2014 ANNUAL REPORT



NATIONAL PETROLEUM COMPANY PAPUA NEW GUINEA (NPCP)

2014 ANNUAL REPORT



NATIONAL PETROLEUM COMPANY
PAPUA NEW GUINEA
(NPCP)

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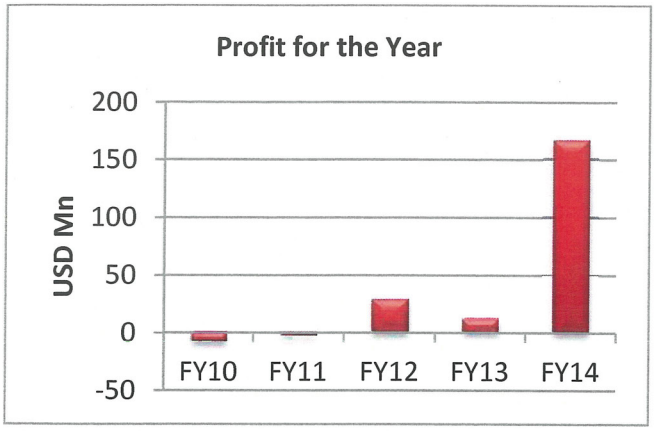
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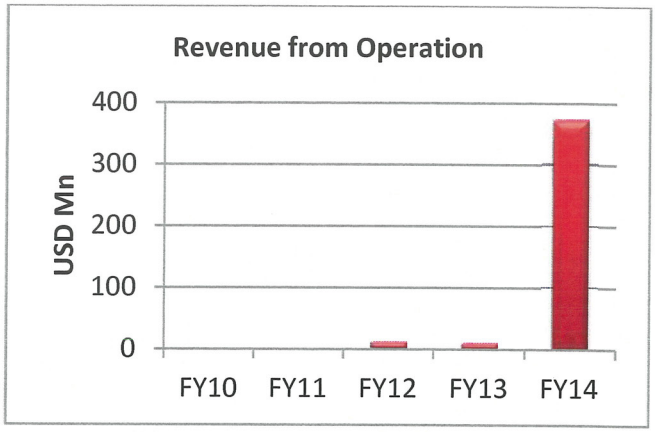
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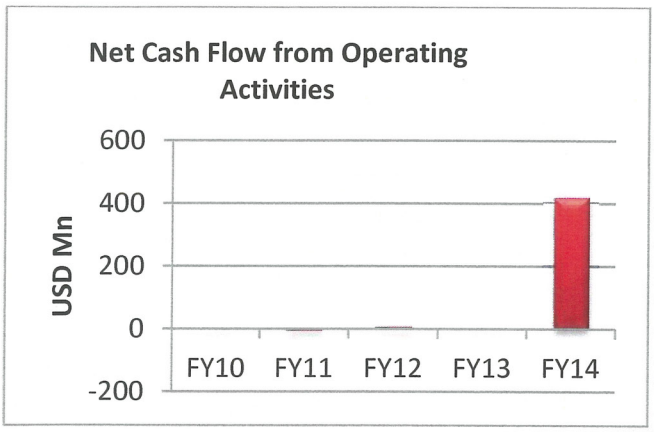
Performance Highlights for the past year(s)



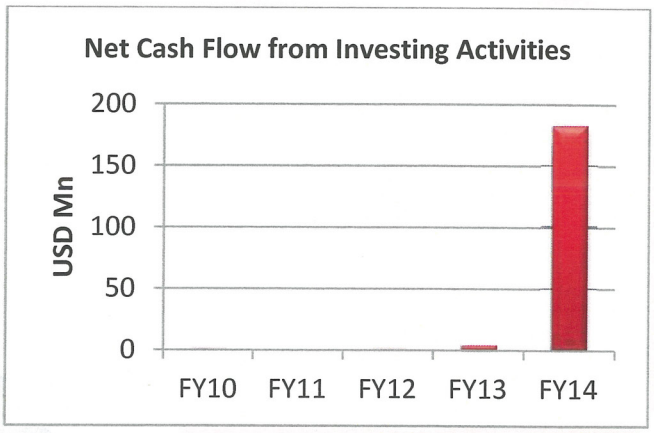
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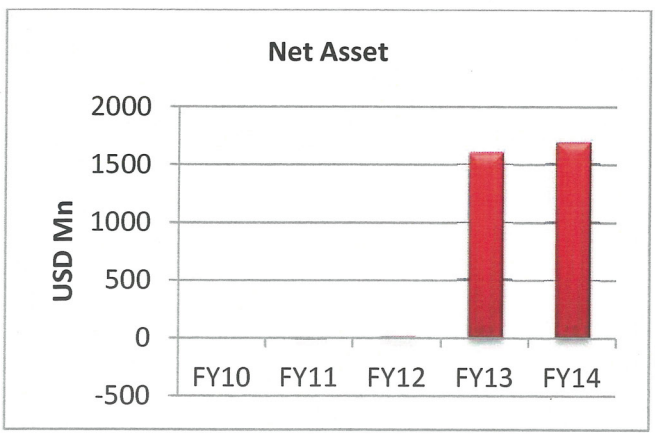
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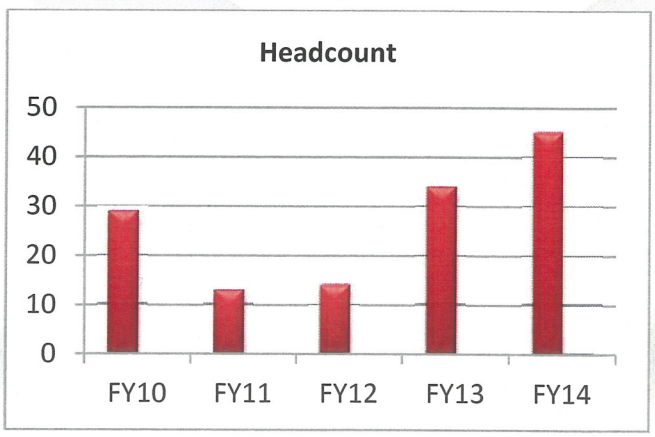
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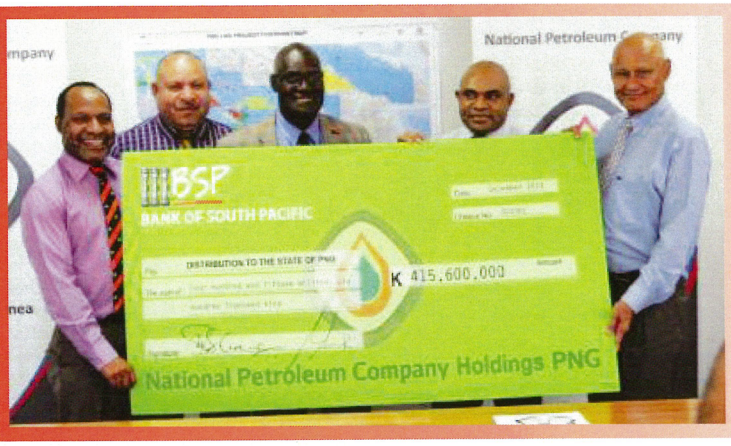
Achievements for the year 2014

Among the many achievements, one that stands out for NPCP as the 3rd single largest shareholder in the US$19 billion. PNG LNG Project is the successful completion of the project before its construction completion schedule and subsequent shipment of first condensate in April and LNG in May 2014

Other notable achievements for NPCP as an entity includes:

- The acquisition of the Cue Energy's PNG Interest.
- NPCP's inaugural dividend payment of PGK 415.6 million to its shareholder (IPBC) following early commencement of operations from PNG LNG.
- Delegation of powers by NEC and IPBC (the IPBC s49B powers) to NPCP in recognition of its new role as the National Oil Company in the future proposed Kumul structure.
- NPCP Board approval of the new Organisation Structure with NPCP Holdings being registered along with:
  - » NPCP Investments.
  - » NPCP Pipeline and Gas Supply Limited.
- Hides Gas to Electricity revenues exceeded forecasts in line with higher average Oil prices for the year.
- The NEC through NEC Decision No. 264 /2014, approved the establishment of NPCP as a wholly-owned subsidiary of IPBC and further directed that all petroleum assets of the State, including the Oil Search shares held by the Department of Treasury, all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC be consolidated into NPCP Holdings.
- Based on this direction, the shares of NPCP Kroton Limited held by IPBC was transferred to NPCP Holdings Limited on 17th December 2014.

As a fully operational company, the Board and Management of NPCP have the Vision, Mission and Core values of NPCP developed into NPCP's Strategic Plan.



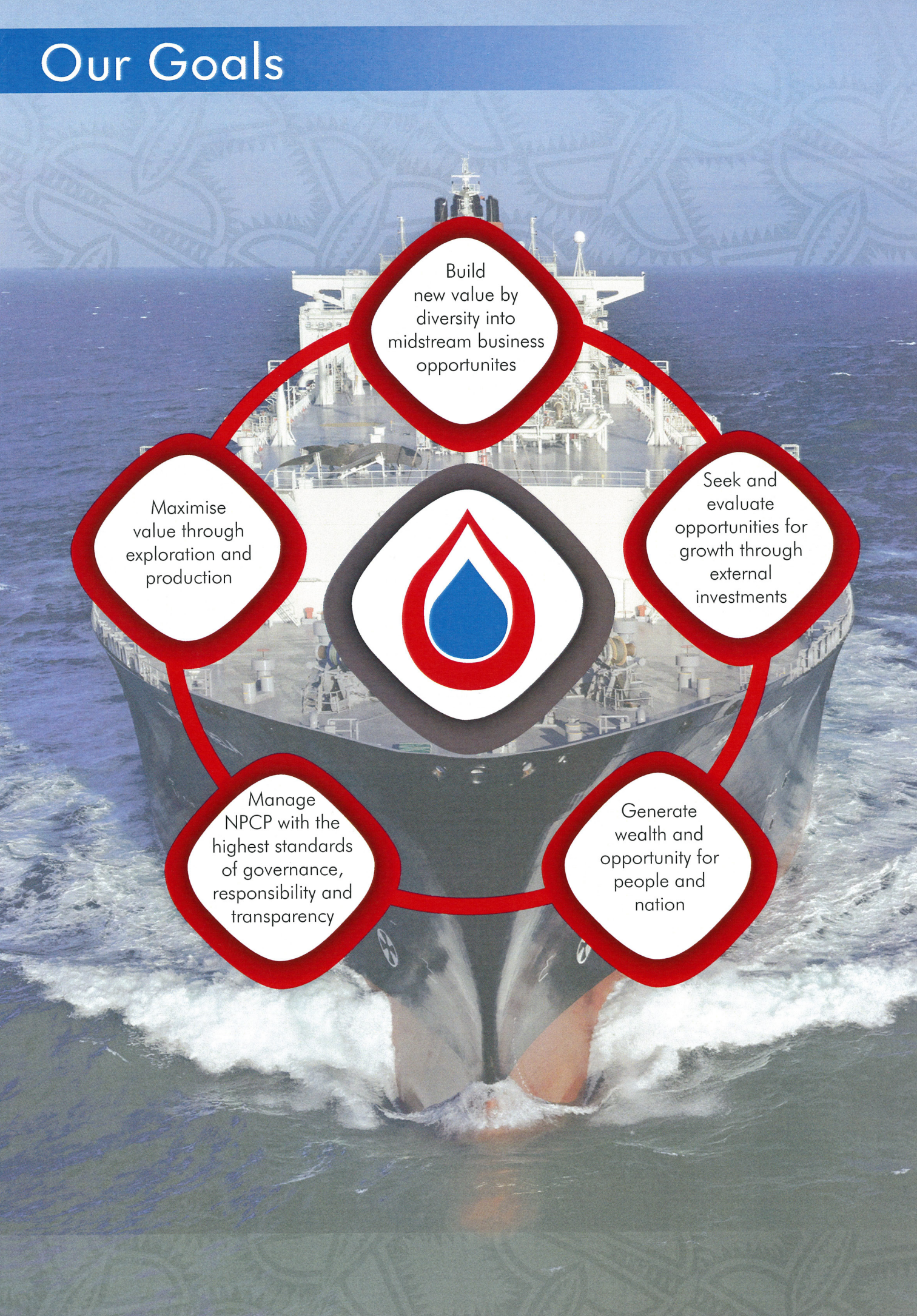
NPCP first dividend to the Government of PNG – (left to right: Dr. Ken Nengen (Govt Rep), NPCP Deputy Chairman Larry Andagali, IPBC Chairman Paul Nerau, NPCP Managing Director Wapu Sonk and Chairman Frank Kramer.)

Our Vision

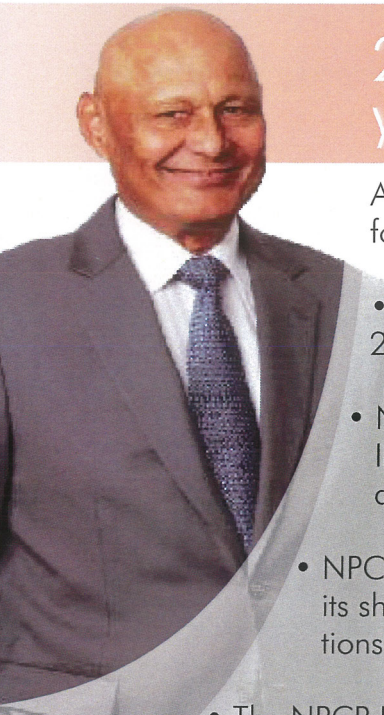


"NPCP will create value and opportunity for Papua New Guinea and its people by becoming a national oil and gas corporation"

Our Goals


Build new value by diversity into midstream business opportunites
Seek and evaluate opportunities for growth through external investments
Generate wealth and opportunity for people and nation
Manage NPCP with the highest standards of governance, responsibility and transparency
Maximise value through exploration and production

Board Chairman's Overview



2014 was a very successful milestone year in so many ways for our Group.

