194**	161,575
Other employee benefits and costs	**79,369**	15,610	**-**	-
Employer's contribution to defined contribution plans	**187,419**	199,239	**-**	-
	2,671,569	2,562,368	**192,194**	161,575

Key management compensation is disclosed in Note 21.

7. Income tax

(a) Income tax expense

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Tax expense attributable to the operating surplus is made up of:				
Current income tax	**2,284,044**	2,857,319	**1,787,873**	1,628,675
Deferred income tax	**86,516**	-	**-**	-
	2,370,560	2,857,319	**1,787,873**	1,628,675

The tax expense is comprised of:

- US$1,787,873 (2017: US$1,628,675) in connection with the withholding tax deducted from dividend income from its Papua New Guinea equity investments;
- US$496,171 (2017: US$1,228,644) in connection with the current income tax payable for a subsidiary; and
- US$86,516 (2017: US$Nil) in connection with the deferred income tax for a subsidiary.

No Singapore income tax is payable on the basis that the dividend and interest income is not remitted to Singapore.

7. **Income tax** (continued)

(a) Income tax expense (continued)

The tax on results differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	Group		Company	
	2018 US$	2017 US$	**2018 US$**	2017 US$
(Deficit)/surplus before income tax	**(73,437,965)**	97,629,628	**(74,035,262)**	94,634,423
Tax calculated at Singapore rate applicable to income in Papua New Guinea at 17% (2017: 17%)	**(12,484,454)**	16,597,037	**(12,585,995)**	16,087,852
Income not subject to tax	**(2,256,200)**	(21,469,375)	**(1,450,688)**	(19,824,501)
Expenses not deductible for tax purposes	**16,762,730**	6,698,605	**16,058,759**	5,562,916
Effect of tax rates in other countries	**(234,203)**	(197,592)	**(234,203)**	(197,592)
Tax expense of subsidiaries	**582,687**	1,228,644	**-**	-
Tax expense	**2,370,560**	2,857,319	**1,787,873**	1,628,675
Comprising:				
Dividend/interest withholding tax paid to the IRC of Papua New Guinea	**1,787,873**	1,628,675	**1,787,873**	1,628,675
Current income tax expense	**496,171**	1,228,644	**-**	-
Deferred income tax expense	**86,516**	-	**-**	-
	2,370,560	2,857,319	**1,787,873**	1,628,675

(b) Movement in current income tax (assets)/liabilities:

	Group		Company	
	2018 US$	2017 US$	**2018 US$**	2017 US$
Beginning of financial year	**982,281**	3,076,470	**-**	-
Tax expense	**496,171**	1,228,644	**-**	-
Currency translation differences	**(10,553)**	(191,003)	**-**	-
Income tax paid	**(2,065,445)**	(3,131,830)	**-**	-
End of financial year	**(597,546)**	982,281	**-**	-

8. Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Cash and bank balances	**13,022,678**	18,460,363	**9,073,518**	15,017,396
Funds under management:				
Cash held in investment funds	**235,940**	2,633,546	**235,941**	2,633,546
Certificates of deposit	**93,162,775**	68,614,083	**93,162,774**	68,614,083
	93,398,715	71,247,629	**93,398,715**	71,247,629
	106,421,393	89,707,992	**102,472,233**	86,265,025

The Company has restricted access to cash and cash equivalents held in Papua New Guinea of US$735,458 (2017:US$3,537,158) and other assets held in Papua New Guinea as the tax authorities have declined to provide taxation clearance to remit funds overseas. In the prior year, cash and bank also included an amount of A$9,025,249 (equivalent to US$6,949,250) placed in the Escrow account managed by the Escrow Agent subsequent to an Escrow agreement signed in 2017. The escrow account was closed during the current year.

For the purpose of presenting the consolidated cash flow statements, the consolidated cash and cash equivalents comprise the following:

	Group	
	2018	2017
	US$	US$
Cash and bank balances (as above)	**106,421,393**	89,707,992

9. Financial assets, at FVPL

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Current				
Funds under management:				
Bonds and Certificates of deposit	**-**	8,826,854	**-**	8,826,854
In-house Managed Funds:				
Bonds and Certificates of deposit	**35,969,078**	46,797,431	**-**	-
Total current	**35,969,078**	55,624,285	**-**	8,826,854
Non-current				
Funds under management:				
Bonds and Equity securities* and Funds	**1,129,268,734**	1,189,178,323	**1,129,268,734**	1,189,178,323
In-house Managed Funds:				
Bonds and Equity securities*	**96,832,506**	102,984,560	**96,832,506**	102,984,560
Total non-current	**1,226,101,240**	1,292,162,883	**1,226,101,240**	1,292,162,883
Total	**1,262,070,318**	1,347,787,168	**1,226,101,240**	1,300,989,737

* Investments in listed equity securities.

Funds under management

The financial assets that are externally-managed comprised funds placed with various professional fund managers pursuant to investment management agreements and other direct investments in equity funds. To achieve diversification, funds allocated to different fund managers are invested in different asset classes to reduce overall portfolio risk. The Group can, pursuant to the terms, terminate the agreements by giving the requisite prior notice in writing to the fund managers. The professional fund managers are given discretionary powers within certain guidelines to invest the funds and these financial assets are managed on a portfolio basis and their performance evaluated on a fair value basis.

