2014

PNG Sustainable Development Program Ltd

ANNUAL REPORT

Letter from the Chairman

PNG Sustainable Development Program Ltd
Port Moresby, Papua New Guinea

The Independent State of Papua New Guinea
BHP Billiton Ltd
Ok Tedi Mining Ltd

In accordance with Clause 20 of the Company's Program Rules under the Articles of Association of the PNG Sustainable Development Program Ltd, I submit to the Independent State of Papua New Guinea, BHP Billiton Ltd, and Ok Tedi Mining Ltd, the Annual Report 2014, covering the financial year ending 31 December 2014.

The Annual Report also includes the financial statements and the report of the Auditor.

Furthermore, in accordance with Clause 19.3 of the Program Rules of the Company, the key elements of the Annual Report will be presented for discussion at the Annual Report Meeting of the Company, to commence at 2.00pm on Tuesday 16 June, 2015 at the Holiday Inn, Cnr Waigani Drive and Wards Road, Waigani, Port Moresby.

Sincerely,

Mekere Morauta, KCMG
Chairman, Board of Directors

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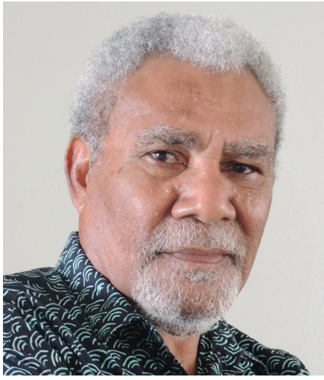


2014 has been a year of legal battles as PNGSDP continues its fight to recover its illegally expropriated shares in Ok Tedi Mining Ltd, to stop the money in the Long Term Fund falling into the wrong hands, and to protect the integrity, structure and independence of the company itself.

The company's legal actions against the O'Neill Government were forced upon it by the decision of the State to use unfair, deceptive and illegal means to achieve its stated aim of taking over 100 percent ownership of the Ok Tedi mine, and to sieze control of PNGSDP and its assets and income.

PNGSDP's directors had a legal and moral obligation to take legal action. The outcome, of which the company remains confident, will be to the overall benefit of the people of Western Province. Ultimately, PNGSDP is ensuring through its court cases that it can continue to support and promote the economic and social development of the province now and for at least 40 years after mine closure.

The company is keen to successfully conclude all cases so it can as soon as possible turn its attention to resuming its social and economic development program in Western Province.

The court cases – in Papua New Guinea, Singapore and the International Court for the Settlement of Investment Disputes – were initiated immediately after the passing in September 2013 of the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013.

The Act illegally expropriated PNGSDP's 63.4 percent shareholding in Ok Tedi Mining Ltd, without compensation, and purported to give the State the right to interfere in the affairs of the company.

The details of the legal proceedings are as follows:

- PNGSDP has instituted arbitration proceedings in the International Court for the Settlement of Investment Disputes. PNGSDP is seeking restitution of its 63.4 shareholding in OTML, or failing that, adequate compensation. ICSID declined to hear the case in mid 2015, and PNGSDP began considering other options.
- PNGSDP has instituted proceedings in the High Court of Singapore seeking to prevent the State from interfering in the company. In the meantime, the board and management of PNGSDP remain in place and manage the company in accordance with the law and PNGSDP's Memorandum and Articles of Association and Program Rules.
- PNGSDP has instituted proceedings in the PNG Supreme Court seeking to enforce the payment of OTML dividends due to the company for the 2012 and 2013 financial years.

I stress that Western Province people cannot expect a full resolution of all cases until next year. In the meantime the directors of PNGSDP will continue to do all in their power to protect the company, and in particular to safeguard the money in the Long Term Fund so that Western Province people benefit as much as possible from the proceeds of mining at Ok Tedi.

When PNGSDP resumes its social and economic development program, it will be as a funding agency rather than a project implementer. Preliminary planning and consultation for this important transition has begun and will gather pace once PNGSDP's future is certain.

Two issues in particular highlight the need for PNGSDP to vigorously pursue a successful resolution of its court cases:

- My fellow directors and I remain concerned about the almost complete cessation of development in the province since the State expropriated the mine.
- The company also remains concerned about the financial status of OTML and the physical condition of the mine and its infrastructure.

A rapid return to PNGSDP's social and economic development program is more important than ever – further delays will only make the task ahead more difficult. It has become apparent to all in Western Province that PNGSDP was the ONLY agency implementing long-term sustainable development in the province.

The company's development program remains inactive since the illegal expropriation of the OTML shares and the consequential loss of OTML dividends – PNGSDP's sole source of primary income.

PNGSDP's concerns about the way OTML has been managed since the State took control in September 2013 relate to the collapse in OTML profits and the lack of dividends (which would otherwise have been paid to PNGSDP), and attempts by the State to deal in OTML shares while they remain in dispute.

The company fears that the management of Ok Tedi by the State may be a repeat of its handling of the Tolukuma gold mine, which is now worthless.

PNGSDP also began considering ways to further protect and enhance its assets and income and initiated planning to achieve this early in the 2015 year. The company also continued to rationalise its corporate structure and operations, and to further reduce costs.

Once all the company's court cases are concluded, the fruits of this planning will be available to the people of Western Province. In the meantime PNGSDP calls for patience and understanding in Western Province as the company seeks the most advantageous outcome for the province.

Mekere Morauta, KCMG

Our Mission

PNGSDP promotes development that meets the needs of the present generation and establishes the foundation for continuing progress for future generations of Papua New Guineans.

Our Values

We recognise the significant onus of trust, responsibility and challenge that has been placed upon PNGSDP.

We will be honest, fair and accountable in all our dealings, while promoting equality and efficiency in our conduct and activities.

We commit ourselves, through the activities of PNGSDP, to promote and improve the quality of life of current and future generations of the people of Papua New Guinea, especially of Western Province.

Company Background

Mandate

PNGSDP was created by the Mining (Ok Tedi Mine Continuation Ninth Supplemental Agreement) Act 2001. The company has three main functions.

The first is to support and promote sustainable development through projects and initiatives to benefit the people of Papua New Guinea, especially the people of Western Province.

Another main function of PNGSDP as a substantial financial institution is the prudent and wise investment of the Long Term Fund and Development Fund, so the company can support a high level of development expenditure in Western Province (and Papua New Guinea in general).

From 2002 to September 2013, the company's other substantive responsibility was as majority shareholder of Ok Tedi Mining Ltd. Through its representative on the board of OTML, PNGSDP sought to ensure sound commercial operations of OTML, responsible management of environmental and social issues, and to sustain the infrastructure established by OTML for broader social and economic development beyond mine closure.

The company's shares in OTML were expropriated without compensation by the State in September 2013.

Incorporation and governance framework

PNGSDP is incorporated in Singapore as a not-for-profit company limited by guarantee, and is registered and operating in PNG as an overseas company.

It is governed by its constitution, which consists of the Memorandum and Articles of Association and the Program Rules.

An independent board, consisting of Papua New Guinean and international directors, controls and manages the affairs of PNGSDP and reports to PNG stakeholders annually.

2014 has been another difficult year for PNGSDP as the company continues to adapt to its new circumstances caused by the unlawful expropriation of its 63.4 percent shareholding in Ok Tedi Mining Ltd, and continued attacks on its structure, integrity and independence by the State.

This review of the company's operations and program activities during the 2014 year is highlighted by further action to recover its OTML shareholding, to protect its assets and income, to lower its operating costs, including more staff cuts and salary reductions and further office rationalisation.

The board and management have achieved a significant reduction in the company's costs:

- Administrative costs fell by 47 percent from $US26.8 million (K69.4 million) in 2013 to $US14.2 million (K36.7 million).
- Governance costs have also been reduced by about one-third to $US1.6 million (K4.1 million), which partly reflects a 10 percent reduction in directors' fees.
- Administration costs are $US12.6 million (K32.6 million) lower, which partly reflects staff reductions and wages and salary cuts.

I am pleased to report that total costs were reduced from $US174.2 million (K411.1 million) in 2013 to $US20.5 million (K53.1 million) by the end of 2014.

As a result of the expropriation and the consequent lack of dividends from OTML, which was PNGSDP's primary source of income, all projects and operations have ceased, except normal day-to-day headquarters matters, including funds management, and the operations of Champion 34 Ltd and the 83 percent-owned PNG Microfinance Ltd.

A small office in a secure environment in Australia has been opened for IT, accounting and funds management operations. This was made necessary by continuing attacks on the company's structure, independence and integrity by the O'Neill Government.

PNGSDP had an average staff complement of 10 staff in 2014, compared with 91 before the expropriation. The Western Province office has been closed, and the Port Moresby operational headquarters has moved to premises commensurate with its much reduced size.

PNG Microfinance, which is the major remaining operating subsidiary of PNGSDP, achieved a modest performance for 2014 with a loss of K500,000. The board and management continue to focus on achieving financially self-sustainable operations by the end of 2015. The company remains compliant with all Bank of Papua New Guinea requirements.

During the year PNGSDP sold its Cloudy Bay Sustainable Forestry subsidiary. The sale, for K40 million, was part of the orderly process of restructuring, which seeks to protect the value of PNGSDP assets for use in future development in Western Province after mine closure, and to safeguard them..

The money in the Long Term Fund continues to be safe and secure in PNGSDP's hands. It is held in financial markets around the world in low-risk investments, and remains stable at U$1.29 billion (K3.35 billion). The net assets of the company remained steady at $US1.32 billion (K3.43 billion).

As a prudent funds manager, PNGSDP continues to monitor the profile of its investments to ensure an appropriate balance between risk and reward. The company aims to implement a new investment strategy by the end of 2015 so as to increase investment returns to compensate for the loss of dividend income from OTML.

The board continues to monitor the performance of its assets, and is especially mindful of the need to protect them and minimise risks.

I do not envisage any change in the company's circumstances until the conclusion of the court cases we have initiated to seek the return of the company's 63.4 percent shareholding in OTML, to preserve the money in the Long Term Fund for spending on social and economic development in Western Province after mine closure and to protect the company from external predatory interferences.

I wish to thank past and remaining staff for their understanding and cooperation in these difficult times, and I congratulate them for their contribution to the year's very significant achievements. I also wish to thank the people of Western Province for their forbearance and patience at a time when the O'Neill Government's actions have led to the almost complete cessation of development in the province.

I want to reassure the people of Western Province that once PNGSDP's stand on their behalf has been vindicated, the company will move immediately to return and kick-start its development program.

David Sode

The Long Term Fund represents two-thirds of net income received from OTML over the years and invested into the fund after deducting operating expenses and all other legal contractual obligations as specified in the Program Rules relating to the application of the income received. Under the Program Rules, funds from the Long Term Fund must be invested in low-risk investments.

In addition to capital preservation, the investment objective of PNGSDP is to generate a return above inflation over the long term, after taking into account investment program expenses. The Investment and Finance Committee of the board oversees the company's Investment Policy and Guidelines. These policies and guidelines are administered to ensure that the investment objectives of the company are met and the company's Program Rules complied with.

Historically the annual growth realised in the Long Term Fund was driven by OTML dividends being invested yearly into the fund. But after the expropriation of OTML by the State in September 2013, no dividends have been received since 2012. As a result the balance of the fund has been stable at $US1.29 billion from 2013 to 2014 after the application of income earned to ongoing operations.

