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PUBLIC STATEMENT

November 18 2011

The Managing Director of IPBC, Mr Thomas Abe, announced today that the 2010 audited accounts of IPBC were now available for public scrutiny.

“I have instructed that the 2010 accounts and all future audited accounts be put on the IPBC web site for downloading by anyone who might be interested,” he said.

“This is part of my program to make IPBC more transparent and accountable to the people of Papua New Guinea, who after all are our owners.”

The IPBC web site is at www.ipbc.com.pg

Thomas Abe

Managing Director, IPBC



AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA



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**INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF
GENERAL BUSINESS TRUST
FOR THE YEAR ENDED 31 DECEMBER 2010**

To the Minister for Public Enterprises

I have audited the accompanying financial statements of **General Business Trust** for the year ended **31 December, 2010**. The financial statements comprise:

- Balance Sheet;
- Statement of Comprehensive Trust Operations (Income Statement);
- Statement of Changes in Trust and Beneficiary Accounts (Changes in Equity);
- Cash Flow Statement; and
- Summary of Significant Accounting Policies and Other Explanatory Notes.

Responsibility for the Financial Statements

The Trustee of the Trust, *Independent Public Business Corporation* is responsible for preparing the financial statements that give a true and fair presentation of the financial position and performance of the Trust. The financial statements should comply with the *Independent Public Business Corporation Act, 2002 (as amended)* and other mandatory financial reporting requirements in accordance with the *International Financial Reporting Standards* which have been approved by the *Accounting Standards Board* as the financial reporting standards for use in Papua New Guinea. The Trustee is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Responsibility of the Auditor-General

I have conducted an independent audit in accordance with the *Audit Act, 1989* in order to express an opinion to you. My audit has been planned and performed in accordance with *International Standards on Auditing* as promulgated by the *International Federation of Accountants* to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. I have considered the risks, based on those assessments, on the internal controls relevant to the preparation and fair presentation of the financial statements in designing audit procedures considered appropriate in the circumstances.

Procedures were performed to assess whether, in all material respects, the financial statements present fairly, in accordance with the *International Financial Reporting Standards* and other mandatory financial reporting requirements, a view which is consistent with my understanding of the Trust's financial position, and of its performance as represented by the results of their operations and cash flows.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for this report.

AUDIT OPINION

In my opinion;

- (a) The financial statements of General Business Trust for the year ended 31 December, 2010;
 - (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
 - (ii) The financial statements have been prepared in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by General Business Trust as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the issues referred to under the Emphasis of Matter paragraphs.

EMPHASIS OF MATTER

Without qualifying my opinion, I wish to draw your attention to the following matters which I consider significant;

- **Investments in PNG Series II and PNG Series III Notes**

On 01 June, 2007, the management of the Trustee, Independent Public Business Corporation (IPBC), invested K15.0 million (AUD\$ 5,920,500) in PNG Series II Notes through BSP Capital Limited in Lehman Brothers, an investment bank providing global financial services. On 21 September, 2007 the management invested another K16.0 million (AUD\$ 6,250,000) in PNG Series III Notes in the same investment bank and again through BSP Capital Limited.

Lehman Brothers filed for bankruptcy in the United States as a result of the global financial crunch. In September, 2008 when Lehman Brothers was declared bankrupt, the investment value of PNG Series II Notes was reduced to AUD\$ 9 for each AUD\$100 Note. Likewise, on 27 April, 2009 the investment value of PNG Series III Notes was also reduced to AUD\$ 70 for each AUD\$ 100 Note.

In 2010, BSP Capital Limited advised that the values of these investments had nil value. However, in June, 2011 BSP Capital then offered a return of K6,156,023 in total to IPBC but without adequate documents for my review.

Both investments were made without proper evaluations on the overseas money markets and without approval and consent of the IPBC Board.

I am concerned that the Trustee had not done proper evaluations and also failed to obtain the Board's approval before these investments were made. I still believe that the funds vested with the Trust and managed by the Trustee (IPBC) are owned by the state even though the amendments made to the *Independent Public Business Corporation Act, 2002 (as amended)* specifically excluded the compliance of *Public Finances (Management) Act, 1995*. Further, in my view, investments in overseas financial/ money markets are not the core purpose of the establishment of the Trust.

Therefore, the Board urgently needs to establish an adequate and appropriate corporate governance regime in the management and affairs of the Trust which I believe is quite lacking at present.

- **Exchangeable Bonds-K4,445,325,929**

I draw your attention to the exchangeable bonds liability disclosed under non-current liabilities which amounted to K4,445,325,929. This liability is payable to International Petroleum Investment Company, (IPIC), based in Abu Dhabi, which resulted from the raising of AUD\$ 1.681 billion (K3.183 billion) in 2009 in exchangeable bonds to fund the state's 19.6% stake in the PNG-LNG project. Oil Search Limited shares were pledged against the exchangeable bonds which will mature in 2014.