Among the many highlights and achievements of the year 2014, I think, the following are few of the key achievements:

- PNG LNG Project came on stream early with first cargoes shipped in April 2014,
- NPCP received a 9.81% stake in Oil Search on 23 December 2014 from the Independent State of Papua New Guinea (ISPNG), and assumed the associated debt;
- NPCP paid its inaugural distribution of PGK 415.6 million as a special distribution to its shareholder on 29 December 2014 following the early commencement of operations from the PNG LNG Project;
- The NPCP Board approved a new Organisation Structure with NPCP Holdings being registered along with several subsidiaries to facilitate the efficient structuring of the business going forward....and prepare for the Kumul Consolidation Agenda coming in operation.
- NEC and IPBC delegated the IPBC s49B powers to NPCP in recognition of its new role as the National Oil Company in the future proposed Kumul structure, a structure that recently passed through parliament in yet another significant milestone

The Board is proud to have championed the creation of the Group's Vision, Mission and Values and combined into a 10 year strategic plan.

In order to further enhance corporate governance, the NPCP Board has adopted a Code of Conduct that is based on six core values:

(i) To benefit Papua New Guinea;
(ii) To always promote Accountability and Transparency;
(iii) To Care (or team value and diversity);
(iv) To Protect and Preserve the Environment;
(v) To maintain appropriate standards in Safety, Health and Wellbeing; and
(vi) To constantly promote & seek-out Innovation and Excellence.

NPCP is embracing its core values and ensuring that all the stakeholders including the Board, Executive, Staff, Contractors and Corporate Partners adhere to our Code of Conduct.

Board Chairman's Overview

NPCP recognises it has a responsibility to the Community. The Company has developed a Social Inclusion Program (SIP) Policy that has defined three (3) focus categories:

(1) Tax Credit Schemes;
(2) Public Relations Initiatives; and
(3) Government Programs that apply to any financial commitments and social and eco nomic activities supported by NPCP that not only promote social inclusion but promote social well being through health, education, infrastructure and sporting opportunities for the citizens of the Independent State of Papua New Guinea.

NPCP is operating in a volatile business environment as world oil and gas prices halved within the space of some six months (commencing around fourth quarter of 2014).

The Company, and the industry, enjoyed record prices during 2014, and it is important to note that 2015 will see significantly lower average prices achieved for our sales, with markets remaining volatile. The Company has responded by rationing investments and reducing planned expenditures where appropriate in order to preserve profitability.

The first LNG project was an important and beneficial development for the country's economy, but it created a short-term surge in growth and expectations about the future that were subsequently constrained by the dramatic fall in oil and gas prices. Economic activity in the country is currently suppressed by low commodity prices, and large-scale gas-related projects are not likely to start construction until at least 2017, with corresponding revenues not expected until after 2021.

To compete effectively in this environment and to secure its rightful share of projects for the country, NPCP must embark on an appropriate financing strategy which balances accumulated earnings with supported debt levels. Despite large deficits in the capital and financial accounts, PNG's current account balance improved substantially in 2014 on the strength of the start-up of LNG exports and increased agricultural exports, reducing from a deficit of 23% of GDP in 2013 to 11% in 2014. Import cover declined to a low of 4 months during 2014 and latest estimates put it at around nine months in 2015.

In PNG, the petroleum industry is taking centre-stage in the economy and is expected to contribute 20% to GDP in 2015-16, primarily driven by the commissioning of the first LNG Project. Increasingly, extractive industries and agricultural products will dominate the economy and the economy will become more vulnerable to external factors such as global downturns.

Lower spending growth, controlling inflation and achieving a balanced budget will be key to reducing volatility in the economy and enabling business and government to plan and allocate resources effectively, as well as obtaining economic funding.

In concluding, I sincerely express the feeling of pride as a Board that has seen its operations move from the investment to the operational phase, a Board that has seen the best possible candidates recruited to key roles that have delivered, a Board that is improving governance and preparing the way for future growth of our business, a Board that can proudly commend the Management team for their many firsts in what was a great year.

Managing Director's Overview



The 2014 year has been a successful year for NPCP culminating in several notable events that would underpin the future growth of Papua New Guinea's petroleum sector and its economy as a whole.

NPCP has had many highlights in its short history and the one that stands out most was the celebration of the first LNG shipment bound for Asia on 29 May 2014.

As the third largest shareholder of the PNG LNG Project held on behalf of the people of Papua New Guinea, the completion of the multibillion dollar PNG LNG Project is a proud moment in the nations' history as a host country and a partner in the world class LNG project.

NPCP History through to policy/legislative changes

The history of NPCP began on June 2, 2008 when the company Kroton No. 2 Limited was incorporated. This was early in the history of the PNG LNG project, when the State was raising equity to fund its interest in the project.

On 23rd September 2010, the Kroton name was changed to National Petroleum Company PNG (Kroton) Limited ("NPCP") and was placed as a non-operating subsidiary company of the Independent Public Business Corporation (IPBC).

At the same time, NEC made the decision to approve the appointment of the Board and the Managing Director and employment of the NPCP staff as well as directing IPBC to finance its capacity building and annual plans with the view to develop a fully functional National Oil and Gas Company (NOC).

In August, 2011, the new Government dismantled NPCP and parked it under IPBC.

However, the National Executive Council (NEC) in 2013 and through to 2014, in its desire to establish a truly Papua New Guinea company responsible for developing and producing all the country's petroleum assets either as Joint Developer with other Strategic Partners or on its own in the long term, made the important decision to revive NPCP as a fully functioning Company.

Managing Director's Overview

The NEC through NEC Decision No. 264 /2014 approved the establishment of NPCP Holdings Limited as a wholly-owned subsidiary of IPBC and further directed that all petroleum assets of the State, including the Oil Search shares held by the State, all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC be consolidated into NPCP Holdings Limited.

The NEC Decision directed NPCP Holdings to hold and develop the PNG LNG Project interest (16.57 percent interest) as well as to work with the government to consolidate all of the States petroleum assets and interests into NPCP Holdings.

Based on this direction, the shares of NPCP Kroton Limited held by IPBC were transferred to NPCP Holdings Limited on 17th December 2014. The policy decisions on consolidating the State's petroleum assets and changes to commercial arrangement in regards to shareholdings, has required NPCP to work with the relevant stakeholders to ensure the Government policies are materialised through the consolidation of its petroleum assets through the proposed Kumul Petroleum Holdings Limited and Kumul Consolidations Structure which was tabled and passed by Parliament in June 2015.

Financial Performances/Investments

Subsequent to policy decision by NEC in regards to share holding arrangements on behalf of the State in its investment in the PNG LNG Project, NPCPH as a State Owned Company through IPBC paid a dividend of K415m to the State in December 2014. This follows the company recorded a US$167m Profit After Tax and Interest from its Gross 2014 revenues of US$528m.

During 2013 NPCP recognised the IPBC Investment as Equity for the first time and its net assets grew from US$1600m in 2013 to US$1,700m during 2014.

The Company also undertook some investment decision during 2014 including; the acquisition of Cue Energy Interest in PNG , creating and investing in a number of subsidiaries including the wholly owned subsidiary (NPCP Pipeline and Gas Supply Ltd); NPCP Investment Ltd (Joint Operation); (PNG LNG Non Project license (Joint Operation; and the PNG LNG Project among others.

Going Forward

Though NPCP is operating in volatile business environment in light of the downturn in global oil and gas prices, the company has responded by rationing investments and reducing planned expenditures where appropriate in order to preserve profitability.

On the back of a healthy and a strong balance sheet, vigorous policy and legislative support from the Government, a strong investment partnership with other development partners and the technical capacity within NPCP, coupled with a commercial and driven Board, NPCP plans to grow its balance sheet and distribute sustainable dividends to its shareholder, the State and ultimately the people of Papua New Guinea.

Board of Directors



FRANK KRAMER, CBE. Chariman. Appointed January 2013

Frank Kramer is a prominent businessman in Papua New Guinea. He is the Chief Executive Officer of Kramer Ausenco, the largest permanently based engineering firm in PNG and the South West Pacific region.
Mr Kramer has a long history of Board experience, including the President of the Institution of Engineers, Chairman of the National Standards Council of PNG; DeputyChairman of the Investment Corporation of PNG, Director and Foundation Member of the University of PNG Foundation and Director of Kinhill Ltd. Mr Kramer has a Bachelor of Science in Physics from the University of PNG and a Bachelor of Science in Engineering from the University of Guelph in Canada.



LARRY ANDAGALI. Deputy Chairman. Appointed January 2013

Larry Andagali has a wealth of experience with both Landowner relationships and Community participation and investment in the Petroleum & Energy sector in PNG. He is the Chairman of PNG Power and the Managing Director of Transwonderland Limited, one of PNG's largest land transport, logistics and technical service companies, which is owned by a consortium of 25 landowners from around the PNG LNG Project fields. In the past Mr Andagali held several landowner interface management positions including Business and Development Manager for Oil Search, General Manager of the National Energy Company, Labour Liaison Advisor for Exxon Mobil, General Manager with Gigira Development Company and Community Affairs Manager for the BP Ltd.



DR. BENEDICT YARU. Non-Executive Director. Appointed January 2013

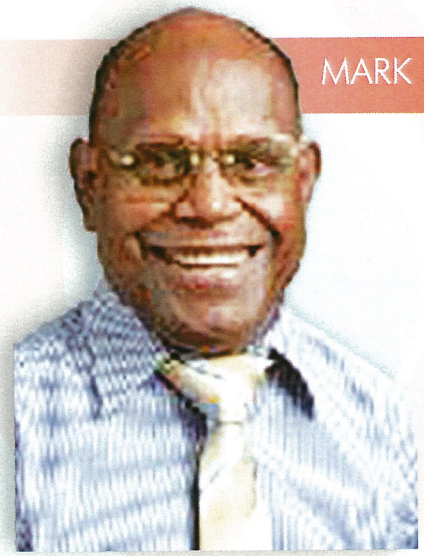
Benedict Yaruhas over 20 years of experience in a variety of challenging positions related to the petroleum and mining sectors in both Operational Management and Consultancy roles. He is the Associate Professor (adjunct), at the Institute of Applied Ecology, University of Canberra, ACT, Australia. Dr Yaru acquired his Doctor of Philosophy in Environmental Biology from the University of Technology Sydney and his Masters in Applied Science in Analytical Environmental Chemistry from the University of Lae

Board of Directors



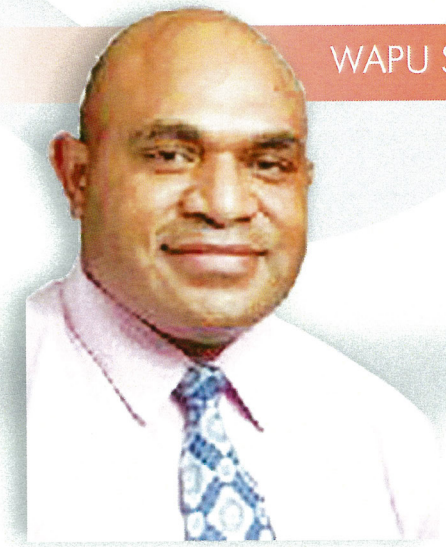
DR. ILA TEMU. Non-executive Director: Appointed in January 2013

Dr Temu brings to the Board considerable experience in executive management and directorship roles in the Extractive Industry as well as in policy and economic matters of PNG. He is currently the Country Executive Director of Barrick (Niugini) Ltd, and prior to this he held senior executive roles in Placer Dome both overseas and in PNG, as well as holding senior positions in public organisations including senior lecturer in Economics at the UPNG and as the Director of the National Research Institute. He is currently a director of both Bank of South Pacific and Kina Petroleum. Dr Temu acquired his Doctor of Philosophy in Economics from the University of California, his Masters in Agricultural Development Economics from the Australian National University and his Bachelor or Economics from UPNG.



MARK SOPAING. Non-executive Director: Appointed in January 2013

Mark Sopainghas a long association with the development and running of Landowner Companies. He is currently Chairman on the Boards of Mineral Resources Lihir (MRL) Capital Limited; MRL Pty Ltd, Maron Limited, Lakonput Properties, MS Holdings, as well as Vice Chairmanof Anitua Group of Companies and Director on the Board of Ailia Limited. Mark holds a degree from the University of Technology in Lae.



WAPU SONK. Managing Director. Appointed in January 2013

Wapu Sonk has two decades of technical and management experience in the oil and gas industry in Papua New Guinea during a period that saw the industry itself maturing from an oil exporting country to an LNG exporter. While currently the Managing Director of NPCP, he was previously a director of the PNG LNG Project with IPBC, the Technical Manager for the first NPCP Company and the Chairperson of the PNG Sector of the Society of Petroleum Engineers. Before joining NPCP he held multiple roles in both the office and the field for Oil Search and Chevron. Mr Sonk obtained a Bachelor in Mining Engineering from the University of Technology in Lae, and a Diploma of Business Management from the Melbourne Business School.

Executive Management Team

The Executive Management of NPCP is led by the Managing Director who also sits as an executive Director on the NPCP Board. Below the Managing Director is a new two tier Management system consisting of the General Managers and the line Managers. Together, they implement Board policies, decisions and directions.

The executive management current structure after the approval of the corporate restructure by the NPCP Board in late 2014 is set out below.



Robert Acevski-General Manager, Finance

Mr. Acevski joined NPCP in May 2014 as the General Manger for NPCP's Finance Division. Mr. Acevski has a Bachelor of Business (Accounting), a Master of Business (Marketing) and a Master of Business Administration.

Business (Marketing) and a Master of Business Administration. industry or complementary industries, having worked in PNG since 2011 in the earlier Kroton entity CFO. Mr Acevski has held several financial directorships as well as Board position to Deputy Chairman level. Across several different jurisdictions. Across Asia, Europe, and the Middle East.



Dr. Michael Earle-General Manager, Commercial

Dr. Earle joined NPCP in January 2015 as General Manager, Commercial. Dr. Earle obtained a Bachelor of Science in Geologyand Environment in 1976 from the Oxford Brookes University in the United Kingdom graduating with a First Class Honours. In 1980, Dr. Earle obtained a Ph.D from the University of London and further obtained a MBA in 1997 from Cranfield University School ofManagement in the United Kingdom. Dr. Earle has over 35 years experience in the oil and gas industry.