10. Other receivables

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Current				
Loans and receivables	**7,200,439**	11,022,929	**51,204,162**	60,961,051
Other receivables	**1,082,376**	3,112,072	**373,398**	316,047
	8,282,815	14,135,001	**51,577,560**	61,277,098
Less: Allowance for loan losses	**(1,359,890)**	(1,761,538)	**(1,930,482)**	-
	6,922,925	12,373,463	**49,647,078**	61,277,098
Non-current				
Loan receivable from a joint venture (Note (i))	**11,006,228**	10,743,918	**-**	-

	Company	
	2018	2017
	US$	US$
Loans receivable from subsidiaries:		
Champion No. 34 Limited (Note (ii))	**49,086,155**	59,330,246
PNG Sustainable Development Program (Australia) Pty Limited (Note (iii))	**2,118,007**	1,630,805
Less: Allowance for loan losses	**(1,930,482)**	-
	49,273,680	60,961,051

(i) Champion 34 No. Limited, a subsidiary of the Company, is a 50% shareholder of a real estate joint venture in Papua New Guinea named Harbourside Development Limited. On 29 September 2017 the shareholders of the joint venture entered into a loan arrangement where each shareholder equally provided a loan of PNG Kina 33,615,323 directly to the joint venture at 6.5% interest per annum. The principal of the loan is repayable after 5 years from the date of draw down.

At the balance sheet date, the fair value of the loan receivable from a joint venture is US$9,855,408 (2017:US$9,643,378) and is computed based on cash flow discounted at the interest rates at 6.5% per annum (2017: 6.5% per annum). The fair values are within Level 3 of the fair values hierarchy.

10. Other receivables (continued)

(ii) The loan receivable from Champion No. 34 Limited is interest-free, unsecured with no fixed repayment period and will be called upon when the subsidiary has the capacity to repay the loan.

(iii) The loan receivable from PNGSDP (Australia) Pty Limited is interest-free, unsecured with no fixed repayment period and will be called upon when the subsidiary has the capacity to repay the loan.

Loans and receivables (excluding prepayments and interest receivable) and other receivables are denominated in PNG Kina. The carrying amounts of loans and receivables, and other receivables approximated their fair values.

11. Investments in joint ventures

	Company	
	2018	2017
	US$	US$
Investment in PNG Energy Development Limited ("PNGEDL"), at cost	**45,109,368**	45,109,368
Provision for impairment of investment in PNGEDL*	**(45,109,368)**	(45,109,368)
	-	-

** The impairment arose in 2013, following loss of income from OK Tedi Mining Limited. The Company no longer has capacity to fund the project.*

	Group	
	2018	**2017**
	US$	**US$**
Beginning of financial year	**4,501,479**	4,654,630
Share of results after tax	**73,890**	(72,789)
Currency translation differences	**(183,346)**	(80,362)
End of financial year	**4,392,023**	4,501,479

11. Investments in joint ventures (continued)

The investments in joint ventures are represented by:

	Group	
	2018	2017
	US$	US$
Share of net assets in PNGEDL	**-**	-
Share of net assets in Harbourside Development Ltd	**4,392,023**	4,501,479
Total	**4,392,023**	4,501,479

The following amounts represent the Group's share of the assets and liabilities and income and expenses of the joint ventures:

	Group	
	2018	2017
	US$	US$
- Assets	**27,351,549**	29,132,897
- Liabilities	**22,131,503**	(23,899,759)
- Revenue	**2,803,958**	2,990,953
- Net results	**207,365**	87,056
Share of capital commitment	**-**	-

OK Tedi Mining Limited

On 19 September 2013, the PNG National Parliament passed into law the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013 which effectively expropriated all of PNGSDP's shareholding in the share capital of Ok Tedi Mining Limited and transferred the 63.4% ownership previously held by PNGSDP to the PNG Government.

Effective from the enactment of the new law the share register of Ok Tedi Mining Limited was amended to reflect the new shareholding of the State in Ok Tedi Mining Limited and all references to PNGSDP in the constitution of Ok Tedi Mining Limited and in the Fifth Restated Shareholders Agreement of Ok Tedi Mining Limited were replaced, and the State required that effective from the date of the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013 all references to PNGSDP were to be interpreted as referring to the PNG Government.

There was no consideration paid to PNGSDP in respect of the shares which were taken over by the PNG Government. The above events in 2013 resulted in the recognition of an impairment loss of US$668,525,914 for the Group in that year.

11. Investments in joint ventures (continued)

PNG Energy Development Limited

Pursuant to a shareholder agreement, PNGEDL is equally owned by PNGSDP and Origin Energy Ltd. The principal activity of PNGEDL is to implement and manage electricity and energy projects which are in line with the overall goals and objectives of PNGSDP. Origin Energy Ltd was providing technical expertise whilst PNGSDP provided funding for the projects.

In 2013, a decision was made by the directors to impair the full value of the investment based on the fact that its key project, the Purari River Project is long dated and the scale of PNGSDP's involvement in the future is uncertain given the Company no longer has the capacity to continue funding the project after the loss of its dividend income from the investment in Ok Tedi Mining Limited. The directors continue to explore opportunities to realise the value created from technical feasibility studies on the Purari Project.

Harbourside Development Limited

Champion No. 34 Limited has a 50% joint venture agreement with Steamships Trading Company Limited to own and operate an office complex on the waterfront in Port Moresby. The construction of this office complex was completed and the commercial letting of the premises commenced during the 2nd half of 2016. The investment in this development was $9,330,000 which has been equity accounted in accordance with the Group's policy for joint ventures.

Details of the joint ventures are as follows:

Name of joint venture	Principal activities	Country of Incorporation	Effective Interest 2018 %	2017 %
PNG Energy Development Limited	Development of energy projects	Papua New Guinea	**50**	50
Harbourside Development Limited	Property development	Papua New Guinea	**50**	50

There are no contingent liabilities relating to the Group's interest in the joint ventures.

11. Investments in joint ventures (continued)

Summarised financial information for PNG Energy Development Limited

Set out below are the summarised financial information for PNG Energy Development Limited which is accounted for using the equity method.