The board and management continue to look for ways to increase returns from the Long Term Fund while managing the overall risk profile of investments. The company aims to implement a new investment strategy by the end of 2015 so as to increase investment returns to compensate for the loss of dividend income from OTML.

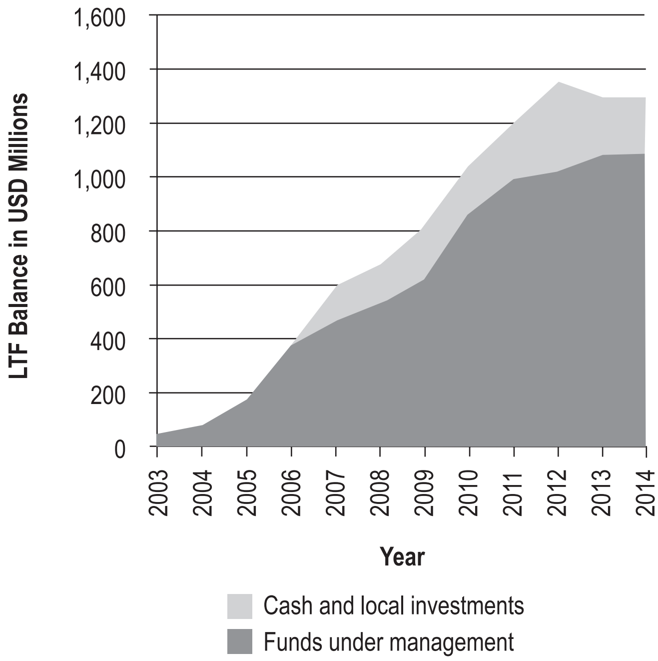
Seven professional investment management firms continue to manage the assets in the Long Term Fund (excluding assets domiciled in Papua New Guinea) on a discretionary basis in line with investment guidelines issued by the board. Fund managers are monitored and are required to produce valuation and performance reports monthly. Specific measures of returns are included in the investment management agreements with fund managers as per the company's Investment Policy and Guidelines.

PNGSDP LONG TERM FUND BALANCE

Asset allocation

Historical asset allocations as outlined below will be reviewed in 2015 in line with the objective to rebalance the investment portfolio and increase returns. The new strategy will envisage a more diverse mix of asset classes in order to reduce overall portfolio risk.

The board continues to monitor the performance of assets in PNG and is looking for opportunities to divest them in recognition of the currency risk of the PNG Kina as well as the threat of expropriation or seizure.



PNGSDP ASSET ALLOCATIONS

Asset description	2014		2013	
	$US millions	Percent	$US millions	Percent
Fund-managed assets				
Cash & cash equivalents	143.5	10.8	107.0	8.0
Bonds	803.0	60.6	825.9	62.1
Equities	129.4	9.8	126.3	9.6
Other assets	11.3	0.9	18.5	1.4
Subtotal	**1087.2**	**82.0**	**1077.7**	**81.1**
Self-managed PNG assets				
Cash & cash equivalents	34.4	2.6	32.9	2.5
Equity investments	120.2	6.4	126.5	9.6
Receivables	85.1	2.6	93.1	6.9
Subtotal	**239.7**	**18.1**	**159.4**	**19.0**
Other assets & liabilities (net)	(1.6)	(0.1)	(0.9)	(0.1)
Net assets	**1325.3**	**100**	**1331.1**	**100**

Investment credit risk ratings

PNGSDP has a strong emphasis on the quality of investments in its portfolio and its investment guidelines require that sovereign and corporate bonds included in the portfolio should have a minimum A rating by Standard and Poor's or similar rating by Moody's. Quantitative thresholds exist to limit exposure to any counterparty and there is a limitation on the permitted stock exchanges that fund managers can use for investment activities.

At the discretion of the board certain investments into assets rated BBB or lower are permitted.

BOND RATINGS

	2014		2013	
Asset class rating	**$US millions**	**Percent**	**$US millions**	**Percent**
Bonds - AAA	175.3	13.2	220.4	17.8
Bonds - AA	516.0	38.9	517.3	41.8
Bonds -A	73.2	5.5	45.2	3.7
Bonds - BBB	16.1	1.4	24.1	1.9
Unrated	22.5	1.6	18.9	1.5
Total bonds	**803.1**	**60.6**	**825.9**	**66.8**
Other assets & liabilities (net)	**522.2**	**39.4**	**505.2**	**33.2**
Total assets	**1325.3**	**100**	**1331.1**	**100**

FINANCIAL PERFORMANCE

The beginning of 2014 saw the conclusion of any remaining development-related projects that had carried over from 2013 following the board's decision to close all uncompleted projects. The financial statements reflect this new outlook of the company, with no OTML dividends being received and no new development activities being undertaken.

Income and expenses

In the current year the company realized net investment income of $US16.1 million compared to a net investment loss of $US4.5 million. Other investment income mainly consists of interest from fund-managed investments and there has been no significant variance from the prior year, consistent with the level of funds held in the Long Term Fund, which has remained stable at U$1.29 billion.

PNGSDP INCOME

	2014		2013	
	$US millions	**K millions**	**$US millions**	**K millions**
OTML dividend	Nil	Nil	Nil	Nil
Other investment income	26.6	68.9	27.8	64.7
Fair value gains (losses)	(10.5)	(27.2)	(32.3)	(75)
Net income (loss)	**16.1**	**41.7**	**(4.5)**	**(10)**

PNGSDP EXPENSES

	2014		2013	
	$US millions	**K millions**	**$US millions**	**K millions**
Governance costs	1.6	4.1	2.6	6.1
Administration costs	14.2	36.8	26.8	62.4
Investment Program costs	2.5	6.5	2.8	6.6
Development costs	2.2	5.7	134.2	312.4
Other expenses	-	-	7.8	18.2
Total costs	**20.5**	**53.1**	**174.2**	**411.1**

There has been a significant reduction in the company's costs, reflecting its reduced scale of operations and deliberate cost containment by management.

Administrative costs fell by 47 percent from $US26.8 million (K69.4 million) in 2013 to $US14.2 million (K36.7 million) in 2014 owing to cost containment activities, reduction in staff numbers and a general scaling down of operations in PNG.

Governance costs have also been reduced in line with the current scale of operations and the board also carried a decision to reduce directors' fees by 10 percent as part of the company's cost-cutting measures. Governance costs include directors' fees, costs for board meetings, the annual report and stakeholder meetings, the company audit and the company secretarial costs.

Investment program costs incurred in 2014 are comparable to 2013 and are consistent with the level of funds being managed, which have remained stable from the prior year.

Development costs reflect the residual contractual costs paid off in 2014 in respect of development projects being brought to a closure.

In accordance with the Program Rules, a yearly budget of administration costs is required to be approved by the board. Expenses attributable to the operation of the company are within the set limit of 15 percent of the average annual income of the company during the immediate preceding three years.

Net assets

The net assets of the company have remained steady at $US1.325 billion (K3.438 billion) [2013: $US1.331 billion (K3.330 billion)]. There has been no growth in the Long Term Fund as interest earned has been applied towards funding operations. In accordance with the Program Rules, the assets of the company are represented by the Members' Subscription, the Long Term Fund, the Development Fund and the General Fund, as presented in the table below:

PNGSDP NET ASSETS

Asset Class	2014		2013	
	$US millions	K millions	$US millions	K millions
Current assets	419.8	1089.0	344.8	861.3
Non-current assets	907.3	2353.6	993.1	2486.7
Liabilities	(1.8)	(4.8)	(6.8)	(17.1)
Net Assets	**1325.3**	**3437.8**	**1331.1**	**3330.9**

REPRESENTATION OF PNGSDP NET ASSETS

Asset Class	2014		2013	
	$US millions	K millions	$US millions	K millions
General Fund	-	-	-	-
Long Term Fund	1299.7	3371.4	1296.0	3238.3
Development Fund	25.6	66.4	35.1	92.6
Total Funds	**1325.3**	**3437.8**	**1331.1**	**3330.9**

Subsidiaries

The remaining active subsidiaries of the group are PNG Microfinance Ltd and Champion 34 Ltd. Champion 34 Ltd continued to carry on its investments in PNG and these continue to perform in accordance with their underlying contractual arrangements.

PNG Microfinance Ltd had modest performance for 2014 with a loss of K500,000; however this is mainly due to non-performing branches in Western Province, which showed a loss of K2.42 million. Key performance highlights for PNG Microfinance for 2014 are as follows:

- Deposits outstanding reached K65.04 million (K62.92 million at end FY13) with 79,567 accounts (78,966 at end FY13)
- Western Province branches had outstanding deposits of K19.14 million with 26,809 accounts (K16.90 million with 26,965 accounts in 2013), which account for a 34 percent share of PML total accounts.
- Loans outstanding reached K37.8 million (K31.2 million at end FY13), with 3476 customers (3319 accounts at end FY13).
- Western Province branches' loans outstanding were K2.48 million with 315 accounts. This accounts for a seven percent share of PML's total loan portfolio. (K3.8 million with 614 accounts at end FY13 which accounts for a 12 percent share of the loan portfolio).
- Net shareholders' funds at year end were K10.42 million compared with K10.92 million at end FY13.

PNG Microfinance Ltd remains compliant with all Bank of Papua New Guinea requirements. In February 2014 the central bank completed an onsite compliance inspection of the company and a subsequent report issued in July 2014 assigned PNG Microfinance Ltd a rating of 2. This rating implies that the institution is fundamentally sound, but may reflect modest weakness correctable in the normal course of business.

By end-2015, PNG Microfinance Ltd aims to have financially self-sustainable operations.

Contractual obligations

PNGSDP is party to a number of agreements, dated 11 December 2001, which confer both actual and contingent liabilities on the company. Obligations arising under these agreements are contractually secured by an equitable charge over the dividend stream attached to PNGSDP's shares in OTML. This charge is held by a security trustee, TMF Trustees (Singapore) Ltd (formerly Insinger Trust (Singapore) Ltd). The ongoing implications of the historical obligations detailed below are being assessed as PNGSDP is no longer a shareholder in OTML effective from 19 September 2013 when the State passed the Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013.

Under the Deed of Indemnity with BHP Billiton, the company agreed to indemnify BHP Billiton against any liability under claims for both environmental damage arising out of the operation of the mine after 7 February 2002, and breach of environmental laws in relation to mine operations before 7 February 2002.

Under the Deed of Indemnity with the State, PNGSDP has agreed to indemnify the State against all liability arising under a claim for environmental damage caused by the operation of the mine before 7 February 2002 resulting from an act or omission by BHP Billiton in breach of its obligations under its management agreement or in breach of environmental law.

Under the Option Deed, the company has agreed at the request of OTML to indemnify the independent directors of OTML in respect of claims against them arising out of their acting as such directors, to the extent that appropriate insurance is not available on commercial terms.

Under the Subsidy Deed, PNGSDP has agreed to pay as a non-refundable subsidy an amount equal to increased borrowing costs and charges incurred by OTML as a result of not being a subsidiary of BHP Billiton. The amount of this subsidy is restricted up to an average weighted increase of all rates, costs and charges of 2.5 percent and on a maximum loan commitment of $US120 million.