Wilson Lee-General Manager, Operations

Mr. Lee was engaged by NPCP in May 2015 as the General Manager, Operations and is in charge of the technical division. Mr. Lee has a Bachelor of Engineering (Petroleum Engineering) from University of New South Wales and a MBA (Project Management) from Curtin University of Technology in Western Australia. Mr. Lee has over 20 years of experience with super majors Chevron, Woodside Energy and smaller independent companies including Vermilion Energy Canada and AWE Limited.

Executive Management Team



Rogen Wato Avynnagger-Manager, Legal Services

Mr. Wato has worked with NPCP as its Legal Manager since the revival of NPCP Kroton in 2013. Mr. Wato obtained a Bachelors Degree of Law in 2005 from the University of Papua New Guinea. In 2006, he attended the Legal Training Institute and obtained a Certificate for Admission and was admitted to the bar in the same year. Mr. Wato obtained his Masters in Law in 2008 and brings to the NPCP Management almost 11 years of experience working in the PNG oil and gas industry.



Igitava Yoviga-Manager,Government and Community Affairs

Mr. Yoviga has worked with NPCP since joining the Company in June 2013. Mr. Yoviga has a Bachelor of Arts Degree in Political Science and minored in Economics and History from the Waynesburg University, USA. Mr. Yoviga has almost 21 years of experience working in the Government and semi-government sector and has vast management experience.



Luke Liria-General Manager, Shared Services

Mr. Liria joined NPCP in 2013 as General Manager for NPCP's Shared Services which is the Support Services of the company. Mr. Liria has a Bachelors Degree in Commercial Computing Studies. Mr. Liria also attained certification as an Associate Project management Professional (CAPM). Mr. Liria has worked with Oil Search Limited and Chevron in PNG and Australia. He brings to theNPCP Management almost 23 years experience in the industry working in various roles.

Corporate Structure and Business Strategy

The Group's Vision, Mission and Core Values have been governed by the following principles:

Vision:

Create value and opportunity for PNG and its people by becoming a major national oil and gas corporation.

Goals:

(1) Maximise value through exploration and production in upstream opportunities;
(2) Build new value by diversifying into mid-stream business opportunities;
(3) Seek and evaluate opportunities for growth through external investments;
(4) Generate wealth and opportunity for Papua New Guineans and the Nation; and
(5) Manage NPCP with the highest standards of governance, responsibility and transparency.

Values:

(1) Benefit Papua New Guinea;
(2) Accountability and transparency;
(3) Team value and diversity;
(4) Protect and preserve the environment;
(5) Maintain appropriate standards in safety, health and wellbeing;
(6) Promote innovation and excellence.

Business Strategy:

As a fully operational company, the Board and Management of NPCP have adopted the Vision, Goals and Core values of NPCP which are incorporated into NPCP's Strategic Plan. The Strategic Plan is the guide under which NPCP will develop its business policies in the coming years.

Corporate Governance

1. Legal Framework

NPCP Holdings Limited is a company created under theCompanies Act 1997 and a State Owned Enterprise (SOE) under the Independent Public Business Corporation of Papua New Guinea Act, 2002(Consolidation No. 6 of 2012), (IPBC Act). The IPBC Act is the enabling legislation wherein NPCP and other SOE and Major State Owned Enterprises (MSOE) are mandated to operate as wholly-owned subsidiaries of the Independent Public Business Corporation (IPBC), the latter being the State's vehicle established to hold assets including business enterprises as trustee for the benefit of the State.

2. Establishment of the NPCP Group of Companies and its Mandate

(a) Creation of NPCP Holding Limited (NPCPH)

NPCP Holdings Limited was incorporated on 16th December 2013 as Telemu No. 90 Limited and changed its name to NPCP Holdings Limited on 04th March 2014.

On 02nd September 2014, the NEC through NEC Decision No. 264/2014, approved NPCPH to be a wholly-owned subsidiary of IPBC and further directed that all petroleum assets of the State, including the Oil Search shares held by the Department of Treasury, all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC be consolidated into NPCP. Based on this direction, the shares of National Petroleum Company (Kroton) Limited held by IPBC were transferred to NPCP on 17th December 2014.

(b) Creation of NPCP Kroton Limited

National Petroleum Company (Kroton) Limited was incorporated on 2nd June 2008 under the name Kroton No. 2 Limited. The name was subsequently changed to National Petroleum Company of PNG (Kroton) Limited (**NPCP Kroton**) on 23rdSeptember 2010, at which time it was mandated by the Independent State of Papua New Guinea (**State**) to be a special purpose vehicle to hold and manage the State's 16.574481 percent interest in the PNGLNG Project.

In 2011, the National Executive Council (**NEC**) through NEC Decision No. 105/2011directed that NPCP Kroton be restructured and made a business unit within IPBC and the company was retained as a shelf company. On 30th January, 2013 through NEC Decision No. 18/2013, the NEC rescinded the previous NEC Decision No. 105/2011, and directed that NPCP Kroton be revived and its full functions be restored. The Decision approved the appointment of the Board and the Managing Director and employment of NPCP Kroton's staff as well as directing IPBC to finance its capacity building and annual plans.

In early 2014, the Board of National Petroleum Company of PNG Kroton met and approved the establishment of a NPCP Group in accordance with NEC Decision No. 108/2011. NEC Decision No. 108/2011provided for the creation of a holding company – NPCP Holdings Limited - as a 100% owned subsidiary of IPBC and for the creation of subsidiaries under NPCP Holdings Limited. NPCP Kroton became a wholly-owned subsidiary of NPCP Holdings Limited subsequently.

(c) Creation of Subsidiaries under NPCP Holdings Limited.

Pursuant to NEC Decision No. 108/2011, NPCP Holdings Limited incorporated six (6) wholly-owned subsidiaries. These are:

» NPCP Investments Ltd-incorporated to hold for andon behalf of the State, the State's 149,390,244 ordinary shares in Oil Search Ltd;

» NPCP Pipeline & Gas Supply Ltd - incorporated be the holding subsidiary to undertake activities including ownership and operations of petroleum pipeline systems and supply of gas on behalf of NPCP. NPCP Pipeline and Gas Supply Limited currently owns 100% shares in NPCP Oil Company Pty Ltd. that incorporates the assets acquired in the cue energy purchase.

» NPCP Power & Energy Ltd - incorporated to be the holding subsidiary for the Port Moresby Gas Project and all future power generation projects undertaken by NPCP;

» NPCP Exploration Ltd - incorporated to be the holding subsidiary for all exploration activities;

» NPCP Drilling & Petroleum Services Ltd - incorporated to be the holding subsidiary for all drilling and related services;

» NPCP Technical Institute and Consulting Ltd - incorporated to be the holding subsidiary for the purposes of the Kumul Academy and other up-skilling and training ventures that the NPCP Group undertakes.

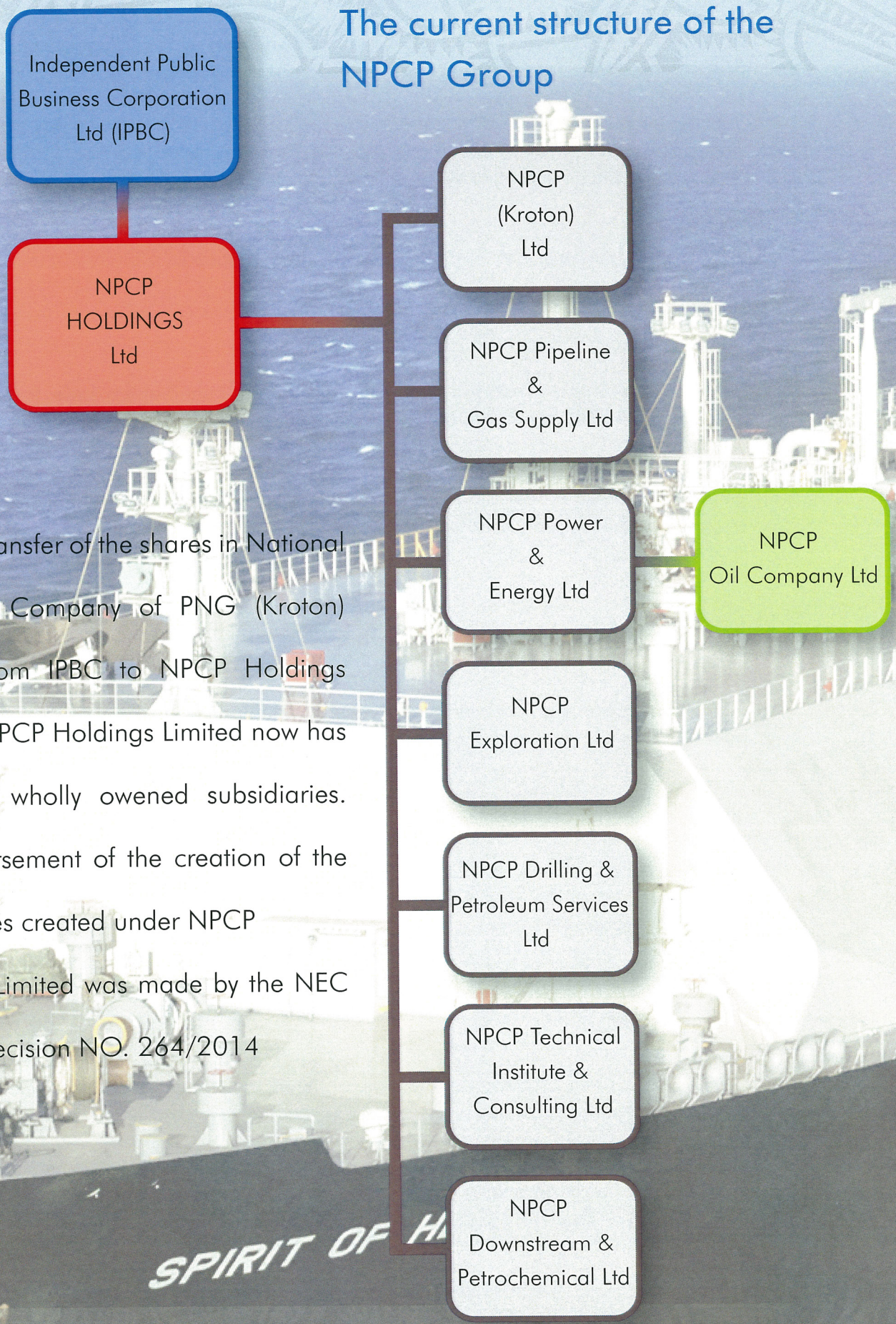
3. Shareholding Structure

IPBC currently holds in trust for and on behalf of the State under its General Business Trust, the 100 ordinary shares issued in NPCP Holdings Limited.

With the transfer of the 100 ordinary Shares in NPCP Kroton from IPBC to NPCP Holdings, NPCP Holdings now holds the 100 issued ordinary shares in NPCP Kroton Limited and all the issued ordinary Shares in NPCP Investments Ltd, NPCP Pipeline & Gas Supply Ltd, NPCP Power & Energy Ltd, NPCP Exploration Ltd, NPCP Drilling & Petroleum Services Ltd and NPCP Technical Institute and Consulting Ltd.

Corporate Governance

The current structure of the NPCP Group



With the transfer of the shares in National Petroleum Company of PNG (Kroton) Limited from IPBC to NPCP Holdings Limited, NPCP Holdings Limited now has seven (7) wholly owened subsidiaries. The endorsement of the creation of the subsidiaries created under NPCP Holdings Limited was made by the NEC in NEC Decision NO. 264/2014

4. Board Committees

The Board of NPCP has formalized four (4) Committees and delegated them with specific responsibilities to enhance its monitoring and oversight responsibilities.

Finance and Audit Risk Committee

The purpose of the Finance and Audit Risk Committee Committee is to assist the Board in discharging its oversight obligations to shareholders by ensuring the Company and its related bodies effectively manage the financial and business risks faced by NPCP Holdings Limited through policies and frameworks, including the use of external reviews such as audits from time to time.

Remuneration Committee

The Remuneration Committee's purpose is to assist the Board in discharging its oversight obligations to shareholders by ensuring that NPCP Holdings Limited and its related bodies have remuneration policies and frameworks that are contemporary and fairly reward employees as individuals and as a team having regard to performance.

Major Investment Committee

The Major Investment Committee's role is to assist the Board in discharging the Board's obligation to its shareholders, particularly in establishing sound investment policies, frameworks and directives for the Board to make informed and sound investment decisions to grow the company's revenue.

Community and Social Responsibility Committee

The Community and Social Responsibility Committee's role is to assist the Board in discharging the Board's obligation to its shareholders, particularly in establishing sound investment policies, frameworks and directives for the Board to ensure that the Company's business operations are considerate to its stakeholders, including impact area communities and other stakeholders in its development foot prints.

5. Code of Conduct

NPCP Holdings Limited has a draft Code of Conduct in place and it is anticipated that this will be adopted by the Board in 2015. The Code of Conduct is based on six core values:

(i) to benefit Papua New Guinea;
(ii) accountability and transparency;
(iii) care (or team value and diversity);
(iv) protect and preserve the environment;
(v) maintain appropriate standards in safety, health and wellbeing; and

Corporate Responsibilities

The Strategic Plan developed and approved by the Board of Directors aspires to uphold its core values in conducting its business and meeting the vision, goals, objectives and strategies of the company.

As a responsible corporate entity, NPCP Holdings Limited must embrace its core values and ensure that all the stakeholders including the Board, Executive, Staff, Contractors and Corporate Partners to adhere to a strict code of conduct. One of our Core Values is Environment ; Protect and Preserve which calls for NPCP to protect and preserve the environment. The other important Core Value is Benefit Papua New Guinea which calls for NPCP Holdings Limited to meet its obligation and responsibility to the Country and its people.

NPCP Corporate Responsibility to the Environment

We pride ourselves as the National Oil Company of Papua New Guinea and as such protecting and preserving the environment we operate our business in is essential. To us, we are owned by the people of Papua New Guinea who are diverse in cultures and traditions and we firmly believe in ensuring the heritages we inherited from our forefathers are also protected and preserved. We are committed to upholding the environment protection laws of this land and provide assistance in preserving the conservation and protection of endangered species and resources. We will strive to ensure environmental monitoring and mitigation of environmental impacts so that a preventive action can be taken if need be.