Summarised statement of financial position

	2018 US$	2017 US$
Current		
Cash and cash equivalents	**1,662,293**	1,777,768
Other current assets (excluding cash)	**4,475**	26,617
Total current assets	**1,666,768**	1,804,385
Other current liabilities (including trade payables)	**10,722**	341,069
Total current liabilities	**10,722**	341,069
Net assets	**1,656,046**	1,463,316
Interest in joint venture at 50%	**828,023**	731,658
Impairment	**(828,023)**	(731,658)
Carrying value	**-**	-

Summarised statement of comprehensive income

	2018 US$	2017 US$
Foreign exchange (loss)/gain	**(13,390)**	58,480
Interest income	**334,091**	343,081
Administration expenses	**(53,752)**	(81,872)
Total comprehensive gain for the year attributable to equity holders of the Company	**266,949**	319,689

The information above reflects the amounts presented in the financial statements of the joint venture (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture.

11. Investments in joint ventures (continued)

Summarised financial information for Harbourside Development Limited

Set out below is the summarised financial information for Harbourside Development Limited which is accounted for using the equity method.

Summarised statement of financial position

	2018 US$	2017 US$
Current		
Cash and cash equivalents	**-**	623,139
Other current assets (excluding cash)	**933,578**	168,058
Total current assets	**933,578**	791,197
Financial liabilities (excluding trade payables)	**40,928,262**	46,874,381
Other current liabilities (including trade payables)	**3,324,022**	584,067
Total current liabilities	**44,252,284**	47,458,448
Non-current		
Assets	**52,102,753**	55,670,209
Net assets	**8,784,047**	9,002,958
Net assets including the foreign currency translation differences	**8,784,047**	9,002,958
Interest in joint venture at 50% and carrying value	**4,392,023**	4,501,479

Summarised statement of comprehensive income

	2018 US$	2017 US$
Revenue from continuing operations	**5,287,215**	5,580,345
Operating costs	**(5,147,082)**	(5,788,313)
Profit/(loss) before income tax	**140,133**	(207,968)
Income tax credit	**7,648**	62,390
Total comprehensive profit/(loss) for the year attributable to equity holders of the Company	**147,781**	(145,578)

The company was in development phase until end of 2014 and started generating revenue in 2015.

The information above reflects the amounts presented in the financial statements of the joint venture (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture.

12. Investments in subsidiaries

	Company 2018 US$	Company 2017 US$
Investments (unquoted at cost)		
PNG Sustainable Infrastructure Limited	**1**	1
Impairment of PNG Sustainable Infrastructure Limited	**(1)**	(1)
PNG Sustainable Energy Limited	**5,450,000**	5,450,000
Impairment of PNG Sustainable Energy Limited	**(5,450,000)**	(5,450,000)
Champion No. 34 Limited	**1**	1
PNG Sustainable Development Program (Australia) Pty Limited	**1**	1
Champion No 53 Limited	**-****	-**
Daru Port Development Company Ltd	**31,914,150**	31,914,150
Impairment of Daru Port Development Company Ltd	**(31,914,150)**	(31,914,150)
PNG Microfinance Ltd	**1,940,787**	1,940,787
Impairment of PNG Microfinance Ltd	**(1,940,787)**	(1,940,787)
	2	2

** less than US$1.

Details of the subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation	Effective Interest 2018 %	Effective Interest 2017 %
PNG Sustainable Infrastructure Limited	Develop and construct infrastructure projects in Papua New Guinea (Inactive)	Papua New Guinea	**100**	100
PNG Sustainable Energy Limited	Development of energy Projects (Inactive)	Papua New Guinea	**100**	100
Champion No. 34 Limited	Real estate and other investment activities	Papua New Guinea	**100**	100
PNG Sustainable Development Program (Australia) Pty Limited	Administration, accounting and investment management services	Australia	**100**	100
Champion No 53 Limited	Investment holding company (Inactive)	Papua New Guinea	**100**	100
PNG Microfinance Ltd	Financial institution	Papua New Guinea	**83**	83
Daru Port Development Company Ltd	Construction of port and road facilities in the Western Province (Inactive)	Papua New Guinea	**100**	100

13. Property, plant and equipment

Group and Company	Leasehold land US$	Total US$
2018		
Cost		
Beginning and end of financial year	200,808	200,808
Accumulated depreciation		
Beginning and end of financial year	**-**	**-**
Net book value		
End of financial year	**200,808**	**200,808**
2017		
Cost		
Beginning and end of financial year	200,808	200,808
Accumulated depreciation		
Beginning and end of financial year	-	-
Net book value		
End of financial year	**200,808**	**200,808**

14. Sundry creditors and accruals

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Amounts due to:				
Depositors of subsidiary	**13,928,232**	16,136,995	**-**	-
Other non-related parties	**9,416,983**	3,838,827	**8,488,366**	1,584,307
	23,345,215	19,975,822	**8,488,366**	1,584,307

15. Deferred income tax

Movement in deferred income tax account is as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Beginning of the financial year	**-**	-	**-**	-
Charge to profit or loss	**86,516**	-	**-**	-
	86,516	-	**-**	-

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The deferred tax liability of the group relates to temporary differences arising from accrued income in a subsidiary.

16. Members' subscriptions

As a Company "limited by guarantee", the Company does not have any issued shares or shareholders. At 31 December 2018, there are 4 (2017: 4) members of the Company, (Sir Mekere Morauta, Donald Manoa, Philip Bainbridge and Lim How Teck). Every member of the company undertakes to contribute to the assets of the company an amount not exceeding Singapore dollar 10, in the event of winding up of the company.

17. General Fund, Long Term Fund and Development Fund

General Fund

The General Fund is accounted for in accordance with the policy set out in Note 2.1.13.

	Company	
	2018	2017
	US$	US$
Beginning of financial year	**-**	-
Other income	**3,003**	81,893
Governance and administrative expenses**	**(2,425,173)**	(3,144,482)
Income transfered from long term and development funds	**2,422,170**	3,062,589
End of financial year	**-**	-

**The directors confirm that the total administrative expenses for the year are within the limit prescribed in the Program rules and do not exceed 15% of the average annual income of the immediate preceeding 3 accounting years.