However, the value of the Oil Search shares as at 31 December, 2010 was AUD\$ 1.384 billion. An additional amount of AUD\$296,906,594 (K756,449,921) would have been payable by IPBC if the bonds had been redeemed or have been exchanged as per the Bond Deed Poll of the exchangeable bonds agreement at the balance sheet date.

Based on the position as at 31 December, 2010, I view that IPBC should prepare to meet any shortfall in the value of the Oil Search shares in the event IPIC decides to exchange the bonds at any given date prior to the maturity date.

- **Related Party Receivables: Loan to National Petroleum Company of PNG (Kroton) Limited (NPCP) (formerly Kroton No.2 Limited) - K1,249,860,810**

I draw your attention to the related party receivables of K1,297,900,845 which comprises amongst others, a loan of K1,249,860,810 to National Petroleum Company of PNG (Kroton) Limited (NPCP) as disclosed in the financial statements. The loan is made up of K1,229,331,810 which was paid to Exxon Mobil on behalf of NPCP and another amount of K20,529,000 paid towards operational expenses of NPCP in 2010 by IPBC. NPCP holds the PNG Government's 16.57% stake in the PNG LNG project.

The IPBC Board resolved that this amount be considered a loan and shall be paid back once revenue started flowing when the project commences operation. However, a copy of the signed loan agreement was not made available for my review to determine the conditions attached to the loan. As a result, I am unable to determine the status of the loan to NCPC.

Yours faithfully,



GEORGE W. SULLIMANN
Acting Auditor-General

29 June 2011

GENERAL BUSINESS TRUST

Financial Statements for the year ended 31 December 2010

FINANCIAL STATEMENTS
For the year ended
31 December 2010

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GENERAL BUSINESS TRUST

Trustees' Declaration

Trustees' Declaration

For the year ended 31 December 2010

We, the Trustees of the General Business Trust hereby state that in our opinion:

The accompanying financial statements have been properly drawn up so as to exhibit the true and fair view of the state of the affairs of the General Business Trust ("the Trust") as at 31 December 2010, and a true and fair view of the results of the Trust's operations, for the year then ended. Accordingly, these financial statements have been prepared to satisfy the Trust's reporting requirements under the Act. The Trustees hereby declare that:

- a) The attached financial statements and notes hereto present fairly in accordance with the accounting policies described in Note 2, to the financial position of the Trust as at 31 December 2010 and the results of its operations for the financial year then ended;
- b) The results of the Trust's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- c) The cost to prepare the consolidated financial statements, if required, would materially outweigh any benefits to the readers of the financial statements;
- d) The majority of financial statements were made available by the companies vested in the IPBC in-trust for the GBT so as to reflect the values of the companies as of 31 December 2010;

The current assets of the Trust, including debtors, are expected to be realized in the ordinary course of business for the value at which they are shown in the financial statements; and

In the Trustees' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

The Independent Public Business Corporation of Papua New Guinea ("IPBC") is a Trustee of the Trust. The Board of Directors of the IPBC during and since the end of the financial year were:

| <u>Name</u> | <u>Position</u> |
|--------------------|--|
| Gerea Aopi, CBE | Chairman |
| Glenn R Blake, CBE | Managing Director, IPBC |
| Simon Tosali | Ex-officio Director, Secretary of the Department of Treasury |
| Lawrence Kalinoe | Ex-officio Director, Secretary of the Department of the Attorney General & Justice |
| Thomas Bullen | Director |
| Aho Baliki | Director |

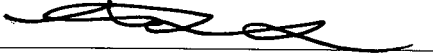
GENERAL BUSINESS TRUST

Trustees' Declaration

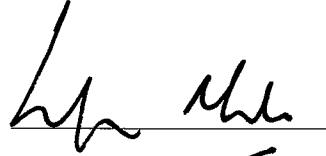
The above named Directors held office during the whole of the financial year and since the end of the financial year.

Signed at Port Moresby

On behalf of the Directors on the 24th day of June, 2011.



Gerea Aopi, CBE
Chairman of the Board



Glenn R Blake, CBE
Managing Director

GENERAL BUSINESS TRUST

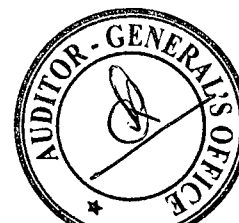
Statement of Comprehensive Trust Operations

Statement of Comprehensive Trust Operations

For the year ended 31 December 2010

| | Note | 2010 K | 2009 K |
|---|------|--------------------|------------------------|
| INCOME | | | |
| Interest | 4 | 40,745,283 | 29,835,487 |
| Dividend | 5 | 76,066,599 | 59,856,532 |
| Property Rentals | | 212,000 | 190,400 |
| Miscellaneous Income | | - | 5,854 |
| Total Income | | 117,023,882 | 89,888,273 |
| EXPENSES | | | |
| Administrative Expenses | | 961 | 823 |
| Project Costs | 6 | 11,995,489 | 8,022,555 |
| Budget Allocation to IPBC Working Capital Account | 3 | 29,334,808 | 23,717,934 |
| Total Expenses | | 41,331,258 | 31,741,312 |
| SURPLUS/(DEFICIT) FOR THE YEAR | | 75,692,624 | 58,146,961 |
| Other Comprehensive Income | | | |
| Exchange Differences on Translating Foreign Currencies | 8 | 19,811,112 | (1,232,024,814) |
| Other Gains/(Losses) - Net | 7 | 128,697,062 | (430,836) |
| TOTAL COMPREHENSIVE SURPLUS/(DEFICIT) FOR THE YEAR | | 224,200,798 | (1,174,308,689) |

Notes to the Financial Statements are included on pages 7 to 15.