DIRECTORS' REPORT

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2014 and the balance sheet as at 31 December 2014, the statement of comprehensive income and the statement of changes in equity for the financial year ended 31 December 2014.

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

Sir Mekere Morauta
Donald Wabirao Manoa
Lim How Teck
Rex Lam Paki
Philip James Bainbridge
David Sode
Modowa Trevor Gumoi
Sir Wilson Kamit CBE

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, the Company or 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 holding office at the end of the financial year had any interest in the shares, debentures or share options of any related corporations.

Directors' contractual benefits
Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements.

Independent Auditor
The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept reappointment.

On behalf of the directors

SIR MEKERE MORAUTA
Director

DONALD WABIRAO MANOA
Director

LIM HOW TECK
Director (Audit Committee Chairman)

STATEMENT BY DIRECTORS

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 6 to 80 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the results of the business and changes in equity of the Company and of the Group and cash flows of the Group for the financial year then ended; 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.

On behalf of the directors

SIR MEKERE MORAUTA
Director

DONALD WABIRAO MANOA
Director

LIM HOW TECK
Director (Audit Committee Chairman)

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

Report on the Financial Statements

We have audited the accompanying financial statements of PNG Sustainable Development Program Limited (the "Company") and its subsidiaries (the "Group") set out on pages 11 to 56, which comprise the balance sheets of the Company and of the Group as at 31 December 2014, the statement of comprehensive income of the Company and of the Group, the statement of changes in equity of the Company and of the Group, and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2014, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

We draw attention to Note 22(b) to these financial statements, which describe the uncertainty related to the outcome of certain legal and other proceedings initiated by the Company against the Government of Papua New Guinea in relation to the compulsory acquisition of the Company's investment in Ok Tedi Mining Limited and the legal proceedings initiated by the Government of Papua New Guinea against the Company subsequent to the year end in relation to the assets under the PNGSDP's control. Our opinion is not qualified in respect of this matter.

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,
23 April 2015

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

		The Group		The Company	
	Note	**2014**	**2013**	**2014**	**2013**
		US$	**US$**	**US$**	**US$**
Revenue					
Revenue from other activities, net	4	**10,671,495**	21,763,440	**-**	-
Other investment income	4	**27,102,958**	27,901,120	**26,613,679**	27,766,390
		37,774,453	49,664,560	**26,613,679**	27,766,390
Expenses					
Other investment losses	5	(10,496,228)	(32,300,710)	**(10,496,228)**	(32,300,710)
Governance costs	5	(1,754,052)	(2,945,503)	**(1,569,460)**	(2,604,109)
Administration costs	5	(19,837,100)	(51,445,795)	**(14,253,624)**	(26,810,297)
Fund management costs	5	(2,470,187)	(2,840,650)	**(2,470,187)**	(2,840,650)
		(34,557,567)	(89,532,658)	**(28,789,499)**	(64,555,766)
Operating surplus/(deficit) before development program costs		**3,216,886**	**(39,868,098)**	**(2,175,820)**	**(36,789,376)**
Development program costs	5	**(2,167,757)**	(177,506,973)	**(2,167,757)**	(136,483,773)
Operating surplus/(deficit) from operations		**1,049,129**	(217,375,071)	**(4,343,577)**	(173,273,149)
Other gains/(losses) - net	5	**10,810,749**	(673,415,030)	**-**	(7,792,697)
Share of results of joint ventures	13	**-**	36,915,356	**-**	-
Surplus/(deficit) before income tax		**11,859,878**	(853,874,745)	**(4,343,577)**	(181,065,846)
Income tax (expense)/credit	7	**(6,999,782)**	53,234,279	**(1,426,582)**	(1,371,808)
Surplus/(deficit) from operations		**4,860,096**	(800,640,466)	**(5,770,159)**	(182,437,654)
Other comprehensive deficit:					
Currency translation difference arising from consolidation					
- Reclassification		**(9,320,613)**	-	**-**	-
- Gains/(losses)		**396,537**	(229,445,645)	**-**	-
Share of hedge reserve in joint venture	13	**-**	1,105,787	**-**	-
		(8,924,076)	(228,339,858)	**-**	-
Total comprehensive deficit:		**(4,063,980)**	(1,028,980,324)	**(5,770,159)**	(182,437,654)
Surplus/(deficit) from operations attributable to:					
Equity holders of the Company		**4,935,436**	(800,769,957)	**(5,770,159)**	(182,437,654)
Non-controlling interests		**(75,340)**	129,491	**-**	-
		4,860,096	(800,640,466)	**(5,770,159)**	(182,437,654)
Total comprehensive deficit attributable to:					
Equity holders of the Company		**(3,963,670)**	(1,028,824,309)	**(5,770,159)**	(182,437,654)
Non-controlling interests		**(100,310)**	(156,015)	**-**	-
		(4,063,980)	(1,028,980,324)	**(5,770,159)**	(182,437,654)

The accompanying notes form an integral part of the financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2014

		The Group		The Company	
	Note	**2014**	**2013**	**2014**	**2013**
		US$	**US$**	**US$**	**US$**
ASSETS					
Current assets					
Cash and cash equivalents	9	**181,818,922**	142,993,032	**177,853,289**	139,995,302
Financial assets at fair value through profit or loss	10	**168,813,371**	122,914,918	**156,892,472**	109,832,313
Finance lease receivables	11	**7,574,178**	7,063,554	**-**	-
Other receivables	12	**16,146,778**	13,202,511	**85,056,035**	94,949,205
Inventory		**-**	2,824,944	**-**	-
		374,353,249	288,998,959	**419,801,796**	344,776,820
Non-current assets					
Financial assets at fair value through profit or loss	10	**907,055,318**	987,340,747	**907,055,318**	987,340,747
Finance lease receivables	11	**15,213,332**	22,782,861	**-**	-
Other receivables	12	**52,491,823**	52,716,500	**-**	-
Investment in joint ventures	13	**9,330,000**	9,330,000	**-**	-
Investment in subsidiaries	14	**-**	-	**1**	5,190,734
Deferred income tax asset	18	**-**	514,295	**-**	-
Property, plant and equipment	15	**200,808**	4,205,706	**200,808**	607,189
		984,291,281	1,076,890,109	**907,256,127**	993,138,670
Total assets		**1,358,644,530**	1,365,889,068	**1,327,057,923**	1,337,915,490
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	17	**28,179,250**	35,577,828	**1,765,990**	6,853,398
Provisions for employee leave		**258,709**	713,822	**-**	-
Current income tax liability	7	**2,806,442**	-	**-**	-
		31,244,401	36,291,650	**1,765,990**	6,853,398
Non-current liabilities					
Deferred income tax liability	18	**1,866,691**	-	**-**	-
Total liabilities		**33,111,092**	36,291,650	**1,765,990**	6,853,398
NET ASSETS		**1,325,533,438**	1,329,597,418	**1,325,291,933**	1,331,062,092
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	19	**17**	17	**17**	17
Funds, comprises of:		**1,316,663,989**	1,311,728,553		
- General Fund	20	**-**	-	**-**	-
- Long Term Fund	20	**-**	-	**1,299,677,925**	1,295,953,733
- Development Fund	20	**-**	-	**25,613,991**	35,108,342
Foreign currency translation reserve		**8,298,733**	17,197,839	**-**	-
		1,324,962,739	1,328,926,409	**1,325,291,933**	1,331,062,092
Non-controlling interests		**570,699**	671,009	**-**	-
Total equity		**1,325,533,438**	1,329,597,418	**1,325,291,933**	1,331,062,092

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Attributable to the Company						
The Group	Members' subscriptions US$	Total funds US$	Share of hedge reserve of joint venture - Ok Tedi Mining Limited US$	Foreign currency translation reserve US$	Total US$	Non-controlling interests US$	Total equity US$
2014							
Beginning of financial year	**17**	**1,311,728,553**	**-**	**17,197,839**	**1,328,926,409**	**671,009**	**1,329,597,418**
Surplus/(deficit) from operations	-	4,935,436	-	-	4,935,436	(75,340)	4,860,096
Other comprehensive deficit				(8,899,106)	(8,899,106)	(24,970)	(8,824,076)
Total comprehensive surplus/(deficit)	**-**	**4,935,436**	**-**	**(8,899,106)**	**(3,963,670)**	**(100,310**	**(3,963,980)**
End of financial year	**17**	**1,316,663,989**	**-**	**8,298,733**	**1,324,962,739**	**570,699**	**1,325,533,438**
2013							
Beginning of financial year	17	2,112,498,510	(1,105,787)	246,357,978	2,357,750,718	827,024	2,358,577,742
Surplus/(deficit) from operations	-	(800,769,957)	-	-	(800,769,957)	129,491	(800,640,466)
Other comprehensive deficit			1,105,787	(229,160,139)	(228,054,352)	(285,506)	(228,339,858)
Total comprehensive surplus/(deficit)	-	(800,769,957)	1,105,787	(229,160,139)	(1,028,824,309)	(156,015)	(1,028,980,324)
End of financial year	17	1,311,728,553	-	17,197,839	1,328,926,409	671,009	1,329,597,418

There is a requirement under the rules of the Company (refer Note 2.1.15) for the allocation of revenues and expenses and transfers from the General Fund to the Long Term Fund and the Development Fund. No transfers are made at the Group level as dividend income from the jointly controlled entity Ok Tedi Mining Limited is equity accounted.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

The Company	Note US$	Members' subscriptions US$	General Fund US$	Long Term Fund US$	Development Fund US$	Total US$
2014						
Beginning of financial year	**17**	**-**	**1,295,953,733**	**35,108,342**	**1,331,062,092**	
Total comprehensive(deficit)/surplus	**20**	**-**	**(15,730,080)**	**10,429,239**	**(469,318)**	**(5,770,159)**
Transfers between Funds	**20**	**-**	**15,730,080**	**(6,705,047)**	**(9,025,033)**	**-**
End of financial year	**17**	**-**	**1,299,677,925**	**25,613,991**	**1,325,291,933**	
2013						
Beginning of financial year	17		2,903,581	1,351,856,155	158,739,992	1,513,499,745
Total comprehensive(deficit)/surplus	20	-	(29,414,406)	(16,660,083)	(136,363,164)	(182,437,653)
Transfers between Funds	20	-	26,510,825	(39,242,339)	12,731,514	-
End of financial year	17	-	1,295,953,733	35,108,342	1,331,062,092	

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 2.1.15).