Long Term Fund

The Long Term Fund is accounted for in accordance with the policy set out in Note 2.1.13.

	Company	
	2018	2017
	US$	US$
Beginning of financial year	**1,407,152,434**	1,331,751,245
Investment (loss)/gain – net	**(31,055,204)**	125,502,522
Investment & professional expenses (Note 5)	**(6,123,868)**	(4,410,069)
Withholding tax paid to IRC of Papua New Guinea	**(1,787,873)**	(1,628,675)
Impairment loss on long term assets	**(1,391,725)**	-
Income transfered to General Fund*	**(2,422,170)**	(3,062,589)
Income transfered to Development Fund*	**(15,000,000)**	(41,000,000)
End of financial year	**1,349,371,594**	1,407,152,434

17. General Fund, Long Term Fund and Development Fund (continued)

Long Term Fund (continued)

*In accordance with the clause 9.3 of the Program Rules this portion of income earned during the year was transferred to the General Fund to pay for administrative expenditure. The Program Rules allow the funding of operating expenses from investment income received by the Company on the Long Term Fund prior to mine closure.

Development Fund

The Development Fund is accounted for in accordance with the policy set out in Note 2.1.13.

Following the expropriation of the Ok Tedi Mine the Company no longer receives any dividend income therefore the Development Fund will be used in accordance with the Objects of the Articles of Association and at the discretion of the Board for the benefit of the people of the Western Province. As such the allocation of the Development Fund between the Western Province Program Fund and the National Program Fund has been discontinued.

	Company	
	2018	2017
	US$	US$
Beginning of financial year	**39,995,912**	22,391,353
Adoption of FRS 109	**(1,392,233)**	-
	38,603,679	22,391,353
Investment (loss)/income	**(34,156)**	1,449,173
Investment expenses (Note 5)	**(63,005)**	-
Development expenses	**(32,406,885)**	(24,844,614)
Income transfered from Long Term Fund	**15,000,000**	41,000,000
Allowance for loan losses (Note 10)	**(538,249)**	-
End of financial year	**20,561,384**	39,995,912

18. Commitments

(a) Operating lease commitments – where the Group is a lessee

The Group leases office space and motor vehicles from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Not later than one year	**802,531**	885,747	**60,887**	95,480
Later than one year but not later than five years	**1,327,386**	293,435	**-**	-
	2,129,917	1,179,182	**60,887**	95,480

(b) Capital commitments

There were no capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investments in joint ventures (Note 11).

(c) Compensation commitments

The Group was a party to various compensation agreements with landowners and other surrounding communities affected by the Ok Tedi mine. Compensation packages are denominated in the local currency and, in the majority of instances, are payable over the life of the open pit mine.

Under these arrangements PNGSDP had an annual commitment to spend at least PGK 21,500,000 (US$6,654,250) or 2.5% of dividends declared each year, whichever is greater, in mine affected communities until mine closure date.

The directors are of the view that there are no ongoing obligations in respect of the compensation agreements subsequent to the expropriation of the shares in Ok Tedi Mining Limited by the PNG Government as these are predicated on PNGSDP continuing as a shareholder in Ok Tedi Mining Limited and receiving dividends from Ok Tedi Mining Limited.

19. Contingencies

(a) Contingent liabilities

The Shareholder Agreement between PNGSDP, PNG Microfinance Ltd ("PNGMF") and International Finance Corporation ("IFC") was amended and restated on 22 May 2006 to cater for a subscription agreement between PNGMF and International Finance Corporation ("IFC") dated 24 June 2005. IFC agreed on the terms and conditions set out therein and subscribed for approximately 2,900,000 shares ("option shares") of PNGMF. As a condition for investing in PNGMF, the IFC entered into a Put Option Agreement with PNGSDP on 22 May 2006. The Put Option Agreement binds PNGSDP to acquire the option shares when IFC exercises the right to require PNGSDP to purchase any or all of the option shares. The Put Option Agreement specifies that the put option can be exercised by IFC when a "Put Triggering Event" occurs, such as default or non-compliance by PNGSDP or PNGMF with any of its respective obligations, or any misrepresentation or breach of warranty by PNGSDP or PNGMF under the Shareholders Agreement. There has been no such "Put Triggering Event" during the year or in relation to prior years.

(b) Contingent assets

On 19 September 2013, the PNG National Parliament passed into law the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013 which effectively expropriated all of PNGSDP's shareholding in the share capital of Ok Tedi Mining Limited and transferred the 63.4% ownership previously held by PNGSDP to the PNG Government.

The Company continues to seek restitution of the shares or compensation in respect of the shares in Ok Tedi Mining Limited taken over by the PNG Government through the enactment of the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013. As at the date of financial statements, the directors are of the view that the PNG Government owes to PNGSDP an amount representing, the fair value of its investment in Ok Tedi Mining Limited as at 19 September together with unpaid dividends that PNGSDP estimates would have been payable up until 19 September 2013.

The directors of PNGSDP are reasonably confident that an eventual ruling on the matter before the courts (referred in Note 2.1.1) will be in favour of PNGSDP and have therefore disclosed this matter as a contingent asset. As at the date of approval of these financial statements, sufficient information is not available to reliably determine any eventual settlement amount.

(c) Litigation

The Company successfully defended the actions brought against it by the PNG Government in Singapore courts. The court ruled in favour of PNGSDP on all counts and as such the directors are satisfied that there is no immediate threat to the control over its assets and the future operations of the company. The PNG Government has since lodged an appeal with the Singapore High Court, the outcome of which is uncertain. However, the directors are of the view that the courts will uphold the earlier judgement.

20. Financial risk management

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Group to transfer securities might be temporarily impaired.

The Group's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Group is exposed and seeks to minimise potential adverse effects on the Group's financial performance. All securities investments present a risk of loss of capital. The maximum loss of capital is limited to the fair value of those positions.