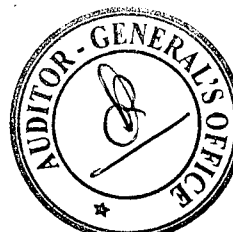


GENERAL BUSINESS TRUST
Balance Sheet

Balance Sheet as at 31 December 2010

| | Notes | 2010 K | 2009 K |
|--------------------------------------|-------|----------------------|----------------------|
| CURRENT ASSETS | | | |
| Cash at Bank | | 167,809,246 | 1,413,043,658 |
| Investment in Short Term Deposits | 10 | 2,047,124,182 | 893,623,459 |
| Trade and other Receivables | 9 | 8,523,753 | 68,368,642 |
| Total Current Assets | | 2,223,457,181 | 2,375,035,759 |
| NON-CURRENT ASSETS | | | |
| Investment in Long Term Notes | 10 | 30,226,306 | 28,877,217 |
| Unlisted Equity Investments | 10 | 1,971,529,181 | 1,857,805,674 |
| Listed Equity Investments | 10 | 4,466,749,052 | 3,912,522,806 |
| Related Party Receivables | 12 | 1,296,461,516 | 781,574,824 |
| Total Non-Current Assets | | 7,764,966,056 | 6,580,780,522 |
| TOTAL ASSETS | | 9,988,423,237 | 8,955,816,281 |
| CURRENT LIABILITIES | | | |
| Trade and other Payables | 11 | 46,034,471 | 40,597,822 |
| Total Current Liabilities | | 46,034,471 | 40,597,822 |
| NON-CURRENT LIABILITIES | | | |
| Exchangeable Bonds | 8 | 4,445,325,929 | 4,267,580,604 |
| Total Non-Current Liabilities | | 4,445,325,929 | 4,267,580,604 |
| TOTAL LIABILITIES | | 4,491,360,400 | 4,308,178,426 |
| NET ASSETS | | 5,497,062,837 | 4,647,637,855 |
| EQUITY | | | |
| Retained Earnings | | (1,078,532,587) | (1,233,331,740) |
| Beneficiary Capital Account | | 1,198,278,474 | 1,182,278,474 |
| Revaluation Reserves | | 5,377,316,950 | 4,698,691,121 |
| Total Equity | | 5,497,062,837 | 4,647,637,855 |

Notes to the Financial Statements are included on pages 7 to15.

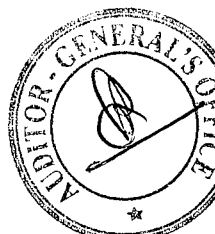


GENERAL BUSINESS TRUST
Statement of Changes in Trust and Beneficiary Accounts

Statement of Changes in Trust and Beneficiary Accounts
For the Year ended 31 December 2010

| | Note | Beneficiary Capital K | Trust Income K | Revaluation Reserve K | Total K |
|------------------------------------|------|-----------------------------|------------------------|-----------------------------|----------------------|
| Balance at 1 January 2009 | | 923,496,861 | 254,598,230 | 4,404,634,648 | 5,582,729,739 |
| Surplus/(Deficit) for the year | | - | (1,174,308,689) | - | (1,174,308,689) |
| Revaluation of Shares | | - | - | 294,056,473 | 294,056,473 |
| Capital Injection | | 26,960,113 | - | - | 26,960,113 |
| Dividend paid to State | | - | (88,510,777) | - | (88,510,777) |
| Prior year adjustment | | - | 6,710,996 | - | 6,710,996 |
| Account reclassification | | 231,821,500 | (231,821,500) | - | - |
| Balance at 31 December 2009 | | 1,182,278,474 | (1,233,331,740) | 4,698,691,121 | 4,647,637,855 |
| Surplus/(Deficit) for the Year | | - | 224,200,798 | - | 224,200,798 |
| Revaluation of Shares | | - | - | 678,625,829 | 678,625,829 |
| Dividend paid to State | 14 | - | (72,542,306) | - | (72,542,306) |
| Capital Injection | | 16,000,000 | - | - | 16,000,000 |
| Prior period adjustment | 17 | - | 3,140,661 | - | 3,140,661 |
| Balance at 31 December 2010 | | 1,198,278,474 | (1,078,532,587) | 5,377,316,950 | 5,497,062,837 |

Notes to the Financial Statements are included on pages 7 to 15.