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Cash flows from operating activities			
Surplus/(deficit) from operations		**4,860,096**	(800,640,466)
Adjustments for:			
Income tax expense/(credit)		**6,999,782**	(53,234,279)
Depreciation and impairment losses		**162,257**	17,927,834
Amortisation – inscribed stock premium		**-**	786,500
Loss on disposal of fixed assets		**3,842,641**	1,212,919
Fair value loss on financial assets at fair value through profit or loss		**10,496,228**	32,300,710
Interest income		**(18,594,671)**	(20,516,635)
Share of results of joint ventures		**-**	(36,915,356)
Other dividend income		**(8,508,287)**	(7,249,755)
Impairment loss on investment in joint ventures		**-**	713,471,016
Currency translation differences		**(8,924,075)**	15,360,177
Operating cash flow before working capital changes		**(9,666,029)**	(137,497,335)
Change in working capital			
Other receivables and finance lease receivables		**4,339,315**	27,106,544
Sundry creditors and accruals		**(7,853,691)**	(9,231,675)
Inventory		**2,824,944**	1,482,525
Cash used in operations		**(10,355,461)**	(118,139,941)
Interest received		**18,594,671**	20,516,635
Net cash provided by/(used in) operating activities		**8,239,210**	(97,623,306)
Cash flows from investing activities			
Purchases of financial asset at fair value through profit and loss		**(959,438,208)**	(578,328,529)
Other dividends received		**8,508,287**	7,249,755
Withholding tax paid on dividends received		**(1,812,354)**	(1,371,808)
Proceeds from sale of financial asset at fair value through profit or loss		**978,218,826**	570,847,201
Joint venture shareholder cash calls		**-**	(12,199,631)
Disposal of a subsidiary	25	**5,110,129**	-
Purchases of property, plant and equipment		**-**	(4,878,876)
Net cash provided by/(used in) investing activities		**30,586,680**	(18,681,888)
Net increase/(decrease) in cash and cash equivalents		**38,825,890**	(116,305,194)
Cash and cash equivalents at the beginning of financial year	9	**142,993,032**	259,298,226
Cash and cash equivalents at the end of financial year	9	**181,818,922**	142,993,032

The accompanying notes form an integral part of the financial statements.

NOTES TO THE 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, PML Office, along Hubert Murray Highway, Koki, 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 activity of the Company is 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 the areas of capacity building, health, education, economic development, infrastructure, community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of those people.

The principal activities of the subsidiaries are stated in Note 14.

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"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented. The financial statements have been prepared 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 in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

As disclosed in Notes 3.1(e), 13 and 22(b) the Company is in dispute with the Government of Papua New Guinea ("PNG Government") in relation to the ownership of the investment in Ok Tedi Mining Limited and the future control over the assets of the Company. The Company has instituted various proceedings in relation to the expropriation of its shares in OK Tedi Mining Limited and is vigorously defending the actions brought against it by the PNG Government. The outcome of these matters could have a significant impact on the future operations and financial position of the Company.

The Company has restructured its operations and reduced its ongoing administration expenditure to ensure it continues to operate in accordance with the Program Rules.

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 continue to manage those assets in accordance with the Program Rules for the foreseeable future.

Interpretations and amendments to published standards effective in 2014

On 1 January 2014, 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 years.

2.1.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group and Company activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group and the Company recognises revenue when the amount of revenue and related cost can be reliably measured when it is probable that the collectability of related receivables is reasonably assured and when specific criteria for each of the Group and Company activities are met as follows.

(a) Dividend income

Dividend income is recognised when the right to receive payment is established.

(b) Interest income

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

(c) Surplus on sale of a financial asset

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the profit or loss. Gains or losses arising from changes in fair value of investment in securities (Note 2.1.17) that have been designated as "Financial assets at fair value through profit and loss" are included in revenue as other income from investments in the financial year in which the changes in fair value arise.

(d) Sale of timber products

The Group harvests, mills and sells timber products. Sales of goods are recognised when the Group has delivered the product to the customers, the customers have accepted the product and the collectability of the related receivables is reasonably assured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Group accounting

(a) Subsidiaries

(i) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which 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.

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 balance sheet. 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(a) for the subsequent accounting policy on goodwill.

(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 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

The Group’s joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group’s interest in joint ventures is accounted for in the consolidated financial statements using the equity method of accounting.

Equity accounting involves recording investments in joint ventures initially at cost, and recognising the Group’s share of its joint venture post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group’s share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

In applying the equity method of accounting, 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 transaction provides evidence of an impairment of the assets transferred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Group accounting (continued)

(c) Joint ventures (continued)

When the Group sells assets to a joint venture, the Group recognises only the portion of unrealised gains or losses on the sale of assets that is attributable to the interest of the other venturers. The Group recognises the amount of any loss when the sales provide evidence of a reduction in the net realisable value of current assets or an impairment loss.

When the Group purchases assets from a joint venture, it does not recognise its share of the profits of the joint ventures arising from the Group's purchase of assets until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group. Please refer to Note 2.1.4 "Investments in subsidiaries and joint venture" for the accounting policy on investments in joint ventures.

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 investments in subsidiaries, joint ventures and associated companies, 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 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 %
Computers and computer software	$33\ ^1/_3$ - 100
Motor vehicles	20
Fixtures and fittings	$33\ ^1/_3$
Plant and equipment	$33\ ^1/_3$
Leasehold improvements	$33\ ^1/_3$
Buildings	2
Leasehold land	Nil

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 the 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 taken to profit or loss.

2.1.6 Intangible assets

(a) Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries, joint ventures and associated companies at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.6 Intangible assets (continued)

(a) Goodwill on acquisitions (continued)

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses. Goodwill on joint ventures and associated companies are included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained earnings in the year of acquisition and not recognised in profit or loss on disposal.

(b) Acquired licenses

Licenses acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over the shorter of the estimated useful lives or period of contractual rights.

2.1.7 Impairment of non-financial assets

(a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in an associated company or joint venture is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(b) Intangible assets

Property, plant and equipment

Investments in subsidiaries and joint ventures

Intangible assets, 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 other than goodwill 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 other than goodwill 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 other than goodwill 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.

2.1.8 Leases

(a) When the Group is the lessee:

(i) Lessee - Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in the profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.8 Leases (continued)

(a) When the Group is the lessee: (continued)

(ii) Lessee - Operating leases

Leases of motor vehicles, office space and warehouses 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.

Contingent rents are recognised as an expense in profit or loss when incurred.

(b) When the Group is the lessor:

Lessor - Finance leases

The Group leases aircraft under finance leases to non-related parties. Leases where the Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet and included in “finance lease receivables”. The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.1.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.1.10 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 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.

2.1.11 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.

2.1.12 Employee compensation or Employee Remuneration

The Group and the Company contributions are recognised as employee compensation expense when they are due, unless they can be capitalised as an asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.12 Employee compensation or Employee Remuneration (continued)

(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.

2.1.13 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$”).

(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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates; and

(iii) All resulting currency translation differences are recognised in the currency translation reserve in equity.

2.1.14 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, 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 balance sheet.

2.1.15 Long Term Fund, Development Fund and General Fund

The Company is required by its rules to apply its income from Ok Tedi Mining Limited and other sources to a Long Term Fund, the Development Fund and General Fund attributable to the operations of the Company.

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 in low risk investments.

Before the mine closure date, the funds 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Long Term Fund (continued)

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.

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 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.

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.

2.1.16 Grants

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

2.1.17 Financial assets

(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 a documented Group and the Company investment strategy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.17 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet.

(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 balance sheet 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 the profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

(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 balance sheet 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.17 Financial assets (continued)

(e) Impairment (continued)

(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.

2.1.18 Trade and other payables

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

2.1.19 Exploration assets

Exploration assets represent capitalised expenditures incurred on exploration projects. When, as a result of exploration work, recoverable reserves are determined to be present in commercially producible quantities, exploration expenditures and subsequent development costs are transferred to mine and mining properties. Impairment is provided for the estimated unrecoverable costs based on the assessment of the Company of the future prospect of the mining property.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENT

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 fair value through profit or loss

The Group and the Company uses market or quoted price 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 39 to classify financial assets as financial assets at fair value through profit or loss. 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.

(b) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

(c) Fair value of derivative financial instruments

The Group through its fund managers may, from time to time, hold financial instruments that are not quoted in active markets, such as over-the-counter derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed independently.

(d) Functional currency

The Board of Directors considers the US Dollar the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The US Dollar is the currency in which the Group and the Company measures its performance and reports its results, as well as the currency in which it generates revenue from its investments. This determination also considers the primary economic environment in which the Group and the Company operate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENT (CONTINUED)

3.1 Critical accounting estimates and assumptions (continued)

(e) 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 has filed a claim against the PNG Government with the International Court of Settlement of Investment Disputes, based in Washington DC and instituted proceedings in the Singapore High Court seeking 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 before the courts and that the eventual ruling will be in favour of the Company. As such the Company has disclosed a contingent asset, the value of which is yet to be ascertained, but 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 case and arbitration 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

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Sale of goods	**-**	7,660,381	**-**	-
Other income	**10,671,495**	14,103,059	**-**	-
	10,671,495	21,763,440	**-**	-
Other investment income				
Other dividends	**8,508,287**	7,249,755	**8,508,287**	7,249,755
Interest income from commercial papers, certificates of deposits, bonds and cash balances	**18,594,671**	20,651,365	**18,105,392**	20,516,635
	27,102,958	27,901,120	**26,613,679**	27,766,390
Total revenue	**37,774,453**	49,664,560	**26,613,679**	27,766,390

Other dividends relates to dividends received from In-house Managed Funds (see Note 10).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. EXPENSES

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Other investment losses				
Fair value losses on financial assets through profit or loss	**10,496,228**	32,300,710	**10,496,228**	32,300,710
	10,496,228	32,300,710	**10,496,228**	32,300,710
Governance costs				
Board of director's fees	**704,921**	1,345,116	**642,134**	1,117,560
Board administration	**323,848**	433,546	**323,848**	433,547
Audit	**417,059**	447,460	**295,254**	333,621
Annual report meeting expenses	**97,279**	200,960	**97,279**	200,960
Company secretary	**87,122**	158,420	**87,122**	158,420
Annual report	**123,823**	360,001	**123,823**	360,001
	1,754,052	2,945,503	**1,569,460**	2,604,109
Administration costs				
Employee compensation (Note 6)	**5,500,723**	20,738,581	**2,544,329**	12,870,706
Depreciation (Note 15)	**139,953**	1,369,736	**118,007**	100,485
Professional services	**5,961,135**	5,823,910	**5,961,135**	4,840,151
Travel	**622,269**	1,340,156	**551,772**	800,608
Insurance	**434,741**	1,305,357	**366,652**	572,286
Office rent	**4,605,876**	5,132,689	**2,995,153**	2,348,711
Information services	**706,017**	1,369,907	**366,652**	508,134
Advertising and promotion	**487,537**	594,333	**401,964**	431,001
Motor vehicle expenses	**164,323**	325,558	**11,929**	95,903
Amortisation – premium on inscribed stock	**-**	786,500	**-**	786,500
Repairs and maintenance	**223,006**	2,487,146	**109,871**	2,029,457
Other expenses*	**991,520**	10,171,922	**826,160**	1,426,355
	19,837,100	51,445,795	**14,253,624**	26,810,297
Fund management cost				
Investment service fees	**2,470,187**	2,840,650	**2,470,187**	2,840,650
	2,470,187	2,840,650	**2,470,187**	2,840,650
Development program costs				
Western province	**2,167,757**	61,232,704	**2,167,757**	61,232,704
National	**-**	116,274,269	**-**	75,251,069
	2,167,757	177,506,973	**2,167,757**	136,483,773
Other (gains)/losses – net				
Impairment loss on investment in Ok Tedi Mining Ltd (Note 13)	**-**	668,525,914	**-**	2,903,581
Impairment loss on long term assets	**-**	4,889,116	**-**	4,889,116
Gain on disposal (Note 25)	**(10,810,749)**			
	(10,810,749)	673,415,030	**-**	7,792,697
Total expenses	**25,915,575**	940,454,661	**30,957,256**	208,832,236

* Other expenses include foreign currency exchange losses and losses on disposal of property, plant and equipment.