NPCP's Responsibility to the Community

In order to effectively manage its social responsibility to the community, the NPCP Holdings Limited has developed a Social Inclusion Program (SIP) Policy. The SIP Policy has identified programs of focus into three (3) categories – (1) Tax Credit Scheme, (2) Public Relations Initiatives and (3) Government Programs. This applies to any financial commitments and social and economic activities that NPCP Holdings Limited participates or contributes toward as part of its responsible corporate citizen objectives that not only promote social inclusion but promote social well being through health, education, infrastructure and sporting opportunities for the citizens of Papua New Guinea.

Health

NPCP Holdings Limited strives to promote healthy communities and improve access to better health care, upgrade of vital facilities and refurbishment of vital health supplies and equipment.

Education

The development of the next workforce of the country with the critical skills needed to succeed not only in business but also for our country's ability to compete in the global arena is crucial. Thus we are committed to build the human resource of PNG by focusing on science, technology, engineering, technical vocational training to equip our citizen to excel in their respective skills and trade.

Corporate Responsibilities

Economic

We strive to boost our local economy by providing jobs and empowering our local businesses by supporting through small to medium enterprise business partnership. We would help support the National government in its economic development endeavors.

Infrastructure

Assist the national government to provide funding for high impact infrastructure projects that is geared toward achieving the PNG Development Strategic Plan and Vision 2050.

Sports

In promoting sportsmanship in our citizens through local and international sponsorship of selected sporting programs and opportunities.

Economy & Market Overview and Outlook

Market Volatility

We operate in a volatile business environment. Volatility creates uncertainty that is bad for markets, industries and the government. Volatility is expected to continue for the next five years at least, and is principally related to commodity prices in general.

The first LNG project was an important and beneficial development for the country's economy, but it created a short-term surge in growth and expectations about the future that were dashed by the dramatic fall in oil and gas prices in third quater 2014 and first quater 2015. Economic activity in the country is currently suppressed by low commodity prices, and there will be no more large-scale gas-related projects starting construction until at least 2017, with revenues not expected until after 2020.

At least two new LNG projects are likely to coincide construction phases in the next five years, and this will impose huge strains on the country's resources while driving inflation higher.

To compete effectively in this environment and secure its rightful share of projects for the country, NPCP Holdings Limited must secure adequate funds as well as attract, develop and retain capable employees.

Economic Performance

Driven largely by LNG exports, Gross Domestic Product (GDP) grew 8.4% in 2014 and is forecast to increase by 15% in 2015, making PNG one of the fastest growing economies in the world. With no new LNG projects due to come on-stream, however, the Central Bank is forecasting growth of the economy to decline to 5% in 2016 and further to 2% in 2017.

Demand in the economy eased in 2014 as the LNG project neared completion and commodity prices declined. This helped reduce inflationary pressures but the effects were cancelled out by higher government expenditure and higher import prices caused by depreciation of the Kina. Consequently, the Consumer Price Index (CPI) rose from 4.7% in 2013 to 6.6% in 2014. Annual inflation is expected to decline to 6% in 2015 and 5% in 2016.

Despite large deficits in the capital and financial account, PNG's current account balance improved substantially in 2014 on the strength of LNG exports and increased agricultural exports, reducing from a deficit of 23% of GDP in 2013 to 11% in 2014. Import cover declined to a low of 4 months during 2014 but is projected to increase in 2015 to almost 9 months or US$3.3 billion.

Outlook

Central bank monetary policy remains expansionary in 2015 in order to support economic growth. Stability in prices, interest rates and exchange rates is the core objective. Expansionary monetary policy is expected to increase aggregate demand, lower unemployment and lead to economic growth. But growth depends on business confidence, the confidence of foreign investors and the strength of exports, and it can be undermined by a strengthening exchange rate, lower demand for commodities and rising inflation.

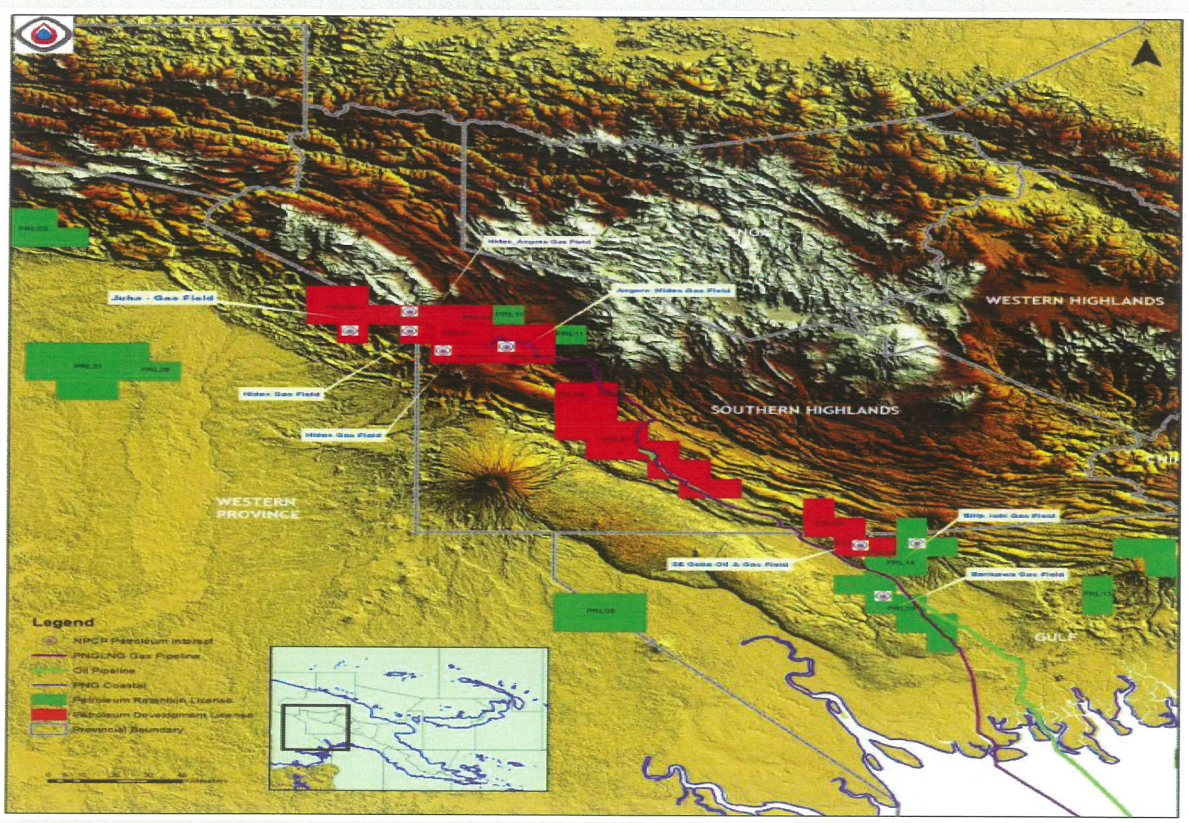
Economy & Market Overview and Outlook

In PNG the petroleum industry is taking centre-stage in the economy and is expected to contribute 20% to GDP in 2015. Increasingly, extractive industries and agricultural products will dominate the economy and the economy will become more vulnerable to external factors such as global downturns.

Lower spending growth, controlling inflation and achieving a balanced budget will be key to reducing volatility in the economy and enabling business and government to plan and allocate resources effectively.

License Interest

		Principal place of Business	Interest %	
			2014	2015
PDL1	Hides gas field	PNG	20.5	20.5
PDL7	South Hides gas field	PNG	20.5	20.5
PDL8	Angore gas field	PNG	20.5	20.5
PDL9	Juha gas field	PNG	20.5	20.5
PNGLNG	PNG LNG Project	PNG	16.57	16.57
PPFL2	PNG LNG Project	PNG	16.57	16.57
PL4	PNG LNG Project	PNG	16.57	16.57
PL5	PNG LNG Project	PNG	16.57	16.57
PL6	PNG LNG Project	PNG	16.57	16.57
PL7	PNG LNG Project	PNG	16.57	16.57
PL8	PNG LNG Project	PNG	16.57	16.57
PDL3	South East Gobe oil field	PNG	3.29	-
PRL9	Barikewa gas field	PNG	14.89	-
PRL14	Cobra, lehi, Bilip gas field	PNG	10.94	-



Audited Financial Report

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
ANNUAL REPORT OF THE DIRECTORS TO THE SHAREHOLDER
FOR THE YEAR ENDED 31 DECEMBER 2014

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NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
ANNUAL REPORT OF THE DIRECTORS TO THE SHAREHOLDER
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors take pleasure in presenting their report on the consolidated financial statements of the NPCP Holdings Limited (the 'Parent entity') and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2014. The Parent entity was incorporated on 04 March 2014 to have interests over operating entities.

Principal Activity

The principal activity of the Parent entity is to be the State's nominee to hold interests in all oil and gas projects and grow its oil and gas portfolio in the country. The principal activities of the Group are:

- to hold the State's interest in the existing Papua New Guinea Liquefied Natural Gas (PNGLNG) Project;
- to hold interest in marketable securities;
- to hold pipeline and midstream related services;
- to hold interest in and venture into potential power generation projects;
- to hold interest in and or venture into potential exploration activities in the oil and gas sector;
- to hold interest in and or venture into potential drilling and related activities in the oil and gas sector;
- provide academic, technical and any other up-skilling and training ventures locally to benefit the industry; and
- to hold interest in and or venture into potential downstream and petrochemical related activities

Results

During the year ended 31 December 2014, the Group made a net profit of US$ 167 million (2013: US$ 292 million).

Production of LNG from Train 1 and Train 2 commenced in April and May 2014, respectively. On 25th May 2014, the PNGLNG Project's inaugural LNG cargo departed PNG on the Spirit of Hela bound for TEPCO in Japan reaching its destination in early June 2014, ahead of schedule. In late 2014, the PNGLNG Project reached full operating capacity and the Project recorded its full quarter production in the fourth quarter.

Directors

The directors as at the date of this report are:

Frank Kramer	Non executive / Chairman	Appointed 4th March 2014
Larry Andagali	Non executive	Appointed 2nd September 2014
Mark Soipang	Non executive	Appointed 2nd September 2014
Wapu Sonk	Executive / Managing Director	Appointed 4th March 2014
Ila Temu	Non executive	Appointed 2nd September 2014
Benedict Yaru	Non executive	Appointed 2nd September 2014

Secretary

The Group secretary is Rogen Wato (Appointed 4th March 2014).

Directors' Interests

As at 31 December 2014, the directors did not have any interests in the Group warranting disclosure.

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
ANNUAL REPORT OF THE DIRECTORS TO THE SHAREHOLDER
FOR THE YEAR ENDED 31 DECEMBER 2014

Directors' Remuneration
The Directors remuneration during the year is shown below:

	Annual Remuneration US$	Sitting Allowance US$	Total US$
Frank Kramer - Non Executive/Chairman	27,137	1,959	**29,096**
Larry Andagali – Non Executive	22,620	1,209	**23,829**
Mark Soipang - Non Executive	18,681	1,410	**20,091**
Dr. Ila Temu – Non Executive	18,682	1,415	**20,097**
Dr. Benedict Yaru - Non Executive	18,647	1,241	**19,888**
Mathias Lasia - Non Executive	3,382	-	**3,382**
	109,149	**7,234**	**116,383**

Other forms of benefit remunerated to the directors during the year either in monetary or non-monetary terms are as follows:

- Milestone Achievement - First Gas Bonus

	Amount Paid US $
Frank Kramer - Non Executive/Chairman	41,300
Larry Andagali – Non Executive	30,975
Mark Soipang - Non Executive	20,650
Dr. Ila Temu – Non Executive	20,650
Dr. Benedict Yaru - Non Executive	20,650
	134,225

Remuneration above K100, 000 per annum

The number of employees not being directors whose total remuneration and other benefits received above K100,000 per annum from the Group during the year was 29.

Remuneration and other benefits paid to employees during the year, in excess of K100,000 in brackets of K100,000 were:

Salary bands in K'000	No. of employees
100 to 199	16
200 to 299	7
300 to 399	2
400 to 499	-
Over 500	4

Dividends
A total of US$ 157,720,000 (PGK415,600,000) was paid as dividend to the State during the year 2014 (2013: Nil).

Employees
As of 31 December 2014, the Group had 45 employees (2013: 34).

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
ANNUAL REPORT OF THE DIRECTORS TO THE SHAREHOLDER
FOR THE YEAR ENDED 31 DECEMBER 2014

Donations
Donations made by the Group as part of corporate standing in the community for the year ended 31 December 2014 is US$ 192,000 (2013: US$ 22,000).

Auditors
Auditor's fees for the service rendered during the 2014 year are disclosed in Note 7 to the financial statements.

Accounting Policies
The accounting policies and any changes to the accounting policies are stated in Note 2 to the financial statements.

Subsequent Events
On 6 February 2015, the PNGLNG Project Operator announced that the Project had achieved financial completion by satisfying all the financial completion tests set forth in Project financing agreements. Accordingly , the cash restrictions, as set out in the Project financing agreements, on escrowed PNGLNG sales proceeds and cash held in escrow to partially fund equity commitments during project development have been terminated. In addition, the guarantee issued by Independent State of PNG and Independent Public Business Corporation (IPBC) on behalf of NPCP Kroton Ltd to the Project lenders in support of its NPCP Kroton Participants' 16.6% share of the senior debt obligations of the Project, has been terminated.

In May 2015, it was pub publicly announced by the Prime Minister, that the National Executive Council (NEC) had approved the drafting of the legislations to implement the Kumul Restructure. Approval was provided by Cabinet for the drafting of the Kumul Petroleum Holdings Authorisations Act 2015

The Kumul Restructure will result in the establishment of a distinct and specialized entity, the Kumul Petroleum Holdings Limited (currently National Petroleum Company PNG Holdings) which will hold all the State's oil and gas interests.