The management of these risks is carried out by the investment managers under policies approved by the Board of Directors. The Board of Directors is responsible for setting the objectives and the underlying principles of financial risk management for the Group and the Company. The Investment and Finance Committee then establishes the detailed policies for reviewing each manager to ensure in accordance with desired role within the approved asset allocation and to assure appropriate due diligence has been conducted to satisfaction via an independent third party advisor.

The Group and Company has approved direct investments with approximately 20 (2017: 11) managed funds to carry out investment activities in accordance with the investment policies and guidelines approved by the Board. An Investment and Finance Committee of the Board has been established to monitor investment and risk management and the performance of the fund managers and managed funds.

20. Financial risk management (continued)

(i) Market risk

(a) Price risk

The Group is exposed to equity and bond securities price risk and derivative price risk. This arises from investments held by the Fund Managers for which prices in the future are uncertain.

The Group's policy is to manage price risk through diversification and selection of reputable and experienced Fund Managers that manages the securities and other financial instruments within specified limits set by the Board of Directors. A summary analysis of investments by nature is presented in Note 9.

The majority of the Group's equity investments are publicly traded with good credit quality ratings. The Group's policy requires that the overall market position is monitored by the Group's Investment and Finance Committee and is reviewed on a quarterly basis by the Board of Directors. Compliance with the Group's investment policies are reported to the Board by the Investment and Finance Committee on a quarterly basis.

At 31 December, the fair value of equities and bonds exposed to price risk were as follows:

	Fair Value	
	2018	2017
	US$	US$
Group		
Equity securities and bonds designated, at FVPL	**1,231,671,884**	1,307,078,632

	Fair Value	
	2018	2017
	US$	US$
Company		
Equity securities and bonds designated, at FVPL	**1,226,101,240**	1,300,989,737

20. Financial risk management (continued)

(i) Market risk (continued)

(a) *Price risk* (continued)

The table below summarises the sensitivity of the Group's and Company's investments to equity and bond price movements as at 31 December. The analysis is based on the assumptions that the Market Index changed by 5% (2017: 5%) with all other variables held constant. The impact below arises from the reasonably possible change in the fair value of securities held via fund managers.

	2018	2017
	(Decrease)/Increase	
	Deficit from operations	Surplus from operations
	US$	US$
Group		
Managed by Fund Managers		
- increased by	**(56,463,437)**	30,731,970
- decreased by	**56,463,437**	(30,731,970)
Managed in-house		
- increased by	**(5,120,157)**	7,489,100
- decreased by	**5,120,157**	(7,489,100)
Company		
Managed by Fund Managers		
- increased by	**(56,463,437)**	30,731,970
- decreased by	**56,463,437**	(30,731,970)
Managed in-house		
- increased by	**(4,841,625)**	5,149,228
- decreased by	**4,841,625**	(5,149,228)

20. Financial risk management (continued)

(i) Market risk (continued)

(a) *Price risk* (continued)

Diversification via fund managers may reduce sensitivity to market movements. The sensitivity analysis presented is based upon the portfolio composition as at 31 December and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the Group's investment portfolio as managed by the Fund Managers is expected to change over time.

(b) *Currency risk*

The fund managers of the Group operate internationally and hold monetary assets denominated in currencies other than the US Dollar, the functional currency. Currency risk, as defined in FRS 107, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

Management monitors the exposure on all foreign currency denominated assets and liabilities. The table below summarises the Group's assets and liabilities, which are denominated in a currency other than the US Dollar.

20. Financial risk management (continued)

(i) Market risk (continued)

(b) *Currency risk* (continued)

The Group's and Company's currency exposure based on the information used by key management is as follows:

	PGK US$	EUR US$	USD US$	AUD US$	Other US$	Total US$
Group						
2018						
Financial Assets						
Cash and cash equivalents	4,685,660	(3,926)	94,910,129	6,808,563	20,967	106,421,393
Financial assets, at FVPL	132,381,333	2,890,407	1,071,417,423	55,381,155	-	1,262,070,318
Other receivables	17,893,473	-	35,680	-	-	17,929,153
	154,960,466	2,886,481	1,166,363,232	62,189,718	20,967	1,386,420,864
Financial Liabilities						
Sundry creditors, accruals and provisions	(21,881,607)	-	(1,389,559)	(335,725)	(92,787)	(23,699,678)
Net financial assets/(liabilities)	133,078,859	2,886,481	1,164,973,673	61,853,993	(71,820)	1,362,721,186
Less: Net financial assets denominated in the Group's functional currency	-	-	(1,164,973,673)	-	-	(1,164,973,673)
Currency exposure	133,078,859	2,886,481	-	61,853,993	(71,820)	197,747,513

20. Financial risk management (continued)

(i) Market risk (continued)

(b) *Currency risk* (continued)

	PGK US$	EUR US$	USD US$	AUD US$	Other US$	Total US$
Group						
2017						
Financial Assets						
Cash and cash equivalents	6,981,211	(2,198,051)	81,251,527	7,211,474	(3,538,169)	89,707,992
Financial assets, at FVPL	140,398,364	2,311,620	1,192,343,030	651,297	12,082,857	1,347,787,168
Other receivables	23,117,381	-	-	-	-	23,117,381
	170,496,956	113,569	1,273,594,557	7,862,771	8,544,688	1,460,612,541
Financial Liabilities						
Sundry creditors, accruals and provisions	(20,302,970)	-	-	-	-	(20,302,970)
Net financial assets	150,193,986	113,569	1,273,594,557	7,862,771	8,544,688	1,440,309,571
Less: Net financial assets denominated in the Group's functional currency	-	-	(1,273,594,557)	-	-	(1,273,594,557)
Currency exposure	150,193,986	113,569	-	7,862,771	8,544,688	166,715,014

20. Financial risk management (continued)

(i) Market risk (continued)

(b) *Currency risk* (continued)