The following impairment losses have been included as part of the development program costs above:

Reversal of impairment loss	**-**	-	**-**	(5,190,734)
Impairment loss on property, plant and equipment and receivables	**-**	19,587,239	**-**	7,489,203
Impairment loss on investments in subsidiaries and loan receivable from subsidiaries	**-**	-	**-**	3,969,317
Impairment of investment in a joint venture	**-**	44,945,102	**-**	45,109,368
Impairment loss on loan to third parties	**-**	6,551,681	**-**	-
	-	71,084,022	**-**	51,377,154

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. EMPLOYEE COMPENSATION

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Wages and salaries	**4,909,528**	18,600,948*	**2,544,329**	11,983,756
Other employee benefits and costs	**409,897**	1,454,300	**-**	627,309
Employer's contribution to defined contribution plans	**181,298**	683,333	**-**	259,641
	5,500,723	20,738,581	**2,544,329**	12,870,706

Key management remuneration is disclosed in Note 24.

* Wages and salaries in 2013 included employee redundancy compensation of US$8,278,047 paid to certain qualifying employees of the Company.

7. INCOME TAX (EXPENSE)/CREDIT

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Tax (expense)/credit attributable to the operating (deficit)/surplus is made up of:				
Current income tax	**(4,618,796)**	(1,371,808)	**(1,426,582)**	(1,371,808)
Deferred income tax	**(2,380,986)**	54,606,087	**-**	-
	(6,999,782)	53,234,279	**(1,426,582)**	(1,371,808)

The tax expense is comprised of:

- The deferred tax liability previously recognised in respect of future dividends receivable from Ok Tedi Mining Limited was fully reversed in 2013 subsequent to the impairment loss recognised on investment in Ok Tedi Mining Limited resulting in a tax credit of US$52,058,935;
- US$1,426,582 (2013: US$1,222,628) in connection with the withholding tax deducted from dividend income from its Papua New Guinea equity investments;
- US$2,806,442 (2013: US$Nil) in connection with the current income tax payable for a subsidiary;
- US$385,772 (2013: US$nil) in connection with the withholding tax deducted from interest income from a loan receivable from a third party to a subsidiary and US$Nil (2013: US$149,180) in connection with the withholding tax deducted from interest income from Bank of Papua New Guinea Inscribed Stocks; and
- Tax expense of US$2,380,986 (2013: US$2,547,152 tax credit) in connection with the temporary differences from a subsidiary.

The deferred tax liability previously recognised in respect of dividend withholding taxes on other dividend income have been paid to Internal Revenue Commission ("IRC") of Papua New Guinea as and when it incurred. No Singapore income tax is payable on the basis that the dividend and interest income is not remitted to Singapore.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX CREDIT/(EXPENSE) (CONTINUED)

The tax expense on results differs from the amount that would have arisen using the Singapore standard rate of income tax due to the following:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Surplus/(deficit) before income tax including discontinued operations	**11,859,878**	(853,874,745)	**(4,343,577)**	(181,065,846)
Tax calculated at Singapore rate applicable to surplus in Papua New Guinea at 17% (2013: 17%)	**2,016,179**	(145,158,707)	**(738,408)**	(30,781,194)
Effect of different tax rates in other countries	**-**	-	**-**	-
Income not subject to tax	**(4,975,248)**	(13,317,057)	**(3,077,916)**	(3,318,758)
Expenses not deductible for tax purpose	**4,405,478**	159,877,293	**5,242,906**	35,471,760
Tax recognised/(derecognised) on retained earnings of joint venture and tax expense of subsidiaries	**5,553,373**	(54,635,808)	**-**	-
Tax expense/(credit)	**6,999,782**	(53,234,279)	**1,426,582**	1,371,808
Comprising of:				
Dividend/interest withholding tax paid to the IRC of Papua New Guinea	**1,812,354**	1,371,808	**1,426,582**	1,371,808
Current income tax expense	**2,806,442**	-	**-**	-
Deferred income tax expense/(credit)	**2,380,986**	(54,606,087)	**-**	-
	6,999,782	(53,234,279)	**1,426,582**	1,371,808
Movement in the current income tax liability is as follows:				
Beginning of the financial year	**-**	-	**-**	-
Tax expense for the year	**2,806,442**	-	**-**	-
End of the year	**2,806,442**	-	**-**	-

8. DISCONTINUED OPERATIONS

(i) Disposal of Cloudy Bay Sustainable Forestry Limited

On 20 February 2014, the directors approved the disposal of the shares in Cloudy Bay Sustainable Forestry Limited which had timber harvesting, milling and selling operations in the Central Province in Papua New Guinea. The Company has received an initial consideration of US$5,190,733 (PNG Kina 15,000,000) at the time of completion. The deferred consideration receivable of US$8,651,222 (PNG Kina 25,000,000) has not been recognised as eventual receipt is not considered probable. The consideration receivable is secured by fixed and floating charges over the assets of the Cloudy Bay Sustainable Forestry Limited and mortgage over its shares and the Company has the right to enforce security at the discretion of the directors.

(ii) Disposal of Western Province Sustainable Power Limited

On 6 February 2014, the directors approved the granting of the entire operations of Western Province Sustainable Power Limited to Fly River Provincial Government. This was achieved through the transfer of the shares and assets of Western Province Sustainable Power Limited for a consideration of 1 PNG Kina.

(iii) Disposal of Star Mountain Institute of Technology

On 6 February 2014, the directors approved the granting of the wholly owned subsidiary Star Mountain Institute of Technology to the people of the communities included in the Community Mine Continuation Agreements (CMCA). This was achieved through the transfer of the shares and assets of Star Mountain Institute of Technology to the CMCA communities for a consideration of 1 PNG Kina.

Details of the assets and liabilities disposed of in respect of Cloudy Bay Sustainable Forestry Limited, Western Province Sustainable Power Limited and Star Mountain Institute of Technology and the calculation of the profit or loss on disposal are disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Cash and bank balances	38,345,227	35,944,620	34,379,594	32,946,890
Funds under management:				
Cash held in investment funds	73,558,498	20,225,520	73,558,498	20,225,520
Commercial papers and certificates of deposit	69,915,197	86,822,892	69,915,197	86,822,892
	143,473,695	107,048,412	143,473,695	107,048,412
	181,818,922	142,993,032	177,853,289	139,995,302

The Company has restricted access to cash and cash equivalents held in Papua New Guinea of US$1,891,373 and other assets held in Papua New Guinea as the tax authorities have declined to provide taxation clearance to remit funds overseas due to ongoing litigation between the Company and the State. The Company is challenging this restriction.

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

	The Group	
	2014	**2013**
	US$	**US$**
Cash and bank balances (as above)	**181,818,922**	142,993,032

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Current				
Funds under management:				
Bonds	156,892,472	102,830,752	156,892,472	102,830,752
Commercial papers and certificates of deposit	-	7,001,561	-	7,001,561
Total current	156,892,472	109,832,313	156,892,472	109,832,313
In-house Managed Funds:				
Bonds	11,920,899	13,082,605	-	-
	11,920,899	13,082,605	-	-
Total current	168,813,371	122,914,918	156,892,472	109,832,313
Non-current				
Funds under management:				
Bonds	646,182,478	723,058,739	646,182,478	723,058,739
Equity securities	129,373,662	126,284,089	129,373,662	126,284,089
Funds	11,299,951	11,544,767	11,299,951	11,544,767
	786,856,091	860,887,595	786,856,091	860,887,595
In-house Managed Funds:				
Equity securities *	120,199,227	126,453,152	120,199,227	126,453,152
120,199,227 126,453,152	120,199,227	126,453,152		
Total non-current	907,055,318	987,340,747	907,055,318	987,340,747
Total	1,075,868,689	1,110,255,665	1,063,947,790	1,097,173,060

* Investments in listed equity securities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Funds under management

The financial assets that are externally-managed comprised funds placed with various professional fund managers pursuant to investment management agreements. The Group can, pursuant to the terms, terminate the agreements by giving the requisite prior notice in writing to the fund managers. These 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.

11. FINANCE LEASE RECEIVABLES

The Group leases aircraft to a non-related party under finance lease arrangements. The initial agreement on the first aircraft terminated during 2013.

In October 2010, the Group entered into finance lease arrangements for two aircraft. The remaining two agreements terminate in 2017.

	The Group	
	2014	**2013**
	US$	**US$**
Gross receivables due		
- Not later than one year	**8,937,984**	8,937,984
- Later than one year but within five years	**16,263,099**	24,259,701
Total	**25,201,083**	33,197,685
Less: Unearned finance income	**(2,413,573)**	(3,351,270)
Net investment in finance leases	**22,787,510**	29,846,415

The net investment in finance leases is analysed as follows:

	The Group	
	2014	**2013**
	US$	**US$**
Not later than one year	**7,574,178**	7,063,554
Later than one year		
- Between one and five years	**15,213,332**	22,782,861
	22,787,510	29,846,415

The fair value of lease receivables at 31 December 2014 amounted to US$24,600,739 (2013: US$32,956,107). The fair values are based on cash flows discounted using a rate of 2.0% (2013: 2.0%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. OTHER RECEIVABLES

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Current				
Loans receivable from subsidiaries	**-**	-	**81,701,667**	92,744,360
Other debtors	**16,146,778**	13,202,511	**3,354,368**	2,204,845
	16,146,778	13,202,511	**85,056,035**	94,949,205
Non-current				
Loan receivable from a joint venture	**52,491,823**	52,716,500	**-**	-
	52,491,823	52,716,500	**-**	-

	The Company	
	2014	**2013**
	US$	**US$**
Loans receivable from subsidiaries:		
Western Province Sustainable Power	**-**	59,996,579
Champion 34	**81,701,667**	92,744,360
Cloudy Bay Sustainable Forestry	**-**	60,566,728
	81,701,667	213,307,667
Allowance for impairment	**-**	(120,563,307)
	81,701,667	92,744,360

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

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

On 23 November 2012, Champion 34 Limited, a subsidiary of the Group, entered into a loan agreement with a shareholder of a joint venture, in connection with the loan of PNG Kina 135,000,000 for a term of 5 years from the initial drawdown date. Interest is fixed at 6.5% per annum. The US Dollar equivalent of the balance outstanding at 31 December 2014 was US$52,491,823

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT IN JOINT VENTURES

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Investment in Ok Tedi Mining Limited, at cost			**2,903,581**	2,903,581
Investment in PNG Energy Development Limited ("PNGEDL"), at cost			**45,109,368**	45,109,368
Impairment loss on investment in Ok Tedi Mining Limited			**(2,903,581)**	(2,903,581)
Provision for impairment of investment in PNGEDL			**(45,109,368)**	(45,109,368)
Total Investment			**-**	-
Beginning of the financial year	**9,330,000**	918,172,564		
Investment in PNGEDL at cost	**-**	12,199,631		
Share of results after tax	**-**	36,915,356		
Share of hedge reserve	**-**	1,105,787		
Dividends received	**-**	-		
Foreign currency translation differences	**-**	(245,592,322)		
Impairment loss on investment in Ok Tedi Mining Limited	**-**	(668,525,914)		
Impairment loss on investment in PNGEDL	**-**	(44,945,102)		
End of the financial year	**9,330,000**	9,330,000		

The investments in joint ventures are represented by:

	The Group	
	2014	**2013**
	US$	**US$**
Share of net assets in Harbourside Development Ltd	**9,330,000**	9,330,000
Total	**9,330,000**	9,330,000

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

	The Group	
	2014	**2013**
	US$	**US$**
- Assets	**35,719,069**	68,770,091
- Liabilities	**(27,214,651)**	3,116,400
- Revenue	**-**	-
- Net results	**(403,676)**	(1,675,215)
Share of capital commitment	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT IN JOINT VENTURES (CONTINUED)

Investment in 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 in profit or loss.