This announcement is not expected to have a financial impact on the results of the financial statements as at 31 December 2014, however, once the bill has been passed and legislation effected, the corporate structure of National Petroleum Company PNG is expected to change.

Preparation of accounts in US Dollars
The Group received approval from Investment Promotion Authority (IPA) through the Office of Registrar of Companies on 25 February 2015 to use United States Dollars as it's functional and presentation currency. The numbers in the consolidated financial statements are rounded to the nearest thousands (US$ '000), except where otherwise indicated.

Signed for, and on behalf of the Board,

Frank Kramer
Chairman
Port Moresby

Date: 12 / 06 / 2015

Wapu Sonk
Managing Director/Executive Director
Port Moresby

Date: 12 / 06 / 2015

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Frank Kramer
Chairman
Port Moresby

Date: 12 / 06 / 2015

Wapu Sonk
Managing Director/Executive Director
Port Moresby

Date: 12 / 06 / 2015

AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA

PAPUA NEW GUINEA

Telephone: 301 2203 Fax: 325 8295 Website: www.ago.gov.pg Email: agopng@ago.gov.pg

INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2014

I have audited the accompanying financial statements of **NPCP Holdings Limited and Its Subsidiaries** for the year ended **31 December, 2014**.
The financial statements comprise:

- Consolidated Statement of Financial Position;
- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Changes In Equity;
- Consolidated Statement of Cash Flows; and
- Summary of Significant Accounting Policies and Other Explanatory Notes.

Responsibility for the Financial Statements

The Directors of the Company are responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Company. The financial statements should comply with the *Companies Act 1997* 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 Directors are 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 order to express an opinion to the shareholders. 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 *Companies Act, 1997* the *International Financial Reporting Accounting Standards* and other mandatory financial reporting requirements, a view which is consistent with my understanding of the Company'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 NPCP Holdings Limited and Its Subsidiaries for the year ended 31 December, 2014:

(i) give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and

(ii) the financial statements have been presented in accordance with the *Companies Act 1997, Internation al Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) Proper accounting records have been kept by the Company, as far as appears from my examination of those records; and

(c) I have obtained all the information and explanation required.

PHILIP NAUGA
Auditor-General

16 June, 2015

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$'000	2013 US$'000
Revenue	4	518,098	–
Cost of sales	5	(156,263)	–
Gross profit		**361,835**	**–**
Other Income	6	10,036	9,133
Depreciation charges		(1,219)	(1,773)
Consultancy and professional service		(13,300)	(2,042)
Employee benefits expense		(6,380)	(2,264)
Other operating expenses	7	(4,993)	(2,369)
Operating profit		**345,979**	**684**
Interest income		83	1
Finance costs		(95,349)	(1,205)
Foreign exchange gain (loss)		(4,191)	280,235
Loss on derivatives		(439)	–
Profit before income tax		**246,083**	**279,715**
Income tax (expense)/benefits	8	(79,061)	12,285
Profit for the year		**167,022**	**292,000**
Other comprehensive income			
Items that may be reclassified to Profit or Loss subsequently:			
Gain on investment available for sale, net of tax	14	9,421	-
Total comprehensive income for the year		**176,443**	**292,000**

This consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share Capital/ Contributed Capital US$'000	Reserve US$'000	Retained Earnings US$'000	Total US$'000
Balance at 1 January 2013		**–**	**–**	**15,364**	**15,364**
Profit for the year		–	–	292,000	**292,000**
Other comprehensive income		–	–	–	**–**
Total comprehensive income		**–**	**–**	**292,000**	**292,000**
Additions	19	1,292,478	–	–	**1,292,478**
Dividends paid	19	–	–	–	**–**
Balance at 31 December 2013		**1,292,478**	**–**	**307,364**	**1,599,842**
Balance at 1 January 2014		**1,292,478**	**–**	**307,364**	**1,599,842**
Profit for the year		–	–	167,022	**167,022**
Other comprehensive income		–	9,421	–	**9,421**
Total comprehensive income		–	9,421	167,022`	**176,443**
Additions	19	119,190	–	-	**119,190**
Distribution to owners	20	–	–	(42,171)	**(42,171)**
Dividends paid	19	–	–	(157,720)	**(157,720)**
Balance at 31 December 2014		**1,411,668**	**9,421**	**274,495**	**1,695,584**

This consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014	2013
		US$'000	US$'000
Current Assets			
Cash and cash equivalents	9	241,030	22,170
Prepayments and receivables	10	64,902	88,450
Inventory		38,576	18,125
Income tax refund	8	10,475	–
Derivative financial assets	15	49,337	–
Amount due from related parties		–	360
Total Current Assets		**404,320**	**129,105**
Noncurrent Assets			
Oil and gas assets	11	3,846,325	3,631,966
Property, plant and equipment	12	3,659	2,113
Rehabilitation and restoration assets	13	34,648	21,053
Deferred tax asset	8	13,235	15,358
Available for sale (AFS) financial asset	14	958,815	–
Total Noncurrent Assets		**4,856,682**	**3,670,490**
Total Assets		**5,261,002**	**3,799,595**
Current Liabilities			
Trade payable and other payable	16	109,359	106,512
Employee benefits		302	376
Borrowings	18	60,983	-
Capital lease obligation		146	-
Amount due to related parties		–	282
Total Current Liabilities		**170,790**	**107,170**
Noncurrent Liabilities			
Employee benefits		520	-
Deferred tax liability	8	85,174	6,431
Rehabilitation and restoration liability	17	44,113	27,837
Borrowings	18	3,259,900	2,058,315
Capital lease obligation		4,921	-
Total Noncurrent Liabilities		**3,394,628**	**2,092,583**
Total Liabilities		**3,565,418**	**2,199,753**
Net Assets		**1,695,584**	**1,599,842**
Equity			
Share capital/contributed capital	19	1,411,668	1,292,478
Reserve	14	9,421	-
Retained earnings		274,495	307,364
Total Equity		**1,695,584**	**1,599,842**

This consolidated statement of financial position should be read in conjunction with the accompanying notes.

AUDITOR-GENERAL'S OFFICE

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Receipts from operation		551,735	8,299
Payments to suppliers and employees		(326,844)	(11,362)
Interest received		83	-
Tax paid		(8,670)	-
Net cash flow from /(used in) operating activities		**216,304**	**(3,063)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,927)	(1,365)
Acquisition of subsidiary	**23**	(7,174)	-
Restricted cash		(10,296)	-
Investment in Non Project PDL Joint Operation		(1,102)	(3,091)
Net cash flow used in investing activities		**(20,499)**	**(4,456)**
Cash flows from financing activities			
Proceeds from borrowings		170,478	24,963
Dividends paid		(157,720)	-
Net cash flow from financing activities		**12,758**	**24,963**
Net movement in cash and cash equivalents		**208,563**	**17,445**
Opening cash and cash equivalents		22,170	4,725
Closing cash and cash equivalents	**9**	**230,733**	**22,170**

This consolidated statement of cash flows should be read in conjunction with the accompanying notes.

AUDITOR-GENERAL'S OFFICE

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. General Information

NPCP Holdings Limited ("the Parent company") is an unlisted entity, incorporated in Papua New Guinea on 4 March 2014. The Parent entity is the immediate shareholder and holding 100% ownership interest in the subsidiaries of the NPCP Group (together referred to as "the Group"). The Parent entity is the State's nominee in all oil and gas projects in the country which is owned by Independent Public Business Corporation ("IPBC"). IPBC is a state owned Corporation and is a 100% owned by the Independent State of Papua New Guinea ("Ultimate Parent").

The principal activities of the Group are disclosed in the Directors' report.

IPBC had 100% ownership interest in National Petroleum Company of PNG (Kroton) Limited ("Kroton"). On 4 March 2014, the structure of the group was reorganised by establishing a 100% intermediate parent, NPCP Holdings Limited, to hold entire share capital of Kroton and other subsidiaries. Prior to reorganisation, the Group was represented only by Kroton. As a result, the consolidated financial statements for the year ended 31 December 2014 is the continuation of Kroton including comparative financial information.

The registered office is located at Level 7, Deloitte Touche Tohmatsu tower, Douglas Street, Port Moresby, National Capital District, Papua New Guinea.

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 3rd June 2015.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in preparation of the Group financial statements are set out below. These policies have been constantly applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

The financial statements of NPCP Holdings Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee "IFRIC" as issued by the International Accounting Standard Board (IASB) and the requirements of Companies Act 1997. The financial statements have been prepared under the historical cost convention and on a going concern basis except for the fair value of derivatives and available for sale investments.

The consolidated financial statement are presented in US$, and all values are rounded to the nearest thousands (US$"000"), except when otherwise indicated.

2.1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities (including structured entities) controlled by it and its subsidiaries. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

AUDITOR-GENERAL'S OFFICE

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies continued

2.1.2 Basis of consolidation continued

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group entity considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Parent entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity using consistent accounting policies.

AUDITOR GENERAL'S OFFICE

NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Summary of Significant Accounting Policies continued

2.1.3 Basis of consolidation continued

(iii) Joint arrangements

Exploration, development and production activities of the Group are primarily carried on through joint arrangements with other parties. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they comprise investments in joint operations.

Joint operations

The Group has accounted for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in Note 20.

2.1.4 Changes in accounting policies and disclosures

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

After the mandatory adoption of various complex standards in 2013, 2014 is a relatively quieter year in which a number of amendments to IFRSs and a new Interpretation have become mandatorily effective. All of these amendments to IFRSs and the new Interpretation generally require full retrospective application (i.e. comparative amounts have to be restated), with some amendments providing specific transitional provisions. However this is the Group first year of operations, most of them were adopted in the current year.

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no impact on the amounts reported are set out below:

Standard	Amendments/Changes
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it: • obtains funds from one or more investors for the purpose of providing them with investment management services; • commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and • measures and evaluates performance of substantially all of its investments on a fair value basis. Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

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2. Summary of Significant Accounting Policies continued

2.1.3 Changes in accounting policies and disclosures

Standard	Amendments/Changes
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application.
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.

Annual improvements to IFRS

The directors of the Group do not anticipate that the application of these amendments will have a significant impact on the financial statements. These standards are noted below:

IFRS 3 Business Combinations Accounting for contingent consideration in a business combination	The amendments clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.
IFRS 8 Operating Segments (i) Aggregation of operating segments (ii) Reconciliation of the total of the reportable segments' assets to the entity's assets	The amendments (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker
IFRS 13 Fair Value Measurement Short-term receivables and payables	The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.
IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets Revaluation method—proportionate restatement of accumulated depreciation (amortization)	The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

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2. Summary of Significant Accounting Policies continued

2.1.3 Changes in accounting policies and disclosures continued

Standard	Amendments/Changes
IAS 24 Related Party Disclosures Key management personnel	The amendments clarify that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid through another entity is not required.
IFRS 3 Business Combinations Scope exceptions for joint ventures	The amendments clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
IFRS 13 Fair Value Measurement Scope of paragraph 52 (portfolio exception)	The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.
IAS 40 Investment Property Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	The amendments clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether: (a) the property meets the definition of investment property in terms of IAS 40; and (b) the transaction meets the definition of a business combination under IFRS 3.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)	The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2013 amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (see above).
Improvements to IFRSs (2013)	In addition to the changes affecting amounts reported in the financial statements described at 2.1 above, the Improvements have led to a number of changes in the detail of the group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2014.
Improvements to IFRSs (2014)	In addition to the amendments to IFRS 5 and IAS 7 described earlier in this section, and the amendments to IAS 17 discussed in section 2.3 below, the Improvements have led to a number of changes in the detail of the group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Except as noted in 2.3 below, these changes have been adopted in advance of their effective dates (generally 1 January 2014).

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2. Summary of Significant Accounting Policies continued

2.1.3 Changes in accounting policies and disclosures continued

Standards and Interpretations in issue not yet adopted

The following new and revised Standards and Interpretations that are not mandatorily effective and accordingly are not adopted by the group:

Standard	Effectivity
IFRS 9 Financial Instruments	Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
IFRS 15 Revenue from Contracts with Customers	Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle	Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
Amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle	Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

Based on the assessment, directors concluded that the adoption of above standards and interpretations will not have material impact except IFRS 15, which the assessment is still in progress.

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2. Summary of Significant Accounting Policies continued

2.1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using United States Dollars ("US$") as the functional currency ("the functional currency"). The financial statements are presented in US$ as opposed to the currency of the economic environment in which the Group operates, the Papua New Guinea Kina ("PNG Kina"). The decision to use US$ as the Group's functional and presentation currency is considered more beneficial for the market and that the balances and transactions are significantly denominated in US$ when operating in the oil and gas industry.

Had the functional and presentation currency of the Group been PNG Kina, the position and performance of the Parent and the Group would have been:

	2014 PGK'000	2013 PGK'000
TOTAL ASSETS*	13,917,995	10,395,609
TOTAL LIABILITIES*	(9,432,323)	(6,018,476)
NET ASSETS	**4,485,672**	**4,377,133**
NET PROFIT**	**429,142**	**660,781**

*Translated using reporting date exchange rate of 0.3780 (2013: 0.3655)
**Translated using average exchange rate of 0.3892 (2013: 0.4419)

This supplementary Group financial statement disclosure is required for reporting purposes with the PNG Registrar of Companies per approval notice dated 25 February 2015 *(ref: asbd2 1-100145/rm).*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(c) Group companies

The results and financial position of operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income ("OCI").

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2.2 Summary of significant accounting policies

(a) Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities, the individual oil or gas field and the associated production facilities are managed and reported as a single oil and gas asset.

(i) Pre-permit costs

Pre-permit costs are expensed in the period in which they are incurred.

(ii) Exploration and evaluation costs

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through profit or loss.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to assets in development.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payment made to contractors.

(iii) Development and producing costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. Development expenditure is subject to amortisation once production commences. Once commercial operation commences the accumulated costs are transferred to oil and gas assets – producing assets.

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2.2 Summary of significant accounting policies continued

(b) Oil and gas properties and other property, plant and equipment

(i) Initial recognition

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within oil and gas properties.