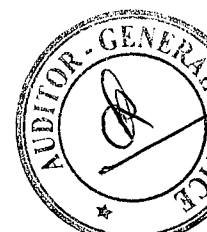


GENERAL BUSINESS TRUST
Cash Flow Statement

Cash Flow Statement
For the Financial year ended 31 December 2010

| | Note | 2010 K | 2009 K |
|--|------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Budget allocation to IPBC Working Capital Account | | (29,334,808) | (23,717,934) |
| Net cash used in operating activities | | <u>(29,334,808)</u> | <u>(23,717,934)</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of investment securities | | 143,618,855 | - |
| Rental income received | | 156,000 | 172,900 |
| Interest received | | 32,391,736 | 27,721,672 |
| Dividends received | | 76,066,599 | 59,856,532 |
| Amounts received from related parties | | 387,358 | 300,000 |
| Excess LNG costs refunded | | 487,363,385 | - |
| Interest and other costs of finance paid | | (208,498,853) | (122,831,465) |
| Amount invested in long term deposit | | - | (17,600,000) |
| Amount paid to related parties | | (722,840,298) | (677,703,643) |
| Amount paid for project costs | | (12,057,793) | (8,022,555) |
| Net cash provided by/(used in) investing activities | | <u>(203,413,011)</u> | <u>(738,106,558)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of exchangeable bond | | - | 3,183,109,260 |
| Dividend paid to the State | | (72,542,306) | (88,510,777) |
| Capital Injection | | 16,000,000 | 26,960,113 |
| Net cash provided by/(used in) financing activities | | <u>(56,542,306)</u> | <u>3,121,558,595</u> |
| Net increase/(decrease) in cash and cash equivalents | | (289,290,125) | 2,359,734,103 |
| Cash and cash equivalents at the beginning of the financial year | | 2,306,667,117 | 97,874,623 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 197,556,437 | (150,941,609) |
| Cash and cash equivalents at end of the financial year | | <u>2,214,933,429</u> | <u>2,306,667,117</u> |

Notes to the Financial Statements are included on pages 7 to 15.



GENERAL BUSINESS TRUST
Notes to Financial Statements

1. General Information

The General Business Trust ("the Trust") is established under Section 31 of the Independent Public Business Corporation of Papua New Guinea Act 2002 as amended to date ("the Act"). The Independent Public Business Corporation of Papua New Guinea ("IPBC") was appointed as Trustee of the Trust, and all monies belonging to the Trust is invested or dealt with by IPBC in accordance with the Act.

Registered office

Level 4, Pacific Place
Corner Musgrave Street and Champion Parade
P O Box 320, Port Moresby, NCD
Papua New Guinea

Principal Place of Business

Level 4, Pacific Place
Corner Musgrave Street and Champion Parade
P O Box 320, Port Moresby, NCD
Papua New Guinea

2. Significant Accounting Policies

Statement of Compliance

Pursuant to Section 45 (2) of the Act, the financial statements of the Corporation shall be in the form, and in accordance with principles generally applied in commercial practice. Accordingly, the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by Accounting Standards Board ("ASB") of Papua New Guinea.

Basis of Preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Comparatives

Comparative figures have been reclassified as appropriate to comply with the current year's reporting format.

(c) Financial Assets

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.



GENERAL BUSINESS TRUST
Notes to Financial Statements

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollected, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(d) Foreign Currency

The financial statements of the Corporation are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these financial statements, the results and financial position of the Corporation are expressed in Papua New Guinea Kina, which is the country's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Exchange differences are recognised in profit or loss in the period in which they arise.

(e) Income Tax

Pursuant to Section 46 of the Act, the Corporation is not liable to pay taxes, duties, fees, charges, rates, excise or other impost of any kind charged or imposed under any law except for legislation enacted by the National Parliament specifically to amend or repeal this section. The transfer to or vesting in the Corporation of any assets and liabilities, is also not liable for any taxes, duties, fees, charges, rates, excise or other impost of any kind charged or imposed under any law except for legislation enacted by the National Parliament specifically to amend or repeal this section.

(f) Goods and Services Tax

Expenses and assets are recognised gross of the amount of goods and services tax (GST). As the amount of GST incurred is not recoverable from the taxation authority:

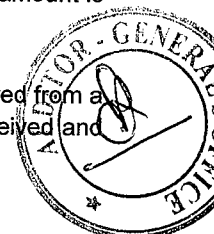
- i. it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- ii. receivables and payables are recognised inclusive of GST.

(g) Provisions

Provisions are recognised when the Corporation has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.