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 provides technical expertise whilst PNGSDP provides 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. Other projects namely the Ramu and Stanley projects were also discontinued in 2013.

Harbourside Development Limited

Champion 34 Limited has a 50% joint venture agreement with Steamships Trading Company Limited to develop an office complex on the waterfront in Port Moresby. The initial 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 2014 %	Effective Interest 2013 %
Ok Tedi Mining Limited	Mining of copper and gold	Papua New Guinea	**63.4**	63.4
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. The Group did not have access to the financial information of Ok Tedi Mining Limited due to the ongoing litigation with the State and as such no information is disclosed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT 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 balance sheet

	2014 US$	2013 US$
Current		
Cash and cash equivalents	**1,486,240**	3,247,997
Other current assets (excluding cash)	**553,619**	1,398,396
Total current assets	**2,039,859**	4,646,393
Financial liabilities (excluding trade payables)	**42,709**	2,248,001
Other current liabilities (including trade payables)	**408,313**	1,245,366
Total current liabilities	**451,022**	3,493,367
Non-current		
Assets	**-**	50,893
Total assets	**-**	50,893
Other liabilities	**-**	-
Total non-current liabilities	**-**	-
Net assets	**1,588,837**	1,203,919

Summarised balance sheet

Foreign exchange (loss)/gain	**(209,179)**	638,462
Interest income	**24,999**	24,681
Gain/(loss) on asset disposal	**43,710**	(29,306)
Impairment expense	**-**	(69,680,379)
Administration expenses	**(667,720)**	(1,901,952)
Loss before income tax	**(808,190)**	(70,948,494)
Income tax expense	**-**	-
Loss for the year after tax attributable to equity holders of the Company	**(808,190)**	(70,948,494)
Other comprehensive income	**-**	
Total comprehensive loss for the year attributable to equity holders of the Company	**(808,190)**	(70,948,494)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT IN JOINT VENTURES (CONTINUED)

Summarised financial information for Harbourside Development Limited

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

Summarised balance sheet

	2014 US$	2013 US$
Current		
Cash and cash equivalents	**1,211,203**	2
Other current assets (excluding cash)	**4,871,592**	3,765,186
Total current assets	**6,082,795**	3,765,188
Financial liabilities (excluding trade payables)	**58,712,914**	40,823,729
Other current liabilities (including trade payables)	**1,348,161**	3,268,191
Total current liabilities	**60,061,075**	44,091,920
Non-current		
Assets	**69,398,280**	56,338,742
Financial liabilities	**-**	-
Other liabilities	**-**	-
Total non-current liabilities	**-**	-
Net assets	**15,420,000**	16,012,010

The Company is still on the developmental phase and thus only expected that there are no profit and loss items.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Investment in subsidiaries

	The Company	
	2014	**2013**
	US$	**US$**
Investments (unquoted at cost)		
Cloudy Bay Sustainable Forestry Limited	**-**	16,930,640
Impairment of Cloudy Bay Sustainable Forestry Limited	**-**	(11,739,907)
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
Western Province Sustainable Power Limited	**-**	-**
Impairment of Western Province Sustainable Power Limited	**-**	-**
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)
Star Mountain Institute of Technology	**-**	17,108,294
Impairment of Star Mountain Institute of Technology	**-**	(17,108,294)
PNG Microfinance Ltd	**1,940,787**	1,940,787
Impairment of PNG Microfinance Ltd	**(1,940,787)**	(1,940,787)
	1	5,190,734

** less than US$1.

During the year, the Company disposed of its shares in Star Mountain Institute of Technology, Cloudy Bay Sustainable Forestry Limited and Western Province Sustainable Power Limited as disclosed in Note 25.

Details of the joint ventures are as follows:

Name of joint venture	Principal activities	Country of incorporation	Effective Interest 2014 %	Effective Interest 2013 %
Cloudy Bay Sustainable Forestry Limited	Harvest, mill and sell timber products and also promote sustainable forestry management practices.	Papua New Guinea	**100**	100
PNG Sustainable Infrastructure Limited	Develop and construct infrastructure projects in Papua New Guinea Inactive since 2008.	Papua New Guinea	**100**	100
Champion No. 34 Limited	Leasing of aircraft and investment activities.	Papua New Guinea	**100**	100
Western Province Sustainable Power Limited	Implement and manage electricity projects in Western Province.	Papua New Guinea	**100**	100
PNG Microfinance Ltd	Financial institution.	Papua New Guinea	**83**	83
Star Mountains Institute of Technology	Provide education, training & research in Western Province.	Papua New Guinea	**100**	100
Daru Port Development Company Ltd	Construction of port and road facilities in Western Province.	Papua New Guinea	**100**	100

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment

The Group

	Computers and computer software US$	Motor vehicles US$	Fixtures & fittings US$	Plant and equipment US$	Leasehold improvements US$	Leasehold land US$	Buildings US$	Capital work in progress US$	Total US$
2014									
Cost									
Beginning of financial year	**2,703,861**	**2,601,202**	**1,992,760**	**22,407,029**	**787,549**	**10,647,741**	**11,463,722**	**4,691,481**	**57,295,345**
Additions	**55,806**	**90,320**	**16,131**	**-**	**-**	**-**	**-**	**-**	**162,257**
Disposals	**(2,759,667)**	**(2,691,522)**	**(2,008,891)**	**(22,407,029)**	**(787,549)**	**(2,943,134)**	**(11,463,722)**	**(4,691,481)**	**(49,752,995)**
End of financial year	**-**	**-**	**-**	**-**	**-**	**7,704,607**	**-**	**-**	**7,704,607**
Accumulated depreciation and impairment loss									
Beginning of financial year	2,680,039	1,240,642	1,494,629	22,252,134	595,871	10,432,336	9,702,507	4,691,481	53,089,639
Depreciation charge	6,630	133,110	213	-	-	-	-	-	139,953
Impairment loss	-	-	-	-	-	14,597	-	-	14,597
Disposals	(2,686,669)	(1,373,752)	(1,494,842)	(22,252,134)	(595,871)	(2,943,134)	(9,702,507)	(4,691,481)	(45,740,390)
End of financial year	-	-	-	-	-	7,503,799	-	-	7,503,799
Net book value									
End of financial year	**-**	**-**	**-**	**-**	**-**	**200,808**	**-**	**-**	**200,808**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (continued)

The Group

	Computers and computer software US$	Motor vehicles US$	Fixtures & fittings US$	Plant and equipment US$	Leasehold improvements US$	Leasehold land US$	Buildings US$	Capital work in progress US$	Total US$
2013									
Cost									
Beginning of financial year	3,150,318	2,512,077	1,846,253	20,821,602	904,750	10,160,656	10,244,273	4,891,974	54,531,903
Additions	93,881	478,634	406,396	1,993,234	200,197	487,085	1,219,449	-	4,878,876
Transfers	-	-	-	-	-	-	-	-	-
Disposals	(540,338)	(389,509)	(259,889)	(407,807)	(317,398)	-	-	(200,493)	(2,115,434)
End of financial year	2,703,861	2,601,202	1,992,760	22,407,029	787,549	10,647,741	11,463,722	4,691,481	57,295,345
Accumulated depreciation and impairment loss									
Beginning of financial year	2,208,259	914,636	1,167,115	19,368,789	299,249	2,943,134	9,163,138	-	36,064,320
Depreciation charge	390,050	245,737	321,179	381,259	-	-	31,511	-	1,369,736
Impairment loss	593,346	263,069	206,098	2,502,086	304,958	7,489,202	507,858	4,691,481	16,558,098
Disposals	(511,616)	(182,800)	(199,763)	-	(8,336)	-	-	-	(902,515)
End of financial year	2,680,039	1,240,642	1,494,629	22,252,134	595,871	10,432,336	9,702,507	4,691,481	53,089,639
Net book value									
End of financial year	23,822	1,360,560	498,131	154,895	191,678	215,405	1,761,215	-	4,205,706

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (continued)

The Company

	Computers and computer software	Motor vehicles	Fixtures & fittings	Leasehold improvements	Leasehold Land	Total
	US$	US$	US$	US$	US$	US$
2014						
Cost						
Beginning of financial year	**-**	**601,150**	**-**	**-**	**7,704,607**	**8,305,757**
Additions	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**(528,006)**	**-**	**-**	**-**	**(528,006)**
End of financial year	**-**	**73,144**	**-**	**-**	**7,704,607**	**7,777,751**
Accumulated depreciation						
Beginning of financial year	**-**	**209,366**	**-**	**-**	**7,489,202**	**7,698,568**
Depreciation charge	**-**	**118,007**	**-**	**-**	**-**	**118,007**
Impairment loss	**-**	**-**	**-**	**-**	**14,597**	**14,597**
Disposals	**-**	**(254,229)**	**-**	**-**		**(254,229)**
End of financial year	**-**	**73,144**	**-**	**-**	**7,503,799**	**7,576,943**
Net book value						
End of financial year	**-**	**-**	**-**	**-**	**200,808**	**200,808**
2013						
Cost						
Beginning of financial year	186,243	427,322	173,370	8,337	7,217,522	8,012,794
Additions	-	173,828	-	-	487,085	660,913
Disposals	(186,243)	-	(173,370)	(8,337)	-	(367,950)
End of financial year	-	601,150	-	-	7,704,607	8,305,757
Accumulated depreciation						
Beginning of financial year	182,836	108,881	120,483	8,337	-	420,537
Depreciation charge	-	100,485	-	-	-	100,485
Impairment loss	-	-	-	-	7,489,202	7,489,202
Disposals	(182,836)	-	(120,483)	(8,337)	-	(311,656)
End of financial year	-	209,366	-	-	7,489,202	7,698,568
Net book value						
End of financial year	-	391,784	-	-	215,405	607,189

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. INTANGIBLE ASSETS

Intangible assets consist of timber permits and research and development and intellectual property acquired.

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Cost	**-**	12,554,500	**-**	-
Accumulated amortisation	**-**	(526,808)	**-**	-
Impairment	**-**	(12,027,692)	**-**	-
Net book value	**-**	-	**-**	-

The carrying value of the timber permits (i.e. timber permits for Cloudy Bay Sustainable Forestry) was fully impaired in prior years. This asset was disposed during the year.

17. SUNDRY CREDITORS AND ACCRUALS

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Amounts due to:				
- Non-related parties	**28,179,250**	35,577,828	**1,765,989**	6,853,398

The amounts due to non-related parties include amounts due to customers of US$25,073,550 (2013: US$ 25,361,043).