When a development project moves into the production stage, the capitalisation of certain construction/ development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

(ii) Depreciation / amortisation

Producing oil and gas assets are depreciated /amortised over the life of the assets which is 32 years (until 2046) on a straight line basis, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the shorter period is applied.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

- Vehicles 3-5 years
- Furniture, fittings, software and equipment 3-8 years

Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(iii) Major maintenance, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

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2.2 Summary of significant accounting policies continued

(c) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any. Indefinite lived intangibles are not amortised, instead they are tested for impairment as at annually.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised. Instead, the related expenditure is recognised in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(d) Impairment of non-financial assets

Intangible assets, for example goodwill and software licenses, that are internally generated are not subject to amortisation and are tested annually for impairment. Off the shelf assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are carried at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(e) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to-maturity investments, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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2.2 Summary of significant accounting policies continued

(e) Financial instruments – initial recognition and subsequent measurement continued

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date at which the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, trade and other receivables and derivative financial assets.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified into four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments - the Parent entity has no held-to-maturity investments
- AFS financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative changes in fair value) or finance revenue (positive net changes in fair value) in the statement of profit or loss and other comprehensive income. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the statement of profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 10.

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2.2 Summary of significant accounting policies continued

(e) Financial instruments – initial recognition and subsequent measurement continued

AFS financial assets
AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or .

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate ("EIR"). Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a Parent entity of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation; and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment Joss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

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2.2 Summary of significant accounting policies continued

(e) Financial instruments – initial recognition and subsequent measurement continued

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognised in profit or loss. Interest income (recorded as finance income in the statement of profit or loss and other comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account, if a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

Available-for-sale (AFS) financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial liabilities.



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2.2 Summary of significant accounting policies continued

(e) Financial instruments – initial recognition and subsequent measurement continued

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the conditions in IAS 39 are satisfied, The Group has not designated any financial liabilities as at fair value through profit or loss.

Held for trading

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in profit or loss.

Loans and borrowings

This is the category most relevant to the Group. Loans and borrowings are recognised initially at fair value net of transaction cost incurred. After initial recognition, interest-bearing loans and borrowings are subsequently measured at interest rate method (amortised cost). Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

(f) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts, but exclude any restricted cash.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials and supplies is the purchase cost, determined on a weighted average basis. The cost of liquefied natural gas and gas in tanks and pipelines is the purchase cost, the cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal operating capacity, determined on a weighted average basis. The value of extracted by-products is stated at net realisable value.

The net realisable value of inventories is based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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2.2 Summary of significant accounting policies continued

(h) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(i) Borrowing cost

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowings costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to fund a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Parent entity during the period.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in profit or loss in the period they are incurred.

(j) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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2.2 Summary of significant accounting policies continued

(k) Current and deferred income tax continued

The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the taxation authority and there is an intention to settle the balances on a net basis.

(l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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2.2 Summary of significant accounting policies continued

(m) Provisions

(i) General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is recognised in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in profit or loss.

(ii) Decommissioning liability

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised in cost of goods sold.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Parent entity considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost.

The Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

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2.2 Summary of significant accounting policies continued

(m) Provisions continued

(iii) Employee benefits

A liability is recognised for benefits accruing to employees in respect of salaries and wages, annual leave, long service leave and staff incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

(n) Revenue Recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, excise duties and similar levies. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor, has pricing latitude and is also exposed to inventory and credit risks.

Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the Group's share of production are not significant. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

Dividend income is also recognised when the Group's right to receive the payment is established, which is generally when shareholders or board of directors approve the dividend.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest revenue is included in finance income in the profit or loss.

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2.2 Summary of significant accounting policies continued

(o) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(p) Derivative financial instruments

The Group has entered into a collar loan arrangement. The collar loans include a borrowing element under which the Group obtained financing from the bank collateralized by available-for-sale investments (Oil Search Limited (OSL) shares) with an obligation to repay it in the future and an option (collar) element comprised of a number of put and call options over OSL shares. From accounting point of view (IAS 39) this is a hybrid contract containing a host and debt instrument (loan) and embedded derivative (collar over OSH shares).

For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executor contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

The contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit or loss, and presented separately.

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2.2 Summary of significant accounting policies continued

(q) Royalties and development levies

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as income taxes, other types on net income such as royalties and development levies.

Royalties and development levies are accounted for under IAS12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than physical quantities produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The revenue taxes payable by the Group are considered to meet the criteria to be treated as part of income taxes.

(r) Fair value measurement

The Group measures AFS investment and derivatives at fair value at each reporting date and , for the purposes of impairment testing, uses fair value less cost of disposals to determine the recoverable amount of some of its non-financial assets.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumptions that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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2.2 Summary of significant accounting policies continued

(r) Fair value measurement continued

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

2.3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

(a) Joint arrangements

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement such as approval of the capital expenditure program for each year or terminating the service providers of the arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

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2.3 Significant accounting judgements, estimates and assumptions continued

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess its rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement – whether its structured through a separate vehicle
- When the arrangement is structure through a separate vehicle, the Group also considers the rights and obligations arising from:
  - The legal form of the separate vehicle
  - The terms of the contractual arrangement
  - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

2.3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are describe below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared and existing circumstances arising beyond the control of the Group. Such changes are reflected in the assumption when they occur.

(a) Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economy assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which includes:

- The carrying value of exploration and evaluation assets; oil and gas properties and property, plant and equipment; may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation changes in the statement of profit or loss and other comprehensive income may change where the useful life of the related assets change.
- Provisions for decommissioning may change – where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

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2.3 Significant accounting judgements, estimates and assumptions continued

2.3.2 Estimates and assumptions continued

(b) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploration or sales, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself and estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

(c) Recoverability of oil and gas assets

The Group through the project operator assesses each significant asset that make up the oil and gas asset each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimates of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risks and uncertainty. Therefore, there is a possibility that changes in circumstances will impact this project, which may impact the recoverable amount of the asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(d) Decommissioning costs

Decommissioning cost will be incurred by the Group at the end of the operating life of the oil and gas facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change – for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

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2.3 Significant accounting judgements, estimates and assumptions continued

2.3.2 Estimates and assumptions continued

(e) Recovery of deferred tax assets

Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction to the extent that future cash flows and taxable income differ significantly from estimates. Hence, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

2.4 Fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The following table presents assets and liabilities that are measured at fair value at 31 December 2014:

2014	Level 1 US$ m	Level 2 US$ m	Level 3 US$ m	Total US$ m
Assets				
Derivatives	–	51	–	**51**
AFS financial assets (Quoted)	964	–	–	**964**
Liabilities				
Loans and borrowings*	–	(3,321)	–	**(3,321)**
Total – 31 December 2014	**(964)**	**(3,270)**	**-**	**(2,306)**

*Floating rate borrowings

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2013	Level 1 US$ m	Level 2 US$ m	Level 3 US$ m	Total US$ m
Assets				
Derivatives	–	–		–
AFS financial assets (Quoted)	–	–	–	–
Liabilities				
Loans and borrowings*	–	(2,058)	–	**(2,058)**
Total – 31 December 2013	–	**(2,058)**	–	**(2,058)**

*Floating rate borrowings

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Other than noted above, the carrying value of all other assets and liabilities approximates fair value.

The following methods and assumptions were used to estimate the fair values:

- The Group's interest bearing borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the project.
- The Group enters into derivative financial instruments with the financial institutions with investment grade credit ratings. The collar contract valued using valuation techniques with market observable inputs are mainly OSH reference price, expected dividends, risk free rate, lender's credit spread and volatilities.
- Fair value of the quoted shares is based on price quotations at the reporting date.

3. Financial risk management

Financial risk factors

The Group activities expose it to a variety of financial risks: market risk (including currency risk, equity price risk and cash flow interest rate risk), liquidity risk and credit risk. The Group overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the board of directors.

(a) Market risk

(i) Foreign exchange risk

The Group major transactions are denominated in US$ which is the Group functional and reporting currency. The Group's residual foreign exchange risk arises on administrative expenditure incurred at the corporate level in the PNG Kina and loan transactions in AUD. In addition, the Group may be exposed to one off transactions which occur on an ad hoc basis for purchases in currencies other than the US$. The Group is not exposed to major translation exposures as the majority of the Group's assets and liabilities are denoted in US Dollars.

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3. Financial risk management continued

As at 31 December 2014, the amounts denominated in foreign currencies are as follows:

	2014 US $'000	2013 US $'000
Denominated in PNG KINA		
Cash and cash equivalent	16,308	22,153
Amount due from related parties	-	360
Other receivables	799	630
Trade Payables	(915)	(755)
Other liabilities	(1,222)	(711)
Amount due to related parties	-	(282)
Employee benefits	(822)	(376)
Borrowings	(170,478)	-
	(156,330)	21,019
Denominated in AUD		
Borrowings	(829,863)	-
Total	**(986,193)**	**21,019**

The following table demonstrates the sensitivity to a reasonably possible change on the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes on the carrying value of monetary assets and liabilities.

Increase/decrease in foreign exchange rate	Effect on profit before tax for the year ended 31 December 2014 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2013 Increase/(Decrease)
	US $m	US $m
+5%	(49)	1
-5%	49	(1)

(ii) Cash flow and interest rate risk

The Group manages its interest rate risk by entering its syndicated loans with available best options for project financing. The Group interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follow:

Increase/decrease in basis points	Effect on profit before tax for the year ended 31 December 2014 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2013 Increase/(Decrease)
	US $m	US $m
+50	(0.5)	-
-50	0.5	-

The borrowing costs relating to 31 December 2013 fully capitalized so no impact to profit or loss.

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3. Financial risk management continued

(iii) Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk by placing limits on individual and total equity instruments.

With all other variable held constant, the 10% increase or decrease in price of equity listed securities would increase/decrease the equity approximately US$ 95.88 million (US$ 95.88 million), respectively.

(b) Liquidity risk

Cash flow forecasting is performed by the Group and monitors rolling forecasts of its liquidity requirements to ensure it has sufficient cash to meet its operational needs.

The table below summarises the maturity profile of the Group's financial liabilities, at 31 December 2014, based on contractual undiscounted payments.

Year ended 31 December 2014	On demand	<1 year	1–5 years	>5 years	Total
	US $m	US $m	US $m	US $m	US $m
Borrowings	-	90	1,767	1,653	**3,510**
Related party payables	–	–	–	–	**–**
Trade creditors and other liabilities	-	109	–	–	**109**
	-	**199**	**1,767**	**1,653**	**3,619**
Year ended 31 December 2013					
Borrowings	–	–	439	1,747	**2,186**
Related party payables	–	–	–	–	**–**
Trade creditors and other liabilities	–	106	–	–	**106**
	–	**106**	**439**	**1,747**	**2,292**

(c) Credit risk

The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions. The Group's maximum exposure to credit risk at reporting date in the event other parties fail to perform their obligations is as follows:

Accounts

	2014 US$'000	2013 US$'000
Cash at bank	241,030	22,170
Trade receivables	56,578	70,968
Derivative assets	49,337	–
Other receivables	799	1,201
Total	**347,744**	**94,339**

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3. Financial risk management continued

(c) Credit risk continued

The Group reduces its risk on cash at bank by dealing only with reputed major banks. The Group's trade receivables credit risk is managed by entering into sales contracts with investment grade counter parties. Credit limit has been established with counter parties. For derivatives, refer to Note 15.

(d) Capital management

The Group manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximizing the return to its stakeholders through optimization of the debt and equity balances.

This involves the use of corporate forecasting models which facilitate analysis of the Group's financial position including cash flow forecasts to determine future capital management requirements. Capital management is undertaken to ensure a secure cost effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements.

4. Revenue

	2014 US$'000	2013 US$'000
Revenue from liquefied natural gas	422,576	–
Revenue from condensates	92,908	–
Revenue from naphtha	2,614	–
Total	**518,098**	**–**

5. Cost of sales

Production cost	83,561	–
Royalty levy charges	4,555	–
Development levy charges	4,555	–
Depreciation of oil and gas assets	81,053	–
Movement in Product Inventory	(17,461)	–
Total	**156,263**	**–**

6. Other income

Hides Gas to Electricity (HGTE) income*	9,394	9,132
Miscellaneous income	642	1
Total	**10,036**	**9,133**

*HGTE income represents 20.5% share of net revenue recognised on an accruals basis from the facility operated by Oil Search Limited in the PDL 1 area. The 20.5% is Group's interest in the PDL.

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7. Other operating expenses

Included in general administration expenses are the following:

	2014 US$'000	2013 US$'000
Legal fees	45	31
Travel and accommodation	944	519
Communication and IT	543	231
Directors fees	169	89
Directors other expenses	6	28
Accounting, taxation and Audit engagement fees	775	117
Meeting and conferences	70	39
Rental expense	484	158
Insurance expense	424	297
Motor vehicle expenses	162	54
Donations and community sponsorship	192	22
Other taxes	54	291
Security and safety	344	124
Subscriptions	32	96
Training expense	174	49
Other costs	575	224
	4,993	**2,369**

8. Current and deferred income tax

	2014 US$'000	2013 US$'000
(a) Income tax expense/(benefits)		
Current income tax (benefits)/expense	(1,805)	-
Deferred tax (benefits)/expense	80,866	(12,285)
Income tax (benefits)/expense reported in profit or loss	79,061	(12,285)
Prima facie tax expense is presented as follow:		
Profit before tax expense	246,083	279,714
Prima facie tax @ 30%	73,825	83,914
Non-deductible expenses	5,236	(96,835)
Others	-	636
Tax expense/(benefits)	**79,061**	**(12,285)**
(b) Net deferred tax assets (liabilities)		
Deferred tax asset		
Balance at beginning of year	15,358	17,492
Timing differences and tax losses to profit or loss	(2,123)	(2,134)
Balance at end of year	**13,235**	**15,358**
Deferred tax liability		
Balance at beginning of year	(6,431)	(20,849)
Timing differences to profit or loss	(78,743)	14,418
Balance at end of year	**(85,174)**	**(6,431)**
Net deferred tax asset (liabilities)	**(71,939)**	**8,927**

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8 Current and deferred income tax (continued)

	2014 US$'000	2013 US$'000
This balance comprises the tax effect of:		
Prepayments	(74)	(115)
Provision for rehabilitation and restoration	2,557	2,035
Provision for employee benefits	123	61
Leased assets	37	-
Unrealised exchange gain	117	1,947
Oil and gas / plant and equipment	(74,699)	4,999
Net deferred tax liabilities	**(71,939)**	**8,927**

(c) Provision for income tax (refund)

Opening balance for provision for income tax	-	-
Add: Current tax expense	(1,805)	-
Less: Payments made during the year	(8,670)	-
Closing balance of provision for income tax (refund)	**(10,475)**	**-**

9. Cash and cash equivalents

Cash at bank	62,894	22,154
Share of joint venture cash at bank	178,136	16
	241,030	**22,170**

The cash at bank includes US$10.3 million as at 31 December 2014 (2013: nil) representing restricted cash held by the bank for interest payment and letters of credit. These have been considered as investing activities in the statement of cash flows as they are not available for immediate day to day use.