GENERAL BUSINESS TRUST
Notes to the Financial Statements

3. Budget Allocation to IPBC Working Capital Fund

In accordance with Section 35(4) of the Act, the administration of the Trust by the IPBC is funded by the Trust through monthly budgetary allocation as disclosed in the IPBC's approved operating budget.

| | <u>2010</u> K | <u>2009</u> K |
|---|-------------------|-------------------|
| 4. Interest | | |
| <i>Interest from:</i> | | |
| Term deposits (<i>ex quarantined funds</i>) | 5,995,874 | 5,473,438 |
| Quarantined fund term deposits | 32,767,774 | 23,668,244 |
| BSP Notes | 1,930,696 | 631,189 |
| Other | 50,939 | 62,617 |
| | <u>40,745,283</u> | <u>29,835,487</u> |
| 5. Dividend | | |
| <i>Dividend from:</i> | | |
| <u>Listed Securities</u> | | |
| Bank South Pacific Limited | 54,393,985 | 23,563,813 |
| New Britain Palm Oil Limited | - | 1,103,502 |
| Oil Search Limited | 20,372,615 | 33,889,217 |
| | <u>74,766,599</u> | <u>58,556,532</u> |
| <u>Unlisted Securities</u> | | |
| PNG Forest Products Limited | 1,300,000 | 1,300,000 |
| Total Dividend Income | <u>76,066,599</u> | <u>59,856,532</u> |

6. Project Costs

Lae Port Development Project

The Lae Port Project is a multi-funded project, with more than 60% of the project being funded by the Asian Development Bank and 30% counter-part funding by the Government of PNG. The project is expected to be implemented over a four year period at a cost of over US\$154 million.

During 2010, the resettlement phase of the project was implemented costing K11,995,489.

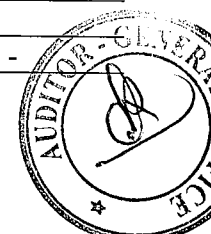
(The PNG LNG Project costs have been capitalised and treated as loan to the National Petroleum Company PNG (formerly Kroton No.2) and dividend paid to State (MRDC's free carry portion)). The PNG LNG costs are further disclosed in Note 16 to the financial statements.

7. Other Gains/(Losses) – Net

Gains and Losses

Surplus/(deficit) for the year has been arrived at after crediting/(charging) the following gains and losses:

| | | |
|---|--------------------|------------------|
| Gain on disposal of Bank South Pacific shares(1) | 128,697,062 | - |
| Loss on investment in PNG Notes Series | - | (430,836) |
| Net gain/(loss) | <u>128,697,062</u> | <u>(430,836)</u> |
| (i) <u>Gain on disposal of shares in Bank South Pacific</u> | | |
| <u>Revenue</u> | | |
| Proceeds from sale of Bank South Pacific shares | 143,618,855 | - |
| <u>Cost/Expenses</u> | | |
| Cost of shares in Bank South Pacific disposed of | (14,817,743) | - |
| Sale transaction costs | (104,050) | - |
| Net gain/(loss) | <u>128,697,062</u> | - |



GENERAL BUSINESS TRUST
Notes to the Financial Statements

| | <u>2010</u> K | <u>2009</u> K |
|---|-------------------|------------------------|
| 8. Exchange differences on translating foreign currency balances | | |
| Exchangeable Bond – AUD | (177,745,325) | (1,084,471,345) |
| Quarantined Funds – AUD | 132,433,273 | 445,449,290 |
| Quarantined Funds – USD | 54,919,912 | (605,623,082) |
| Other | 10,203,252 | 12,620,323 |
| | <u>19,811,112</u> | <u>(1,232,024,814)</u> |

In March 2009, the Corporation completed a transaction which raised gross proceeds of AUD1.681 billion through the issue of Exchangeable Bonds to the International Petroleum Investment Company (IPIC) of Abu Dhabi. The transaction was entered into by IPBC as a means of funding the State's equity of 19.6% commitment in the PNG LNG Project.

The funds obtained are kept in off-shore accounts denominated in AUD and USD. At each reporting date, the balances in these accounts are translated in accordance with *IAS 21 The Effects of Changes in Foreign Exchange Rates* and the exchange differences arising from the translations are recorded in the income statement.

9. Trade and other Receivables

| | | |
|---|------------------|-------------------|
| Trade debtors | 81,000 | 17,500 |
| Sundry debtors (1) | - | 66,035,814 |
| Sundry debtors – Funds in trust | 89,207 | 89,207 |
| Interest receivable | 1,401,431 | 647,861 |
| Interest receivable – Quarantined funds | 6,952,116 | 1,577,066 |
| Other | - | 1,195 |
| | <u>8,523,753</u> | <u>68,368,642</u> |

1. Sundry Debtors

In December 2009 a total amount of K163 million was paid by IPBC in respect of the government back-in costs in the PNG LNG Project. Subsequently, a refund of K66 million was received in January 2010 to reflect the actual costs incurred and back-in costs associated with the Landowner Interests. This amount was recorded as a receivable at 31 December 2009 and was received in March 2010. Hence, the nil balance at 31/12/10.