18. DEFERRED INCOME TAX

Movement in deferred income tax account is as follows:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Beginning of the financial year	**(514,295)**	54,091,792	**-**	-
Tax (credit) charge to profit or loss	**2,380,986**	(54,606,087)	**-**	-
	1,866,691	(514,295)	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. DEFERRED INCOME TAX (CONTINUED)

The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Deferred income tax liabilities/(assets):				
- to be settled/(recovered) after one year	**1,866,691**	(514,295)	**-**	-
	1,866,691	(514,295)	**-**	-

Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in respect of a subsidiary in the Group.

19. MEMBERS' SUBSCRIPTIONS

As a Company "limited by guarantee", the Company does not have any issued shares or shareholders. At 31 December 2014, there are 3 (2013: 3) members of the Company.

20. 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 2.1.15.

	The Company	
	2014	**2013**
	US$	**US$**
Beginning of the financial year	**-**	2,903,581
Other income	**93,004**	-
Governance and administrative expenses	**(15,823,084)**	(29,414,406)
Transfer to long term and development funds	**15,730,080**	26,510,825
End of the financial year	**-**	-

Long Term Fund

The Long Term Fund is accounted for in accordance with the policy set out in Note 2.1.15.

Beginning of the financial year	**1,295,953,733**	1,351,856,155
Transfer to Development Fund	**-**	(21,568,456)
Investment gain/(loss) - net	**14,321,880**	(4,654,928)
Investment expenses	**(2,466,059)**	(2,840,650)
Withholding tax paid to IRC of Papua New Guinea	**(1,426,582)**	(1,371,808)
Other losses	**-**	(7,792,697)
Transfer to General Fund	**(6,705,047)**	(17,673,883)
End of the financial year	**1,299,677,925**	1,295,953,733

The weighted average rate of return on investment for the Long Term Fund for the year was 1.17% (2013: 0.07%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. GENERAL FUND, LONG TERM FUND AND DEVELOPMENT FUND (CONTINUED)

Development Fund

The Development Fund is accounted for in accordance with the policy set out in Note 2.1.15, and is allocated between the Western Province Program Fund and the National Program Fund as follows:

	The Company			
	Western Province Program Fund 2014 US$	**National Program Fund 2014 US$**	**Program Total 2014 US$**	**Program Total 2013 US$**
Beginning of the financial year	**40,771,631**	**(5,663,289)**	**35,108,342**	158,739,992
Transfer from Long Term Fund	**-**	**-**	**-**	21,568,456
Investment & other income	**93,225**	**1,609,342**	**1,702,567**	120,608
Investment & Development expenses	**(2,171,885)**	**-**	**(2,171,885)**	(136,483,772)
Transfer (to)/from General Fund	**(2,988,989)**	**(6,036,044)**	**(9,025,033)**	(8,836,942)
End of the financial year	**35,703,982**	**(10,089,992)**	**25,613,991**	35,108,342

The weighted average rate of return on short term investments for the development fund for the year was 0.5% (2013: 0.65%) per annum.

21. COMMITMENTS

(a) Operating lease commitments

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 aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	The Group		The Company	
	2014 US$	**2013 US$**	**2014 US$**	**2013 US$**
Not later than 1 year	**803,131**	2,319,496	**57,918**	1,478,077
Later than 1 year but not later than 5 years	**932,205**	6,092,127	**115,836**	4,434,232
	1,735,336	8,411,623	**173,754**	5,912,309

(b) Project commitments

The commitments for projects with signed funding agreements, excluding expenditures already made for the projects, are as follows:

In 2013, the Board of Directors reached a resolution to cease all development activities in Western Province and all of Papua New Guinea as the Company ceased to receive dividend income from Ok Tedi Mining Limited for the financial year as a result of the expropriation of Ok Tedi Mining Limited by the PNG Government. All legally binding contractual obligations arising from development activities were settled during the year.

(c) 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 investment in a joint venture (Note 13).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. COMMITMENTS (CONTINUED)

(d) 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 US$10,029,000 (PGK21,500,000) 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.

22. 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.

(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 has filed a claim against the PNG Government with the International Court of Settlement of Investment Disputes, based in Washington DC and instituted proceedings in the Singapore High Court and Papua New Guinea, seeking (among other things) restitution of the shares or compensation in respect of the shares in Ok Tedi Mining Limited taken over wrongfully 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 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.

During the year the Independent State of PNG sought an injunction from the Singapore High Court to prevent PNGSDP from disposing its assets in the normal course of business. The Singapore High Court refused to grant the injunction sought by the Independent State of PNG.

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

23. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

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 such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits, covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity in accordance with the objectives and underlying principles that are approved by the Board of Directors.

The Group and the Company has appointed eight (2012: seven) professional fund managers to carry out the investment activities in accordance with the investment policies and guidelines approved by the Board of Directors. An Investment and Finance Committee of the Board has been established to monitor investment and risk management and the performance of the fund managers.

(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. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the US Dollar, the price initially expressed in foreign currency and then converted into US Dollar will also fluctuate because of changes in foreign exchange rates. Please refer to section (b) for measurement and management of foreign exchange risk.

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 10.

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	
	2014	**2013**
	US$	**US$**
The Group		
Equity securities designated at fair value through profit or loss	**249,572,889**	252,737,241
Bonds designated at fair value through profit or loss	**814,995,849**	838,972,096
The Company		
Equity securities designated at fair value through profit or loss	**249,572,889**	252,737,241
Bonds designated at fair value through profit or loss	**803,074,949**	825,889,491

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (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% (2013: 5%) with all other variables held constant, and that the fair value of the Group's portfolio of equity and bond securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonably possible shift in the Market Index, having regard to the historical volatility of the index. The impact below arises from the reasonably possible change in the fair value of equities and equity derivatives.

	2014	2013
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
Managed by Fund Managers		
- increased by	**46,622,430**	47,608,679
- decreased by	**(46,622,430)**	(47,608,679)
Managed in-house		
- increased by	**6,606,006**	6,976,788
- decreased by	**(6,606,006)**	(6,976,788)
The Company		
Managed by Fund Managers		
- increased by	**46,622,430**	47,608,679
- decreased by	**(46,622,430)**	(47,608,679)
Managed in-house		
- increased by	**6,009,961**	6,322,658
- decreased by	**(6,009,961)**	(6,322,658)

The Investment and Finance Committee uses market indices as a reference point in assessing the investment decisions made by the Fund Managers. However, the Investment and Finance Committee does not manage the Group's investment strategy to track the Market Index or any other index or external benchmark. 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. The sensitivity analysis prepared as at 31 December is not necessarily indicative of the effect on the Group's and Company's investments of future movements in the level of the market index.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(i) Market risk (continued)

(b) Foreign exchange risk

The fund managers of the Group operate internationally and hold monetary assets denominated in currencies other than the US Dollar, the functional currency. Foreign 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.

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$	HKD US$	Other US$	Total US$
The Group						
2014						
Financial Assets						
Cash and cash equivalents	**5,857,006**	**1,058,953**	**173,832,436**	**-**	**1,070,527**	**181,818,922**
Financial assets at fair value through profit or loss	**113,341,294**	**42,220,162**	**830,929,764**	**13,055,319**	**76,322,150**	**1,075,868,689**
Other receivables and finance lease receivable	**68,638,601**	**-**	**22,787,510**	**-**	**-**	**91,426,111**
	187,836,901	**43,279,115**	**1,027,549,710**	**13,055,319**	**77,392,677**	**1,349,113,722**
Financial Liabilities						
Sundry creditors and accruals	**(28,437,959)**	**-**	**-**	**-**	**-**	**(28,437,959)**
Net financial assets	**159,398,942**	**43,279,115**	**1,027,549,710**	**13,055,319**	**77,392,677**	**1,320,675,763**
Less: Net financial assets denominated in the Company's functional currency	**-**	**-**	**(1,027,549,710)**	**-**	**-**	**(1,027,549,710)**
Currency exposure	**159,398,942**	**43,279,115**	**-**	**13,055,319**	**77,392,677**	**293,126,053**
The Group						
2013						
Financial Assets						
Cash and cash equivalents	3,898,477	1,576,711	133,737,462	89,622	3,690,760	142,993,032
Financial assets at fair value through profit or loss	119,634,850	97,495,786	759,593,719	31,978,509	101,552,801	1,110,255,665
Other receivables and finance lease receivable	68,948,151	-	29,846,415	-	-	98,794,566
	192,481,478	99,072,497	923,177,596	32,068,131	105,243,561	1,352,043,263
Financial Liabilities						
Sundry creditors and accruals	(34,770,509)	-	-	-	-	(34,770,509)
Net financial assets	157,710,969	99,072,497	923,177,596	32,068,131	105,243,561	1,317,272,754
Less: Net financial assets denominated in the Company's functional currency	-	-	(923,177,596)	-	-	(923,177,596)
Currency exposure	157,710,969	99,072,497	-	32,068,131	105,243,561	394,095,158

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(i) Market risk (continued)

(b) Foreign exchange risk (continued)

	PGK US$	EUR US$	USD US$	HKD US$	Other US$	Total US$
The Company						
2014						
Financial Assets						
Cash and cash equivalents	**1,891,374**	**1,058,953**	**173,832,436**	**-**	**1,070,526**	**177,853,289**
Financial assets at fair value through profit or loss	**101,420,395**	**42,220,162**	**830,929,764**	**13,055,319**	**76,322,150**	**1,063,947,790**
Other receivables	**85,056,035**	**-**	**-**	**-**	**-**	**85,056,035**
	188,367,804	**43,279,115**	**1,004,762,200**	**13,055,319**	**77,392,676**	**1,326,857,114**
Financial Liabilities						
Sundry creditors and accruals	**(1,765,989)**	**-**	**-**	**-**	**-**	**(1,765,989)**
Net financial assets	**186,601,815**	**43,279,115**	**1,004,762,200**	**13,055,319**	**77,392,676**	**1,325,091,125**
Less: Net financial assets denominated in the Company's functional currency	**-**	**-**	**(1,004,762,200)**	**-**	**-**	**(1,004,762,200)**
Currency exposure	**186,601,815**	**43,279,115**	**-**	**13,055,319**	**77,392,676**	**320,328,925**
The Company						
2013						
Financial Assets						
Cash and cash equivalents	900,747	1,576,711	133,737,462	89,622	3,690,760	139,995,302
Financial assets at fair value through profit or loss	106,552,245	97,495,786	759,593,719	31,978,509	101,552,801	1,097,173,060
Other receivables	94,949,205	-	-	-	-	94,949,205
	202,402,197	99,072,497	893,331,181	32,068,131	105,243,561	1,332,117,567
Financial Liabilities						
Sundry creditors and accruals	(6,853,398)	-	-	-	-	(6,853,398)
Net financial assets	195,548,799	99,072,497	893,331,181	32,068,131	105,243,561	1,325,264,169
Less: Net financial assets denominated in the Company's functional currency	-	-	(893,331,181)	-	-	(893,331,181)
Currency exposure	195,548,799	99,072,497	-	32,068,131	105,243,561	431,932,988

In accordance with the Group's policy, the fund managers monitor the Group's foreign exchange 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(i) Market risk (continued)

(b) Foreign exchange risk (continued)

If the PGK changed against the USD by 5% (2012: 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:

	2014	2013
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
PGK against USD		
- strengthened	**7,969,947**	7,885,548
- weakened	**(7,969,947)**	(7,885,548)
The Company		
PGK against USD		
- strengthened	**9,330,091**	9,777,440
- weakened	**(9,330,091)**	(9,777,440)

If the EUR change against the USD by 5% (2013: 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:

	2014	2013
The Group		
EUR against USD		
- strengthened	**2,163,956**	4,953,625
- weakened	**(2,163,956)**	(4,953,625)
The Company		
EUR against USD		
- strengthened	**2,163,956**	4,953,625
- weakened	**(2,163,956)**	(4,953,625)

If the HKD change against the USD by 4% (2013: 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:

	2014	2013
The Group		
HKD against USD		
- strengthened	**652,766**	1,603,407
- weakened	**(652,766)**	(1,603,407)
The Company		
HKD against USD		
- strengthened	**652,766**	1,603,407
- weakened	**(652,766)**	(1,603,407)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(i) Market risk (continued)

(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 Euro-denominated floating rate debt, 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 measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and 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.