10. Prepayments and receivables

Prepayments		
Prepayments in joint operations	7,277	15,898
General prepayments	248	383
	7,525	**16,281**
Trade receivables		
Project receivables	55,721	70,135
Hides Gas to Electricity (HGTE) receivables	857	833
	56,578	**70,968**
Other receivables		
GST receivables	669	629
Bond fees and other receivables	100	571
Staff advance	30	1
	799	**1,201**
Total prepayments and receivables	**64,902**	**88,450**

Trade receivables are due within 45 days and current. No trade receivable balances are past due nor impaired during the year (2013: nil).

The fair value of receivable approximates the carrying value as they are largely due to the short term of maturities.

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11. Oil and gas assets

	Note	2014 US$'000	2013 US$'000
Assets in production	11a	3,809,478	-
Assets in development	11b	-	3,616,507
Assets in evaluation and exploration	11c	31,902	15,459
Finance lease tugs and vessels	11d	4,945	-
		3,846,325	**3,631,966**
Production cost related to PNGLNG project		3,053,035	2,790,984
Borrowing cost		837,496	825,522
Preproduction cost related to Petroleum Development licenses		31,902	15,460
Finance lease asset - Tugs		5,145	-
Accumulated depreciation		(81,253)	-
		3,846,325	**3,631,966**

a) Assets in production

Opening balance	-	-
Transfer from development asset for the year	3,890,531	-
Accumulated depreciation	(81,053)	-
Closing balance	**3,809,478**	**-**

b) Assets in development

	2014 US$'000	2013 US$'000
Opening balance	3,616,506	2,858,418
Additions for the year – development cost	274,025	604,957
Additions for the year – borrowing cost	-	153,131
Transfer to production assets for the year	(3,890,531)	-
Closing balance	**-**	**3,616,506**

c) Assets in evaluation and exploration

Opening balance	15,460	8,144
Additions for the year	8,380	7,315
At business combination (Note 23)	8,062	-
Closing balance	**31,902**	**15,459**

d) Finance lease tugs and vessels

Opening balance	-	-
Additions for the year	5,145	-
Accumulated depreciation	(200)	-
Closing balance	**4,945**	**-**

The entire PNGLNG operation is considered as one Cash Generating Unit (CGU) for impairment testing. The calculation of value in use for the CGU assets (comprising of oil and gas assets and property, plant and equipment) is most sensitive to the following assumptions:

- Production volumes
- Discount rates
- LNG sale price

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11 Oil and gas assets (continued)

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process for the PLNLNG project until 2049.

The Group generally estimates value in use for the CGU using a discounted cash flow model (Model). The future cash flows are discounted to their present value using a post-tax discount rate of 10% (2013: 10%) that reflects current market assessments of the time value of money and the risks specific to the asset.

The model assumes a USD denominated nominal crude oil price desk as the basis for forecast LNG and condensate sales price.

Management believes that, currently, there is no reasonably possible change in above key assumptions which would reduce the Group's excess of recoverable amount over the carrying amounts of the CGU to zero. As a result, no sensitivity analysis has been performed at 31 December 2014.

12. Property, plant and equipment

2014	Software US$'000	Capital Work in Progress US$'000	Motor Vehicles US$'000	Leasehold Improvement US$'000	Furniture's & Fittings US$'000	Equipment US$'000	Total US$'000
COST							
Opening balance	**522**	**1,623**	**360**	**–**	**261**	**367**	**3,133**
Additions	23	1,591	229	–	–	112	**1,955**
Transfer	–	(1,375)	–	1,375	–	–	**–**
Disposals	–	–	(60)	–	–	–	**(60)**
Closing Balance	**545**	**1,839**	**529**	**1,375**	**261**	**479**	**5,028**
ACCUMULATED DEPRECIATION							
Opening balance	**484**	**–**	**40**	**–**	**261**	**235**	**1,020**
Depreciation charge	36	–	93	175	(6)	51	**349**
Disposals	–	–	–	–	–	–	
Closing Balance	**520**	**–**	**133**	**175**	**255**	**286**	**1,369**
Closing NBV	**25**	**1,839**	**396**	**1,200**	**6**	**193**	**3,659**
2013							
COST							
Opening balance	**514**	**–**	**–**	**–**	**264**	**292**	**1,070**
Additions	8	1,623	360	–	–	75	**2,066**
Disposals	–	–	–	–	(3)	–	**(3)**
Closing Balance	**522**	**1,623**	**360**	**–**	**261**	**367**	**3,133**
ACCUMULATED DEPRECIATION							
Opening balance	**–**	**–**	**–**	**–**	**199**	**168**	**367**
Depreciation charge	484	–	40	–	62	67	**653**
Disposals	–	–	–	–	–	–	**–**
Closing Balance	**484**	**–**	**40**	**–**	**261**	**235**	**1,020**
Closing NBV	**38**	**1,623**	**320**	**–**	**–**	**132**	**2,113**

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13. Rehabilitation and restoration assets

	2014 US$'000	2013 US$'000
COST		
Opening balance	**24,314**	**37,799**
Additions	-	-
Adjustment*	14,233	(13,484)
Closing Balance	**38,547**	**24,315**
ACCUMULATED DEPRECIATION		
Opening balance	**3,262**	**2,215**
Depreciation charge	637	1,047
Closing Balance	**3,899**	**3,262**
Closing net book value	**34,648**	**21,053**

*Adjustment relates to change in rates used on the assumptions.

14. Available for sale (AFS) financial assets

	2014 US$'000	2013 US$'000
AFS financial assets at fair value through OCI		
Quoted equity shares	958,815	–
	958,815	–

Reconciliation of fair value measurement of AFS financial assets is presented below:

	2014 US$'000	2013 US$'000
Opening balance	-	
Transferred from a related party (Note 20b)	949,394	-
Fair value measurement	9,421	-
Closing balance	**958,815**	-

15. Derivative financial assets

The UBS collar loans (Note 18) include a borrowing element under which the Group obtained financing from the bank collateralised by AFS equity shares (OSH shares) with an obligation to repay it in the future and an option (collar) element comprised of a number of put and call options over OSH shares. This is a hybrid contract containing a host debt instrument (loan) and embedded derivative (collar over OSH shares).

During the year, the Group has entered in to two collar arrangements as follow:

- Collar consists of 150 Call Options and 150 Put Options with expiry dates ranges from 7 March 2016 to 3 June 2015. Each option relates to 913,500 OSH shares
- Collar consists of 15 Call Options and 15 Put Options with expiry dates ranges from 11 July 16 to 13 July 2016. Each option relates to 825,000 OSH shares

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15 Derivative financial assets (continued)

These options are carried at fair value through profit or loss and are fair valued using the Back-Scholes Option Pricing Model. The following key assumptions are used in valuing options at 31 December 2014:

Reference price	AU$ 7.851 per OSH share
Dividend yield	US$0.0775 per share
Risk free rate	2.43% to 2.46%
UBS credit spread	17.68bps – 19.47bps
Average volatilities (call)	20.8%
Average volatilities (put)	29.0%

The composition and reconciliation of fair value at 31 December 2014 is summarised below:

	2014 US$'000	2013 US$'000
Put Premiums	89,767	-
Call Premiums	(40,430)	-
	49,337	-
Opening balance	-	-
Transferred from a related party (Note 20b)	47,368	-
New collar arrangement	1,982	-
Reclassified to profit or loss	(439)	-
Exchange difference	426	-
Closing balance	**49,337**	**-**

16. Trade and other payables

	2014 US$'000	2013 US$'000
Trade Creditors	70,003	92,907
Other liabilities		
Cash call advance	6,701	3,155
Royalty and development levy	5,157	–
Other liabilities and accrual	27,498	10,450
	109,359	**106,512**

Trade creditors and other liabilities are non-interest bearing and are normally settled on a 30 day terms. Due to the short term nature of these balances, the fair value approximates their carrying value.

17. Rehabilitation and restoration liability

	2014 US$'000	2013 US$'000
Opening balance	27,836	40,137
Accretion of interest	1,102	1,185
At business combination (Note 22)	942	
Adjustment *	14,233	(13,485)
Closing Balance	**44,113**	**27,837**

*Adjustment relates to change in discount rates used on the assumptions.

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18. Borrowings

	Note	2014 US$'000	2013 US$'000
The balance is made up as follows:			
Secured loan from joint operation	18a	2,320,542	2,058,315
BSP Loan	18b	170,478	-
UBS Collar loans	18c	829,863	-
		3,320,883	**2,058,315**
Presented in the statement of financial position:			
Current		60,983	-
Noncurrent		3,259,900	2,058,315
		3,320,883	**2,058,315**

a) Secured loan from joint operation

The breakdown of loan balance is as follows:

Current loan		
Loan	57,943	-
Unamortized finance fee	(18,284)	-
	39,659	-
Noncurrent loan		
Loan	2,387,000	2,185,534
Unamortized finance fee	(106,117)	(127,219)
	2,280,883	**2,058,315**
Total	**2,320,542**	**2,058,315**

The Group has an existing loan with Papua New Guinea Liquefied Natural Gas Global Parent entity LDC ("GloCo"), a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") that was organised to conduct certain activities of the PNGLNG Project outside of PNG, including the borrowing and on-lending to the Participants of Senior Debt, and the purchase and re-sale of Project LNG and Project Liquids. The Borrower is owned by each participant in a percentage equal to its Project Interest (The Group's interest at 31 December 2014 and 2013 is 16.57%).

The PNGLNG Project achieved financial close on 12 March 2010. The maximum committed debt facility available to the PNGLNG Project at the date of signing was US$14 billion under nine loan facility agreements. On 4 October 2013, a supplemental debt facility of US$1.5 billion was secured by the PNGLNG Project.

Interest and principal on the loan is payable on specified semi-annual dates, and commenced, in the case of interest, on the first payment date falling at least six months after financial close, and in the case of principal, will commence on the earlier of six months after the completion date or June 2016. Post completion, principal is repayable over 11.5 years based on a customised repayment profile. The weighted-average interest rate of the borrowings at 31 December 2014 was 3.92% (2013: 3.19%).

Following completion, the LNG sales proceeds are received into a sales escrow account from which agreed expenditure obligations are firstly made and, subject to meeting certain debt service cover ratio tests, surpluses are distributed to the project participants. The Borrower grants to the security trustee:

- A first-ranking security interest in all of the Borrower's assets, with a few limited exceptions;
- A fixed and floating charge over existing and future funds in the offshore accounts; a deed of charge (and assignment) over the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as 'Borrower Material Agreements'; and
- A mortgage of contractual rights over Borrower Material Agreements.

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18 Borrowings (continued)

The loan facility is subject to various covenants and a negative pledge restricting future secured borrowings, subject to a number of permitted lien exceptions. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.

The Group, as a completion guarantor, has guaranteed payment by the Borrower of the Groups' share (16.57%) of the senior debt obligations up until practical completion is achieved. The Group, as a completion guarantor, is subject to certain covenants and undertakings. Neither the covenants nor the undertakings have been breached at any time during the reporting period or have unduly restricted the Group's planned activities.

The Group has also granted security over:

- The shares in each of its project participants; and
- The participants' project interests and gas field licences.

b) BSP Loan

On 23 December 2014, the Group obtained a loan from Bank of South Pacific to fund the dividend payment to the shareholder, fund the interest reserve accounts, payment of fees and cost related to this loan and to fund the working capital and general corporate purposes of the Group. The interest rate in 2014 is 6.4% per annum (Base rate of 11.20% less margin of 4.8%). The loan is payable on 8 equal quarterly instalment in which the first instalment is due on 23 December 2015.

	2014 US$'000	2013 US$'000
Current portion	21,324	-
Noncurrent portion	149,168	-
	170,492	**-**

c) UBS Collar Loans

On 4 March 2014, Independent State of PNG (ISPNG) acquired a 10.01% shareholding in Oil Search Limited (OSL) (149,390,244 shares) at a price of AUD8.20 per share for a total consideration of AU$1,225 million. The funding for the purchase of the ISPNG's interest in OSH was provided by UBS in the form of:

- a Collar Loan providing net funding of AUD 904 million (a loan facility collateralized by approximately 137 million OSH shares) with interest rate of 4.95% per annum; and
- a Bridge Facility of AUD 335 million (securitised by a payment direction from NPCP Kroton (NPCPK) on LNG distributions from Gloco and 12.4 million OSH shares) with interest rate of 4.95% per annum.

On 23 December 2014, ISPNG transferred its 10.01% shareholding interest in OSH and the obligations arising from the loan facilities provided by UBS AG- Australia Branch to the Group. ISPNG owns and controls 100% of the Group through IPBC. On 23 December 2014, whilst the Group assumed the existing collar loan for the 137 million shares, the UBS bridge facility was refinanced as follow:

- A new Collar Facility for AUD 100 million with similar terms of existing Collar Facility between UBS and NPCP collateralised 12.4 million OSH shares;
- New Syndicated Loan to discharge the remaining Bridge Facility sum of approximately USD 235million; and
- Letter of Credit to facilitate the release of PNGLNG distributions.

The UBS collar loans are classified as noncurrent liabilities in the statement of financial position as the payment due dates is in 2016.