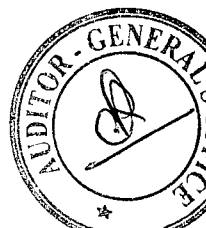
10. Investments

Current

| | | |
|---|----------------------|--------------------|
| Term Deposits (<i>ex Quarantined funds</i>) | 226,568,682 | 126,402,182 |
| Quarantined fund term deposits | 1,820,555,500 | 767,221,278 |
| | <u>2,047,124,182</u> | <u>893,623,459</u> |

Non-current

| | | |
|--------------------|-------------------|-------------------|
| PNG Notes Series 2 | 1,370,839 | 1,224,368 |
| PNG Notes Series 3 | 11,255,467 | 10,052,849 |
| BSP Notes | 17,600,000 | 17,600,000 |
| | <u>30,226,306</u> | <u>28,877,217</u> |



10. Investments (cont'd)

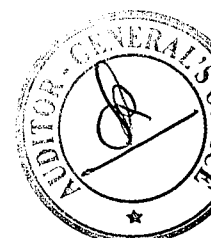
Equity Investments

Unquoted equity investments

Non-current unquoted equity investments are valued by the Trustees based on independent valuation or, where no independent valuation is possible, the valuation is based on the most recent financial statements available.

The investments in the majority state owned enterprises were all valued at fair value as at 31 December 2010. The independent valuations were performed by Deloitte Touche Tohmatsu, KPMG and PricewaterhouseCoopers, in February 2010 and approved by the IPBC Board of Directors.

| <u>Unquoted</u> | <u>2010</u> K | <u>Share holding</u> % | <u>2009</u> K | <u>Share holding</u> % |
|--|----------------------|---------------------------|----------------------|---------------------------|
| <u>Majority State Owned Enterprises</u> | | | | |
| Telikom PNG Ltd | 447,300,000 | 100% | 447,300,000 | 100% |
| PNG Power Ltd | 542,800,000 | 100% | 542,800,000 | 100% |
| Motor Vehicle Insurance Ltd | 195,300,000 | 100% | 195,300,000 | 100% |
| PNG Ports Corporation Ltd | 286,000,000 | 100% | 286,000,000 | 100% |
| Air Niugini | 225,800,000 | 100% | 225,800,000 | 100% |
| PNG Water Board | (233,030,000) | 100% | (233,030,000) | 100% |
| National Development Bank Ltd | 110,600,000 | 100% | 110,600,000 | 100% |
| Post PNG Ltd | 98,466,667 | 100% | 94,300,000 | 100% |
| NCD Water & Sewerage Ltd (Trading as Eda Ranu) | 70,500,000 | 100% | 70,500,000 | 100% |
| Total Majority State Owned Enterprises | 1,743,736,667 | | 1,739,570,000 | |
| <u>Other</u> | | | | |
| Government Stores | 13,926,200 | 100% | 13,951,200 | 100% |
| Port Moresby Private Hospital Ltd | 38,538,047 | 100% | 11,335,478 | 100% |
| PNG Dams Ltd | 88,148,200 | 100% | 89,746,031 | 100% |
| Investment Corporation of PNG | 8,660,957 | 100% | 8,660,957 | 100% |
| Kula Palm Oil Ltd (formerly Pacific Rim Plantation Ltd) | 105,989,889 | 20% | 21,911,123 | 20% |
| PNG Forest Products Ltd | 9,731,600 | 20% | 9,731,600 | 20% |
| Livestock Development Corp. Ltd | 2,177,341 | 100% | 2,177,341 | 100% |
| KNP Company Pty Ltd (Land) | 1,145,000 | 100% | 1,145,000 | 100% |
| Aquarius No. 21 Ltd | 841,555 | 100% | 943,218 | 100% |
| Cape Rodney Rubber Estate Ltd | 174,000 | 100% | 174,000 | 100% |
| Telikom PNG Ltd (Prime Minister) | 10 | 100% | 10 | 100% |
| Finance Pacific Ltd (Assets only) | 1 | 100% | 1 | 100% |
| Government Printer | 1 | 100% | 1 | 100% |
| Gogol Reforestation Ltd | (54,357) | 49% | (54,357) | 49% |
| Niugini Insurance Limited | (4,348,860) | 100% | (4,348,860) | 100% |
| Shares BSP (Ex. MVIL) | 98 | | 98 | |
| National Petroleum Company PNG (formerly, Kroton No 2 Limited) | (37,137,167) | 100% | (37,137,167) | 100% |
| Total Other | 227,792,515 | | 118,235,674 | |
| Total Unquoted Investments | 1,971,529,181 | | 1,857,805,674 | |



10. Investments (cont'd)

| | 2010 K | Share holding % | 2009 K | Share holding % |
|---------------------------------|----------------------|--------------------|----------------------|--------------------|
| Quoted investments | | | | |
| Bank South Pacific | 649,199,292 | 17.61% | 910,420,040 | 23.49% |
| Highlands Pacific Ltd | 27,142,939 | 4.4% | 29,555,645 | 4.63% |
| New Britain Palm Oil Ltd | 33,877,018 | 0.93% | 23,484,467 | 0.93% |
| Oil Search – Escrow Account | 3,756,529,803 | 17.56% | 2,949,062,655 | 17.56% |
| Total Quoted Investments | 4,466,749,052 | | 3,912,522,806 | |

| 11. Trade and other payables | 2010 K | 2009 K |
|---|-------------------|-------------------|
| Sundry creditors | 70,157 | 82,157 |
| Rental bonds payable | 43,207 | 80,207 |
| Accrued interest payable on exchangeable bond (1) | 45,921,108 | 40,435,459 |
| | 46,034,471 | 40,597,822 |

1. Accrued Interest payable on Exchangeable Bond

The Bond issued in March 2009 to IPIC (Note 8) bears the interest (coupon) on the aggregate principal amount at a rate of 5 per cent per annum. Interest is payable semi-annually in arrears.