	PGK US$	EUR US$	USD US$	AUD US$	Other US$	Total US$
Company						
2018						
Financial Assets						
Cash and cash equivalents	736,500	(3,926)	94,910,129	6,808,563	20,967	102,472,233
Financial assets, at FVPL	96,412,255	2,890,407	1,071,417,423	55,381,155	-	1,226,101,240
Other receivables	49,423,873	-	35,680	187,525	-	49,647,078
	146,572,628	2,886,481	1,166,363,232	62,377,243	20,967	1,378,220,551
Financial Liabilities						
Sundry creditors and accruals	(6,765,369)	-	(1,389,560)	(240,650)	(92,787)	(8,488,366)
Net financial assets/(liabilities)	139,807,259	2,886,481	1,164,973,672	62,136,593	(71,820)	1,369,732,185
Less: Net financial assets denominated in the Company's functional currency	-	-	(1,164,973,672)	-	-	(1,164,973,672)
Currency exposure	139,807,259	2,886,481	-	62,136,593	(71,820)	204,758,513

	PGK US$	EUR US$	USD US$	AUD US$	Other US$	Total US$
Company						
2017						
Financial Assets						
Cash and cash equivalents	3,538,244	(2,198,051)	81,251,527	7,211,474	(3,538,169)	86,265,025
Financial assets, at FVPL	93,600,933	2,311,620	1,192,343,030	9,383,626	3,350,527	1,300,989,736
Other receivables	59,376,275	-	292,701	1,608,122	-	61,277,098
	156,515,452	113,569	1,273,887,258	18,203,222	(187,642)	1,448,531,859
Financial Liabilities						
Sundry creditors and accruals	(519,867)	-	(981,529)	(54,427)	(28,481)	(1,584,304)
Net financial assets/(liabilities)	155,995,585	113,569	1,272,905,729	18,148,795	(216,123)	1,446,947,555
Less: Net financial assets denominated in the Company's functional currency	-	-	(1,272,905,729)	-	-	(1,272,905,729)
Currency exposure	155,995,585	113,569	-	18,148,795	(216,123)	174,041,826

In accordance with the Group's policy, the fund managers monitor the Group's currency exposure on a daily basis, and the Investment and Finance Committee reviews it on a quarterly basis.The table below summarises the sensitivity of the Group's investment portfolio to changes in foreign exchange movements at year end. The analysis is based on the assumptions that the relevant foreign exchange rate increased/decreased against the US Dollar by the percentages disclosed in the table below, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates.

20. Financial risk management (continued)

(i) Market risk (continued)

(b) Currency risk (continued)

If the PGK changed against the USD by 4% (2017: 5%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	(Decrease)/Increase	
	Deficit from operations 2018 US$	Surplus from operations 2017 US$
Group		
PGK against USD		
- strengthened	**(5,323,154)**	7,509,699
- weakened	**5,323,154**	(7,509,699)
Company		
PGK against USD		
- strengthened	**(5,592,290)**	7,799,779
- weakened	**5,592,290**	(7,799,779)

If the EUR change against the USD by 4% (2017: 11%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	(Decrease)/Increase	
	Deficit from operations 2018 US$	Surplus from operations 2017 US$
Group		
EUR against USD		
- strengthened	**(115,459)**	12,493
- weakened	**115,459**	(12,493)
Company		
EUR against USD		
- strengthened	**(115,459)**	12,493
- weakened	**115,459**	(12,493)

20. Financial risk management (continued)

(i) Market risk (continued)

(b) Currency risk (continued)

If the AUD change against the USD by 11% (2017: 7%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	(Decrease)/Increase	
	Deficit from operations	Surplus from operations
	2018	2017
	US$	US$
Group		
AUD against USD		
- strengthened	**(6,803,939)**	550,394
- weakened	**6,803,939**	(550,394)
Company		
AUD against USD		
- strengthened	**(6,835,025)**	1,270,416
- weakened	**6,835,025**	(1,270,416)

(c) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. The Group holds fixed interest securities that expose the Group to fair value interest rate risk. The Group also holds a limited amount of floating rate securities, cash and cash equivalents that expose the Group to cash flow interest rate risk. The Group's policy requires the Investment Manager to manage this risk by calculating the average duration of the portfolio of fixed interest securities. The average effective duration of the Group's portfolio is a measure of the sensitivity of the fair value of the Group's fixed interest securities to changes in market interest rates.

20. Financial risk management (continued)

(i) Market risk (continued)

(c) Cash flow and fair value interest rate risk (continued)

The Group's and the Company's interest rate risk arises from term deposits, commercial papers and bonds. The Group's and the Company's risk management policy is to limit investment in commercial papers to not more than 1% per institution and no more than 20% of the investment portfolio exposure to any single country.

At 31 December 2018 and 31 December 2017, if interest rates had been 5% higher/lower with all other variable constant there would not have been a material movement in the interest bearing assets in the Group and Company.

(ii) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The major classes of financial assets of the Group and of the Company are cash and bank balances, receivables and financial instruments. For receivables other than related parties, the Group and the Company adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient collateral where appropriate to mitigate credit risk. For other financial assets, the Group and the Company adopts the policy of dealing only with high credit quality counterparties.

A BBB/Baa rating is the lowest rating a bond can have and still be considered an investment grade bond. An investment grade bond is a bond considered to have a relatively low risk of default. The bonds that the Group and Company have invested in 2018 were rated A and above (2017: A and above). The majority of unrated securities have been assessed by the fund managers to have credit quality consistent with the investment policies and guidelines approved by the Board of Directors for an investment grade bond.

20. Financial risk management (continued)

(ii) Credit risk (continued)

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions. For banks and financial institutions, the Group only transacts with independently rated parties with high credit ratings. The investment in commercial papers and bonds are restricted to institutions in OECD member countries.

In accordance with the Group's policy, the fund managers monitor the Group's credit position on a daily basis; the Investment and Finance Committee reviews it on a quarterly basis.