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19. Share capital/Contributed Capital

Share capital represents the consideration for shares issued by the Group. Contributed capital represents the equity contribution of the Group in which shares are still to be issued by the Group. :

(a) Total share capital/contributed capital	2014 US$'000	2013 US$'000
Share Capital		
Value of issued and paid up ordinary shares:		
Balance at beginning of the period	–	–
Share capital transferred during the year	1,292,478	–
Balance at 31 December	**1,292,478**	**–**
Contributed Capital		
Balance at the beginning of the year	1,292,477	–
Additions during the year	119,190	1,292,478
Transfer to share capital during the year	(1,292,477)	–
Balance at 31 December	**119,190**	**1,292,478**
Total share capital/contributed capital	**1,411,668**	**1,292,478**

National Executive Council (NEC) in its decision number 18/2013 directed that all cash calls paid by IPBC on behalf of NPCP to the PNGLNG project be treated as investments instead of debt. Following that decision, NPCP management together with IPBC management in 2014 engaged an independent accounting firm to present their position on the accounting implication of the 2013 decision. The outcome of this exercise coupled with management's discussion and understanding has led to the consensus that IPBC loan, being carried as a financial liability will be classified to equity.

IPBC Board in its Meeting No.02 of 2014 then made the following resolution in line with the 2013 NEC decision:

i) approved that the treatment of all Cash Calls on behalf of NPCP (funded through the issue of Exchangeable Bond by IPBC to IPIC) for the PNGLNG Project be treated by IPBC as investment and accordingly be treated as Equity by NPCP; and
ii) approved that the treatment of all Cost of Capital (Interest) plus other relevant transaction charges on the Exchangeable Bond issued by IPBC to IPIC until maturity date (05 March 2014) be treated as investment in IPBC's books and accordingly be treated as Equity by NPCP.

The above were further reaffirmed through the NEC Decision 407/2014 whereby the NEC made directives to treat all cash calls paid by IPBC on behalf of NPCP including the cost of capital (interest) be treated as investment by IPBC and as equity by NPCP. The capital costs (interests) are to be treated as investment until the IPIC loan matured in March 2014. Both IPBC and NPCP management then agreed to effect the transfer from debt to equity to 31 December 2013.

As at 31 December 2013, the amount due to parent entity amounting to US$1.2 billion was transferred to equity. The shares were issued and records of the Registrar of Companies were updated on 12 December 2014 to reflect the related contributed shares. Accordingly, the amount was transferred from contributed equity to share capital in 2014. In 2014, additional cash calls paid calls paid by the parent Company on behalf of the Company including the cost of capital (interest) until March 2014 amounted to US$119.19 million.

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19. Share capital/Contributed Capital (continued)

	Number of Ordinary Shares	Number of Ordinary Shares
(b) Number of issued and paid up ordinary shares:		
Balance at beginning of the period	**1**	**1**
Ordinary shares issued and paid during the year	99	-
Ordinary shares disposed-off during the year	-	-
Balance at 31 December	**100**	**1**
(c) Authorised ordinary shares	**100**	**1**

(d) Dividends
The Board has declared and paid a dividend of US$157.7 million (PGK415.6 million) during the year (2013: US$ nil).

20. Related parties

a) Transactions with Key management personnel
Key management includes directors and executive management. The compensation paid or payable to key management for services rendered is taken up in operating expenses. The key management remuneration and other benefits paid during the year are shown below:

	Remuneration US$	Sitting allowance US$	Short term incentive US$	Long term retention US$	Milestone achievement bonus US$	Total US$
2014						
Frank Kramer - Chairman	27,137	1,959	-	-	41,300	**70,396**
Larry Andagali – Deputy Chairman	22,620	1,209	-	-	30,975	**54,804**
Mark Soipang - Director	18,681	1,410	-	-	20,650	**40,741**
Dr. Ila Temu – Director	18,682	1,415	-	-	20,650	**40,747**
Dr. Benedict Yaru - Director	18,647	1,241	-	-	20,650	**40,538**
Mathias Lasia - Director	3,382	-	-	-	-	**3,382**
Wapu Sonk – Managing Director	777,099	-	207,007	42,576	29,829	**1,056,511**
General Managers	334,496	-	45,764	4,230	4,658	**389,148**
Total	**1,220,744**	**7,234**	**252,771**	**46,806**	**168,712**	**1,696,267**
2013						
Frank Kramer - Chairman	19,301	1,584	-	-	-	**20,885**
Larry Andagali – Deputy Chairman	14,358	1,267	-	-	-	**15,625**
Mark Soipang - Director	14,410	910	-	-	-	**15,320**
Dr. Ila Temu – Director	14,115	1,064	-	-	-	**15,179**
Dr. Benedict Yaru - Director	14,450	1,267	-	-	-	**15,717**
Mathias Lasia - Director	14,113	1,080	-	-	-	**15,193**
Wapu Sonk – Managing Director	331,486	-	93,408	-	-	**424,894**
General Managers	89,275	-	30,521	-	-	**119,796**
Total	**511,508**	**7,172**	**123,929**			**642,609**

b) Related part transactions
On 23 December 2014, the Independent State of Papua New Guinea (ISPNG) has transferred OSH shares and the related liabilities to the Group. The fair value of assets and liabilities transferred to ISPNG as follow:

	US$'000
Available for sale financial assets	949,394
Borrowings	(1,038,932)
Derivatives	47,368
Distribution to owners	42,171

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20 Related parties (continued)

c) The Group includes following subsidiaries at reporting date:

Name	Principal activities	Country of incorporation	Date of incorporation/acquisition	Status	% Equity interest 2014	% Equity interest 2013
NPCP Holdings Limited	State nominee to hold the State's interest in all oil and gas projects and grow its oil and gas portfolio	PNG	04 March 2014	Operational	100%	-
National Petroleum Company PNG (Kroton) Limited	Holds the State's interest in the PNG LNG Project	PNG	20 June 2008	Operational	100%	-
NPCP Investments Limited	Holds interest in marketable securities	PNG	15 October 2014	Operational	100%	-
NPCP Pipeline & Gas Supply Limited	Holds interest in pipeline and mid stream related services.	PNG	19 September 2014	Operational	100%	-
NPCP Power & Energy Limited	Holds interest in all future power generation projects	PNG	19 September 2014	Inactive	100%	-
NPCP Exploration Limited	To hold interest in new exploration activities	PNG	8 September 2014	Inactive	100%	-
NPCP Drilling & Petroleum Services Limited	To hold interest in drilling and related services	PNG	19 September 2014	Inactive	100%	-
NPCP Technical Institute & Consulting Limited	To participate in the Kumul Academy and any other up-skilling and training ventures that the NPCP Group undertakes	PNG	8 September 2014	Inactive	100%	-
NPCP Downstream & Petrochemical Limited	To hold interest in downstream & petrochemical related activities	PNG	8 September 2014	Inactive	100%	-
NPCP Oil Company Pty Ltd	Exploration and production activities in oil and gas	Australia	20 November 2014	Operational	100%	-

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20 Related parties (continued)

d) The Group's interest in joint operations are as follows:

		Principal place of Business	% Interest	
			2014	2013
PDL1	Hides gas field	PNG	20.5	20.5
PDL7	South Hides gas field	PNG	20.5	20.5
PDL8	Angore gas field	PNG	20.5	20.5
PDL9	Juha gas field	PNG	20.5	20.5
PNGLNG	PNG LNG Project	PNG	16.57	16.57
PPFL2	PNG LNG Project	PNG	16.57	16.57
PL4	PNG LNG Project	PNG	16.57	16.57
PL5	PNG LNG Project	PNG	16.57	16.57
PL6	PNG LNG Project	PNG	16.57	16.57
PL7	PNG LNG Project	PNG	16.57	16.57
PL8	PNG LNG Project	PNG	16.57	16.57
PDL3	South East Gobe oil field	PNG	3.29	-
PRL9	Barikewa gas field	PNG	14.89	-
PRL14	Cobra, lehi, Bilip gas field	PNG	10.94	-
PNGLNG	PNGLNG Global Company LDC	Bahamas	16.57	16.57

e) Net assets employed in joint operations

This disclosure represents the Group's share of interest in the PNGLNG project, the four non PDL 'projects' (PDL 1, 7, 8 and 9) and PNGLNG Global Company LDC (Gloco).

1. Share in net assets

2014	PDLs (1,7,8,9) US$'000	PNGLNG Project US$'000	Gloco US$'000	Balance US$'000
Current assets				
Cash and cash equivalents	-	-	178,136	**178,136**
Receivables	-	803	57,471	**58,274**
Prepayments and other receivables	800	6,477	-	**7,277**
Inventory		22,602	-	**22,602**
Non Current assets				
Oil and gas assets	23,840	3,596,911	-	**3,620,751**
Receivable from participants	-	-	2,321,012	**2,321,012**
Current liabilities				
Trade and other payables	(9,591)	(17,571)	(67,175)	**(94,337)**
Other liabilities	-	(2,159,574)	-	**(2,159,574)**
Borrowings	-	(9,235)	(2,311,307)	**(2,320,542)**
Payable to participants	-	-	(178,120)	**(178,120)**
Net Assets	**15,049**	**1,440,413**	**17**	**1,455,479**

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20 Related parties (continued)

2013	PDLs (1,7,8,9) US$'000	PNGLNG Project US$'000	Gloco US$'000	Balance US$'000
Current assets				
Cash and cash equivalents	-	-	17	**17**
Receivables	-	585	-	**585**
Prepayments and other receivables	737	15,161	-	**15,898**
Inventory	-	18,124	-	**18,124**
Non Current assets				
Oil and gas assets	15,460	3,616,507	-	**3,631,967**
Receivable from participants	-	-	2,061,667	**2,061,667**
Current liabilities				
Trade and other payables	(6,192)	(2,077,879)	(3,352)	**(2,087,423)**
Other liabilities	-	(9,740)	-	**(9,740)**
Borrowings	-	-	(2,058,315)	**(2,058,315)**
Net Assets	**10,005**	**1,562,758**	**17**	**1,572,780**

2. Share in revenue and expense

2014	PDLs (1,7,8,9) US$'000	PNGLNG Project US$'000	Gloco US$'000	Balance US$'000
Revenue	-	-	518,098	**518,098**
Cost of sales	-	(83,388)	(9,110)	**92,498**
Gross Profit	**-**	(83,388)	508,988	**425,600**
Other income	-	581	-	**581**
Consultancy and professional service		-	(5)	**(5)**
Other operating expense	-	-	(177)	**(177)**
Operating profit	-	(82,807)	508,806	**425,999**
Interest income	-	-	76	**76**
Finance costs	-	(343)	(90,142)	**(90,485)**
Net Profit	**-**	**(83,150)**	**418,740**	**335,590**

During 2013, the Group has no share of interest in the revenue and expense of PNGLNG project, the four non PDL 'projects' (PDL 1, 7, 8 and 9) and PNGLNG Global Company LDC (Gloco).

21. Commitments

a) Capital expenditure commitments

The Group does not have any other capital commitments other than its joint venture commitments as disclosed below:

	2014	2013
	US$'000	US$'000
Capital expenditure commitments	327,379	563,184
	327,379	**563,184**

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b) Finance lease commitments

Lease of PNG LNG marine vessels

Not later than 1 year	722	
Later than 1 year but more than 5 years	2,888	
More than 5 years	6,798	
Future finance charges	(5,341)	
	5,067	

c) Operating lease commitments - Lease of PNG LNG marine vessels and tugs

Not later than 1 year	12,679	15,3
Later than 1 year but more than 5 years	36,613	40,4
More than 5 years	91,673	92,9
	140,965	**148,7**

d) Office space operating lease commitments

	2014	2013
	US$'000	US$'000
Not later than 1 year	204	2
Later than 1 year but not more than 5 years	204	2
More than 5 years	-	
	408	**4**

22. Subsequent events

On 6 February 2015, the PNGLNG Project Operator announced that the Project had achieved financia completion by satisfying all the financial completion tests set forth in Project financing agreement Accordingly, the cash restrictions, as set out in the Project financing agreements, on escrowed PNGLN sales proceeds and cash held in escrow to partially fund equity commitments during project developmen have been terminated. In addition, the guarantee issued by Independent State of PNG and Independen Public Business Corporation (IPBC) on behalf of NPCP Kroton Ltd to the Project lenders in support of it NPCP Kroton Participants' 16.6% share of the senior debt obligations of the Project, has been terminated

In May 2015, it was publicly announced by the Prime Minister, that the National Executive Council (NEC had approved the drafting of the legislations to implement the Kumul Restructure. Approval wa provided by Cabinet for the drafting of the Kumul Petroleum Holdings Authorisations Act 2015

The Kumul Restructure will result in the establishment of a distinct and specialized entity, the Kumu Petroleum Holdings Limited (currently NPCP Holdings Limited) which will hold all the State's oil and ga interests.

This announcement is not expected to have a financial impact on the results of the financial statement as at 31 December 2014, however, once the bill has been passed and legislation effected, the corporat structure of National Petroleum Company PNG (Kroton) Limited is expected to change.

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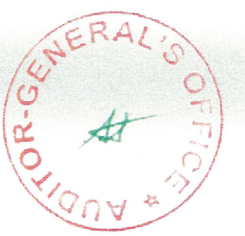
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23. Business Combination

On November 20, 2014, the Group acquired 100% of the share capital of Cue PNG Oil Company Pty Ltd, a company holding certain exploration and development license in PNG. The Company has been acquired to gain access to additional resources for the Group. Post-acquisition, the name of the company has been changed to NPCP Oil Company Pty. Ltd. The provisional fair value of the identifiable assets and liabilities of Cue PNG Oil Company Pty Ltd at the date of acquisition were:

	Provisional fair value US$'000
Receivables	53
Exploration and evaluation of assets	8,062
Rehabilitation provisions	(941)
Total identifiable net assets at fair value	7,174
Goodwill	-
Purchase considerations transferred	**7,174**

The net assets recognised at the date of acquisition were based on a provisional assessment of their fair value. The recorded net asset may change once the formal fair value is completed as and when the sufficient information is available.



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