12. Related Party Balances

Related Party Receivables

| | | |
|-----------------------------------|----------------------|--------------------|
| Loan to NPCP (1) | 1,249,860,810 | 782,592,294 |
| Loan to Telekom PNG Ltd | 43,128,235 | - |
| Port Moresby Private Hospital (2) | 4,911,800 | - |
| | 1,297,900,845 | 782,592,294 |

Related Party Payables

| | | |
|-----------------------------------|------------------|------------------|
| Port Moresby Private Hospital (3) | 1,339,970 | 1,017,470 |
| Investment Corporation of PNG | 99,358 | - |
| | 1,439,329 | 1,017,470 |

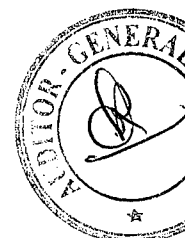
Net related party balances

| | | |
|--|----------------------|--------------------|
| | 1,296,461,516 | 781,574,824 |
|--|----------------------|--------------------|

1. The related party receivables with NPCP represent the financial costs paid for by IPBC on behalf of National Petroleum Company PNG (formerly, Kroton No 2 Limited) in respect of the PNG LNG Project.

2. The related party receivable balance with Port Moresby Private Hospital represents the operational costs paid for by IPBC on behalf of the Hospital. These balances were recorded in the books of IPBC in prior years. The transfer was done this year end in order to account for all the Hospital transactions in one set of books only.

3. The related party payable balance with Port Moresby Private Hospital represents the rental income collected from the Hospital.



13. Capital Injection

During the year the Trust received an amount of K16,000,000 from the Government of PNG representing the counterpart funding for the Port Moresby Sewerage Upgrade Project.

14. Dividend Paid to State

| | <u>2010</u> K | <u>2009</u> K |
|---|-------------------|-------------------|
| Cash calls (2009: Incl.back-in cost) paid on behalf of MRDC (1) | 31,536,706 | 77,607,330 |
| ICT Policy payments | 4,500,000 | 10,903,447 |
| LNG Development Costs | 36,505,600 | - |
| | <u>72,542,306</u> | <u>88,510,777</u> |

1. Pursuant to NEC Decision No: 223/2008, IPBC was appointed as State Nominee in the PNG LNG Project. Of the State's equity entitlement in the PNG LNG Project, 2% of such entitlement is granted to all landowners and the affected Local-level governments within the Project footprint and which interest is to be managed by MRDC ("Landowner Interest). The cost of the Landowner Interest is borne by the State. As per an agreement between the State and IPBC, the cost of the Landowner Interest would be paid by IPBC and treated as dividend paid to the State.

The combined State's share of the cash calls in the PNG LNG Project was US\$260m (PGK685m). This amount was paid to Exxon Mobil during 2010. Of this Landowner Interest portion (free carry) of US\$10m (PGK31m) was treated as dividend paid to the State in 2010.

15. Assets held in Trust

The Vesting Notices issued under Gazettal Notice 116 dated on 18th July 2002 and Gazettal Notice G125 dated on 2 August 2002, vested certain assets in the General Business Trust and managed by IPBC in its capacity as trustee.

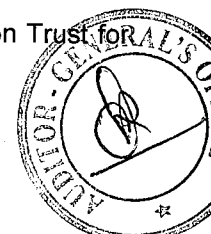
Vested Assets pursuant to Gazettal Notice G125 on 2 August 2002

Shares in:

- Air Niugini Limited
- PNG Power Limited
- Motor Vehicle Insurance Limited
- Oil Search Limited
- Highlands Pacific Limited, *Ex Privatisation/IPBC*
- Bank of South Pacific Limited, *Ex Privation/IPBC*
 - PNG Dams Limited
 - Stettin Bay Lumber
 - Livestock Development Corp Ltd
 - Ramu Sugar Ltd
 - Pacific Rim Plantations Ltd
 - Hargy Oil Palms Ltd
 - Open Bay Timber Ltd
 - Gogol Reforestation Co Ltd
 - PNG Forest Products Ltd
- Priv Com (Pacific Place) Ltd, *Ex Privation/IPBC*
- Priv Com (Hagen Haus) Ltd, *Ex Private/IPBC*
- Pom Private Hospital Ltd, *Ex Privatisation/IPBC*
- Aquarius No 21 Ltd, *Ex Privatisation/IPBC*
- Finance Pacific Ltd

- 5 Ordinary shares in Telikom held by the Prime Minister and Minister for Treasury on Trust for the State of PNG.