As the Group and the Company do not hold any collateral, with the exception of collateral held as security against loan advances to third parties by subsidiaries. The maximum risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

The maximum exposure to credit risk at year end is the carrying amount of the financial assets as set out below:

	2018 US$	2017 US$
Group		
Bonds, and funds and certificates of deposit	**765,904,472**	846,236,830
Cash and cash equivalents	**106,421,393**	89,707,992
Other receivables	**17,929,153**	23,117,381
Total	**890,255,018**	959,062,203
Company		
Bonds, and funds and certificates of deposit	**729,935,393**	799,439,399
Cash and cash equivalents	**102,472,233**	86,265,025
Other receivables	**49,647,078**	61,277,098
Total	**882,054,704**	946,981,522

20. Financial risk management (continued)

(ii) Credit risk (continued)

Other receivables are impaired when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group and Company considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due, and impairs the financial asset when a debtor fails to make contractual payments greater than 360 days past due. Where other receivables are impaired, the Group and Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

Impairment provisions are determined based on collective assessment of loans. For the purposes of impairment provisioning under FRS 109 the Group and Company groups receivables in subsidiaries in accordance with their different credit risk and characteristics. The Group and Company does not use credit risk rating grades for subsidiary receivables, but rather monitors its loans based on days past due, which is consistent to the FRS 109 three stage approach.

Previous accounting policy for impairment of other receivables

In 2017, the impairment of the financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

The Group and Company considered that there was evidence if any of the following indicators were present:

- There is significant difficulty of the debtor

- Breach of contract, such as default or past due event

- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation

Financial assets that are neither past due nor impaired

Bank deposits, commercial papers and bonds that are neither past due nor impaired are mainly deposits, commercial papers and bonds with banks with high credit-ratings assigned by international credit-rating agencies. Other receivables that are neither past due nor impaired are substantially other receivables of subsidiaries in the Group.

Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for other receivables of subsidiaries.

20. Financial risk management (continued)

(ii) Credit risk (continued)

The age analysis of other receivables past due and/or impaired are as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Not past due	**16,417,655**	19,673,107	**51,577,560**	61,277,098
Past due < 3 months	**1,113,867**	3,319,386	**-**	-
Past due 3 to 6 months	**249,453**	287,124	**-**	-
Past due over 6 months	**1,508,068**	1,599,302	**-**	-
	19,289,043	24,878,919	**51,577,560**	61,277,098
Impairment allowance	**(1,359,890)**	(1,761,538)	**(1,930,482)**	-
	17,929,153	23,117,381	**49,647,078**	61,277,098

The movements in credit loss allowance for financial assets are set out as follows:

Group	**Other Receivables* US$**
Balance as at 31 December 2017	**1,761,538**
Application of FRS 109 (Note 2.1.1(b))	**201,778**
Balance as at 1 January 2018	**1,963,316**
Loss allowance recognised in profit or loss during the year on:	
- Assets originated	**30,493**
- Reversal of unutilised amounts	**(633,919)**
	(603,426)
Balance as at 31 December 2018	**1,359,890**

Company	
Balance as at 31 December 2017	**-**
Application of FRS 109 (Note 2.1.1(b))	**1,392,233**
Balance as at 1 January 2018	**1,392,233**
Loss allowance recognised in profit or loss during the year on:	
- Assets originated	**538,249**
- Reversal of unutilised amounts	**-**
	538,249
Balance as at 31 December 2018	**1,930,482**

*Loss allowance measured at lifetime ECL.

20. Financial risk management (continued)

(ii) Credit risk (continued)

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk, including accepting collateral for funds advanced, in case of asset finance loan receivables. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018 are shown below:

	Gross exposure	Impairment allowance	Net carrying amount	Fair value of collateral held
	US$	US$	US$	US$
Loan receivable from a joint venture	11,006,228	-	11,006,228	-
Loans and receivables	7,200,439	(1,359,890)	5,840,549	8,662,750
Other receivables	1,082,376	-	1,082,376	-
	19,289,043	**(1,359,890)**	**17,929,153**	**8,662,750**

20. Financial risk management (continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group maintains sufficient funds in cash and cash equivalents to meet its operating commitments. The Group also monitors liquidity in all asset classes and all investment managers to ensure medium-term and long-term liabilities can be met even in stressed environments.

In accordance with the Group's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis; the Investment and Finance Committee reviews it on a quarterly basis.

20. Financial risk management (continued)

(iii) Liquidity risk (continued)

The Group manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 90 days or less. The following table illustrates the expected liquidity of assets held.

Group 2018	1 to 3 months US$	3 to 12 months US$	More than 12 months US$	Total US$
Financial Assets				
Cash and cash equivalents	106,421,393	-	-	106,421,393
Financial assets, at FVPL	-	35,969,078	1,226,101,240	1,262,070,318
Other receivables	2,921,611	4,001,314	11,006,228	17,929,153
	109,343,004	39,970,392	1,237,107,468	1,386,420,864
Financial Liabilities				
Sundry creditors and accruals	(18,002,967)	(5,696,711)	-	(23,699,678)
Net financial assets	**91,340,037**	**34,273,681**	**1,237,107,468**	**1,362,721,186**

The Group has certain financial assets in Papua New Guinea amounting to US$96,412,254 (2017:US$93,600,934). Access to these assets may be restricted if these assets are realised in the form of cash and cash equivalent in Papua New Guinea as the tax authorities have declined the Company's tax clearance applications to remit further funds overseas (Note 8).