As the Group and the Company has interest-bearing assets, the Group's and the Company's income and cash flows are affected by changes in market interest rates.

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.

Movements in interest bearing assets primarily arise from the increase/decrease in the fair value of fixed interest securities, with a small proportion arising from the decrease/increase in interest income on cash and cash equivalents. The Group has direct exposure to interest rates changes on the valuation of cash flows from its interest bearing assets and liabilities. At 31 December 2014 and 31 December 2013, 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.

The analysis below summarises the credit quality as at year end. 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. 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.

	2014	2013
	US$	US$
The Group		
AAA/Aaa	**175,257,049**	220,393,215
AA/Aa	**516,043,421**	517,290,325
A/A	**73,154,406**	45,149,002
BBB/Baa	**16,059,323**	24,097,587
Unrated**	**34,481,650**	32,041,967
Total	**814,995,849**	838,972,096
The Company		
Debt securities by rating		
AAA/Aaa	**175,257,049**	220,393,215
AA/Aa	**516,043,421**	517,290,325
A/A	**73,154,406**	45,149,002
BBB/Baa	**16,059,323**	24,097,587
Unrated	**22,560,751**	18,959,362
Total	**803,074,950**	825,889,491

** - This relates to bonds which have no available rating including government bonds of Papua New Guinea.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(ii) Credit risk (continued)

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Investment and Finance Committee based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Investment and Finance Committee. All amounts due from brokers, cash and short-term deposits are held by parties with credit ratings in line with the investment policies and guideline approved by the Board of Directors.

All transactions in listed securities made by the fund managers are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

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 Groups 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, 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:

	2014	2013
	US$	US$
The Group		
Bonds	**814,995,850**	838,972,096
Commercial papers and Certificates of deposit	**-**	7,001,561
Cash and cash equivalents	**181,818,922**	142,993,032
Finance & Other receivables	**91,426,111**	98,794,566
Total	**1,088,240,883**	1,087,761,255
The Company		
Bonds	**803,074,950**	825,889,491
Commercial papers and Certificates of deposit	**-**	7,001,561
Cash and cash equivalents	**177,853,289**	139,995,302
Other receivables	**85,056,035**	94,949,205
Total	**1,065,984,274**	1,067,835,559

(a) 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 trade receivables of subsidiaries in the Group.

The Group's other receivables not past due include receivables amounting to US$nil (2013: US$nil) that would have been past due or impaired if the terms were not re-negotiated during the financial year.

(b) 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 trade receivables.

The age analysis of other receivables past due but not impaired is as follows:

	The Group		The Company	
	2014	2013	2014	2013
	US$	US$	US$	US$
Past due < 3 months	**407,315**	378,511	**-**	-
Past due 3 to 6 months	**580,712**	711,009	**-**	-
	988,027	1,089,520	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (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.

The Group is exposed to the daily settlement of trading transactions and its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets in investments are not actively traded on a stock exchange. The Group's listed securities are considered readily realisable, as the majority are listed on reputable stock exchanges.

The Group's fund managers may periodically invest in derivative contracts and debt securities that are traded over the counter and unlisted equity investments that are not traded in an active market. As a result, the Group may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

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.

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.

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.

	1-3 months	3 to 12 months	More than 12 months	Total
	US$	US$	US$	US$
The Group				
2014				
Financial Assets				
Cash and cash equivalents	**181,818,922**	**-**	**-**	**181,818,922**
Financial assets at fair value through profit or loss	**-**	**168,813,371**	**907,055,318**	**1,075,868,689**
Other receivables and finance lease receivable	**18,049,829**	**5,680,633**	**67,705,155**	**91,435,617**
	199,868,751	**174,494,004**	**974,760,473**	**1,349,123,228**
Financial Liabilities				
Sundry creditors and accruals	**(28,179,250)**	**(258,709)**	**-**	**(28,437,959)**
Net financial assets	**171,689,501**	**174,235,295**	**974,760,473**	**1,320,685,269**
The Group				
2013				
Financial assets				
Cash and cash equivalents	142,993,032	-	-	142,993,032
Financial assets at fair value through profit or loss	-	122,914,918	987,340,747	1,110,255,665
Other receivables and finance lease receivable	17,997,540	5,297,665	75,499,361	98,794,566
	160,990,572	128,212,583	1,062,840,108	1,352,043,263
Financial Liabilities				
Sundry creditors and accruals	(34,056,687)	(713,822)	-	(34,770,509)
Net financial assets	126,933,885	127,498,761	1,062,840,108	1,317,272,754

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (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.

	1-3 months	3 to 12 months	More than 12 months	Total
	US$	US$	US$	US$
The Company				
2014				
Financial Assets				
Cash and cash equivalents	**177,853,289**	**-**	**-**	**177,853,289**
Financial assets at fair value through profit or loss	**-**	**156,892,472**	**907,055,318**	**1,063,947,790**
Other receivables and finance lease receivable	**3,354,368**	**81,701,667**	**-**	**85,056,035**
	181,207,657	**238,594,139**	**907,055,318**	**1,326,857,114**
Financial Liabilities				
Sundry creditors and accruals	**(1,765,989)**	**-**	**-**	**(1,765,989)**
Net financial assets	**179,441,668**	**238,594,139**	**907,055,318**	**1,325,091,125**
The Company				
2013				
Financial assets				
Cash and cash equivalents	139,995,302	-	-	139,995,302
Financial assets at fair value through profit or loss	-	109,832,313	987,340,747	1,097,173,060
Other receivables and finance lease receivable	2,204,845	92,744,360	-	94,949,205
	142,200,147	202,576,673	987,340,747	1,332,117,567
Financial Liabilities				
Sundry creditors and accruals	(6,853,398)	-	-	(6,853,398)
Net financial assets	135,346,749	202,576,673	987,340,747	1,325,264,169

(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 2.1.15.

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 estimation

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(v) Fair value estimation (continued)

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.

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 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(v) Fair value estimation (continued)

All fair value measurements disclosed are recurring fair value measurements:

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
The Group				
2014				
Assets				
Financial assets at fair value through profit or loss				
Bonds	**803,074,949**	**11,920,899**	**-**	**814,995,848**
Equity securities	**249,572,889**	**-**	**-**	**249,572,889**
Funds	**-**	**11,299,951**	**-**	**11,299,951**
Total assets	**1,052,647,838**	**23,220,850**	**-**	**1,075,868,688**
2013				
Assets				
Financial assets at fair value through profit or loss				
Bonds	825,889,491	13,082,605	-	838,972,096
Equity securities	252,737,241	-	-	252,737,241
Commercial papers and certificates of deposits and accrued interest	7,001,561	-	-	7,001,561
Funds	-	11,544,767	-	11,544,767
Total assets	1,085,628,293	24,627,372	-	1,110,255,665
The Company				
2014				
Assets				
Financial assets at fair value through profit or loss				
Bonds	**803,074,949**	**-**	**-**	**803,074,949**
Equity securities	**249,572,889**	**-**	**-**	**249,572,889**
Funds	**-**	**11,299,951**	**-**	**11,299,951**
Total assets	**1,052,647,838**	**11,299,951**	**-**	**1,063,947,789**
2013				
Assets				
Financial assets at fair value through profit or loss				
Bonds	825,889,491	-	-	825,889,491
Equity securities	252,737,241	-	-	252,737,241
Commercial papers and certificates of deposits and accrued interest	7,001,561	-	-	7,001,561
Funds	-	11,544,767	-	11,544,767
Total assets	1,085,628,293	11,544,767	-	1,097,173,060

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(v) Fair value estimation (continued)

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.

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 (2013: Nil).

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated based on quoted market prices or dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates their carrying amount.

(vi) Financial Instruments by category

The carrying amount of the different categories of financial instruments is as disclosed in Note 10 to the financial statements, except for the following:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Cash and receivables	**273,245,033**	241,787,598	**262,909,324**	234,944,507
Financial liabilities at amortised cost	**28,437,959**	37,770,509	**1,765,989**	6,853,398

24. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties during the financial year:

Key management personnel compensation

The key management personnel compensation is analysed as follows:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	US$	**US$**	**US$**	**US$**
Directors – fees	**704,921**	1,345,116	**642,134**	1,117,560
Management salaries and other short-term benefits	**1,688,430**	8,916,319	**1,248,390**	6,152,403
	2,393,351	10,261,435	**1,890,524**	7,269,963

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. DISPOSAL OF SUBSIDIARIES

As disclosed in Note 8, the subsidiaries Cloudy Bay Sustainable Forestry Limited, Western Province Sustainable Power Limited and Star Mountain Institute of Technology were disposed of during the year.

Analysis of assets and liabilities over which control was lost

	Group 2014 US$
Assets	
Cash and cash equivalents	80,604
Trade receivables	1,016,281
Inventories	2,824,944
Property, plant and equipment	3,526,575
	7,448,404
Liabilities	
Trade payables	(3,747,807)
	(3,747,807)
Net assets disposed	**3,700,597**
Gain on disposal of subsidiaries	
Consideration received	5,190,733
Net liabilities disposed of	(3,700,597)
Cumulative exchange gain in respect of net assets of subsidiary reclassified from equity to profit and loss on loss of control of subsidiaries	9,320,613
Gain on disposal (Note 8)	**10,810,749**

The gain on disposal is included in the profit for the year from discontinued operations (see Note 8).

Net cash inflow on disposal of subsidiaries	
Consideration received in cash and cash equivalents	5,190,733
Less: cash and cash equivalents balances disposed of	(80,604)
	5,110,129

26. FINANCIAL ASSETS, AVAILABLE-FOR-SALE

The Company maintains a 5% interest in a telecommunication carrier in Papua New Guinea acquired at a cost of US$6,000,000. This was fully impaired in prior years and based on fair value assessment at balance sheet date, the investment remains fully impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. 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 periods beginning on or after 1 January 2015 and which the Group has not early adopted:

- *FRS 102 Share ent (effective for annual periods beginning on or after 1 July 2014)*
- *FRS 103 Business Combinations (effective for annual periods beginning on or after 1 July 2014)*
- *FRS 40 Investment Property (effective for annual periods beginning on or after 1 July 2014)*
- *FRS 108 Operating Segments (effective for annual periods beginning on or after 1 July 2014)*
- *FRS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 July 2014)*

Management does not expect the adoption the above FRSs in the future periods to have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption.

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