15. Assets held in Trust (cont'd)



GENERAL BUSINESS TRUST
Notes to the Financial Statements

- Cape Rodney Rubber assets and liabilities.
- As per Gazette Notice 125, PNG Dams Ltd assets are not to be sold.

Vested assets pursuant to gazettal Notice G116 on 18 July 2002

Shares in:

- Post PNG Ltd
- PNG Telikom Ltd
- PNG Harbours Ltd

Vested assets held in trust for the Water and Waste Water Trust pursuant to Gazettal Notice G125 on 2 August 2002

Gazettal Notice G125 dated 2 August 2002 vested Eda Ranu and Water Board assets and liabilities to the IPBC in its capacity as trustee of the Water and Wastewater Trust. To date, the Water and Wastewater Trust has not commenced operations and as a result the GBT continues to hold these assets in trust.

Vesting Notice G42 dated 27 March 2003

Pursuant to Gazette Notice No.42, published on 27 March 2003, Portion 83, Milinch of Hagen, Fourmil of Ramu, Kagamuga, Western Highlands Province owned by Kagamuga Natural Products Company Ltd was transferred to the IPBC in trust for the GBT.

Vesting Notice G55 dated 30 April 2003

Pursuant to Gazettal Notice No. 55, shares in the following entities were vested to the Corporation in its capacity as trustee of the GBT:

- Rural Development Bank Limited
- Government Printer
- Government Stores (17 stores nationwide)
- Niugini Insurance Limited
- Revenue Haus (Land and Building)

During 2005, upon further investigations by the IPBC it was found that the titles to the Government Stores at Goroka, Lae and Mt. Hagen had already been awarded to unauthorized parties and was not in accordance with Vesting Notice G55. The IPBC is assessing options to recover these properties.

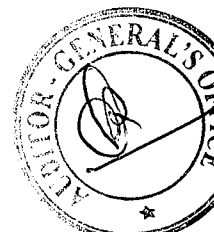
Vesting Notice G33 dated 6 April 2004

Pursuant to Gazettal Notice No. 33, published on 6th April 2004 it was vested that IPBC shall: Dispose any remaining Investment Corporation of Papua New Guinea (ICPNG) assets and settle its liabilities from the asset sale proceeds without using GBT assets.

Complete and submit all outstanding financial statements to the Auditor General and Minister for State Enterprise, and provide report and information regarding outstanding issues to the latter, prior to the recommendation to repeal the Act.

In relation to the Ok Tedi Mining Ltd Shares, ensure that benefits of the shares are applied as per the Mining Act (chapter 363), and do not sell or dispose the shares, and ensure that the company performs to the expectations of the Board, shareholders, and the State.

Provide quarterly reports on updated business plans, financial, operating results and forecasts, to the Dept of Finance and Treasury; and foster programs regarding development of rural areas in PNG.



15. Assets held in trust (cont'd)

Vesting Notice G52 dated 20 May 2004

Pursuant to Gazettal Notice No. 52, published on 20 May 2004 it was vested that IPBC shall:

In relation to shares held in Pacific MMI Ltd, provide semi-annual reports on financial, operating results and forecasts to the Treasury Department; and ensure that the entity is well managed to maximize shareholder value.

In relation to shares held in Pacific Re Ltd, the IPBC shall dispose all the shares as partial sale of MVIL to the approved private partner in line with the NEC decision.

There were no new assets vested to GBT during the year ended 31 December 2010 (2009: Nil).

16. PNG LNG Project

Pursuant to NEC Decision No.223/2008 the National Executive Council made, among other decisions in relation to the PNG LNG Project, the following:

- Approved that the State would acquire and preserve its full 19.4% (recently adjusted to 19.6%) equity in the PNG LNG Project;
- Approved the negotiated terms and conditions of the Exchangeable Bond between IPBC and the International Petroleum Investment Company of Abu Dhabi (IPIC) to fund the State's equity in the Project.

Funding of the State's interest

The State has an aggregate interest in the project of 19.6%. The State has participated in the Project through a direct 16.6% interest held by NPCP, a wholly owned subsidiary of IPBC, and through funding the interests of MRDC (2.8%) and Eda Oil (0.24%).

The funding of the interests of MRDC and Eda Oil has been treated as dividend paid to the State.

The funding of NPCP's interest has been recorded as loan to NPCP.

Total capital requirement for the Project Construction is estimated by ExxonMobil (the Operator) to be US\$18.404 billion. Of this, NPCP's 16.57% share is US\$2.910 billion and the Landowner Interest of 1.62% share is US\$0.284 billion.

17. Prior Period Adjustment

Prior period adjustment consists mainly of the related party balances with Port Moresby Private Hospital as disclosed in Note 12 to the financial statements.

18. Other Information

There were nil (2009: nil) employees employed by the Trust as at 31 December 2010.