Group 2017	1 to 3 months US$	3 to 12 months US$	More than 12 months US$	Total US$
Financial Assets				
Cash and cash equivalents	89,707,992	-	-	89,707,992
Financial assets, at FVPL	-	55,624,285	1,292,162,883	1,347,787,168
Other receivables	5,193,108	5,417,621	1,342,141	11,952,870
	94,901,100	61,041,906	1,293,505,024	1,449,448,030
Financial Liabilities				
Sundry creditors and accruals	(12,882,586)	(7,130,499)	-	(20,013,085)
Net financial assets	**82,018,514**	**53,911,407**	**1,293,93505,024**	**1,429,434,945**

20. Financial risk management (continued)

(iii) Liquidity risk (continued)

The Company manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 90 days or less. The following table illustrates the expected liquidity of assets held.

Company 2018	1 to 3 months US$	3 to 12 months US$	More than 12 months US$	Total US$
Financial Assets				
Cash and cash equivalents	102,472,233	-	-	102,472,233
Financial assets, at FVPL	-	-	1,226,101,240	1,226,101,240
Other receivables	-	49,647,078	-	49,647,078
	102,472,233	49,647,078	1,226,101,240	1,378,220,551
Financial Liabilities				
Sundry creditors and accruals	(8,488,366)	-	-	(8,488,366)
Net financial assets	**93,983,867**	**49,647,078**	**1,226,101,240**	**1,369,732,185**

Company 2017	1 to 3 months US$	3 to 12 months US$	More than 12 months US$	Total US$
Financial Assets				
Cash and cash equivalents	86,265,025	-	-	86,265,025
Financial assets, at FVPL	-	8,826,854	1,292,162,883	1,300,989,737
Other receivables	-	61,277,098	-	61,277,098
	86,265,025	70,103,952	1,292,162,883	1,448,531,860
Financial Liabilities				
Sundry creditors and accruals	(1,584,307)	-	-	(1,584,307)
Net financial assets	**84,680,718**	**70,103,952**	**1,292,162,883**	**1,446,947,553**

20. Financial risk management (continued)

(iv) Capital risk management

The Group is a “limited by guarantee” entity which means that it has no share capital, debentures, share options or unissued shares. The Group’s operations are governed by a set of rules and agreements that pertain to its unique structure and circumstances.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern and to maintain an optimal capital structure so as to promote sustainable development within Papua New Guinea, and advance the general welfare of the people of Papua New Guinea.

The Long Term Fund (LTF) and The Development Fund are governed by the rules as described in Note 2.1.13.

Project commitments and funding requirements are monitored on a daily basis by the finance department and reported to the Board on a quarterly basis.

(v) Fair value measurements

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The fund managers use a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the fund managers may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

20. Financial risk management (continued)

(v) Fair value measurements (continued)

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the fund managers holds for the Group.

Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as-is prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund’s assets and liabilities (by class) measured at fair value at 31 December 2018.

20. Financial risk management (continued)

(v) Fair value measurements (continued)

All fair value measurements disclosed are recurring fair value measurements:

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Group				
2018				
Assets				
Financial assets, at FVPL	**670,387,574**	**591,682,744**	**-**	**1,262,070,318**
Total assets	**670,387,574**	**591,682,744**	**-**	**1,262,070,318**
2017				
Assets				
Financial assets, at FVPL	945,019,801	402,767,367	-	1,347,787,168
Total assets	945,019,801	402,767,367	-	1,347,787,168
Company				
2018				
Assets				
Financial assets, at FVPL	**670,387,574**	**555,713,666**	**-**	**1,226,101,240**
Total assets	**670,387,574**	**555,713,666**	**-**	**1,226,101,240**
2017				
Assets				
Financial assets, at FVPL	945,019,801	355,969,936	-	1,300,989,737
Total assets	945,019,801	355,969,936	-	1,300,989,737

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities and exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations. The Group does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and certain non-US sovereign obligations, listed equities and over the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

20. Financial risk management (continued)

(v) Fair value measurements (continued)

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the fund managers have used valuation techniques to derive the fair value. Per Group mandate, no funds are used for Level 3 investments (2017: Nil).

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

(vi) Financial instruments by category

The carrying amount of financial assets, at FVPL is as disclosed in Note 9 to the financial statements.

The aggregate carrying amounts of loans and receivables,financial assets and liabilities at amortised cost are as follows:

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Financial assets, at amotised cost	**124,350,546**	-	**152,119,311**	-
Financial liabilities, at amortised cost	**23,699,678**	20,302,972	**8,488,366**	1,584,307
Loans and receivables	**-**	102,081,455	**-**	147,542,123

21. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following significant transactions between the Group and Company and related parties during the financial year:

Key management personnel compensation

	Group		Company	
	2018	2017	**2018**	2017
	US$	US$	**US$**	US$
Directors – fees	**687,194**	785,505	**639,419**	721,568
Management salaries and other short-term benefits	**837,054**	772,737	**-**	60,249
	1,524,248	1,558,242	**639,419**	781,817

There has been a Consumer Price Index (CPI) adjustment in the amount of remuneration payable to individual directors.

22. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting period beginning on or after 1 January 2018 and which the group has not early adopted:

(a) FRS 116 *Leases* (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group and Company has non-cancellable operating lease commitments of US$2,129,917 and US$60,887 (Note 18) respectively arising from office space and motor vehicles under non-cancellable operating lease agreements.

However, the Group has yet to determine to what extent the commitments as at the reporting date will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard also introduces expanded disclosure requirements and changes in presentation.

22. New or revised accounting standards and interpretations (continued)

(b) INT FRS 123 *Uncertainty Over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

(i) how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

(ii) that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;

(iii) that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

(iv) that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and

(v) that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Group does not expect additional tax liability to be recognised arising from the uncertain tax positions on the adoption of the interpretation on 1 January 2019.

23. Events occurring after balance sheet date

On 2 April 2019, the Company received a favourable ruling on the actions brought against it by the PNG Government in the Singapore High Court. The PNG Government has since lodged an appeal with the Singapore High Court, the outcome of which is uncertain. However, the directors are of the view that the courts will uphold the earlier judgement.

24. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of PNG Sustainable Development Program Limited on 30 May 2019.