



**Government of the Independent State of
Papua New Guinea**

Information Memorandum

INSCRIBED STOCKS



Information Memorandum for Inscribed Stocks of the Government of the Independent State of Papua New Guinea

Information Memorandum

STOCK DESCRIPTION

The Inscribed Stocks ("the Stocks") of the Government of the Independent State of Papua New Guinea are denominated in Kina with a fixed coupon paid semi-annually in arrears. The Stocks are redeemable at par on maturity.

ISSUER

Government of the Independent State of Papua New Guinea.

30 May 2007

1. STOCK DESCRIPTION

1.1 Description

The Stocks are denominated in Kina with a fixed coupon paid semi-annually in arrears. The Stocks are redeemable at par on maturity.

1.2 Issuer

The issuer of the Stocks is the Government of the Independent State of Papua New Guinea (the State).

Pursuant to Loans Securities Act 1960 ("the Act"), National Executive Council of the State has authorised the borrowing of money by way of the issue of the Stocks, and instructed the Minister for Treasury to set the terms and conditions for the borrowings. The Stocks will be issued in terms of this information memorandum and PART III of the Act whereby Coupon Interest, Principal and any other money payable on the Stocks are a charge upon and payable out of the consolidated revenue of the Government of the State.

Stocks may be issued from time to time, subject to the applicable terms of this information memorandum, by Invitation to Tender, by private placement, or otherwise.

1.3 Principal

The Minister for Treasury has delegated to the Secretary of the Department for Treasury and First Assistant Secretary, Financial Evaluation Division, Department for Treasury responsibility for formulating and implementing debt management policy.

Details of the roles, responsibilities and processes regarding management of government debt can be found in the Memorandum of Understanding between BPNG and Treasury on Treasury's website www.treasury.gov.pg or requested through contacting First Assistant Secretary, Financial Evaluation Division, PO Box 542, Waigani, NCD, Papua New Guinea.

1.4 Issuing Agent

The Bank of Papua New Guinea ("BPNG"), acting as agent for the Minister for Treasury and the Department of Treasury ("Treasury"), is authorised to receive and deal with applications for the issue of Stocks.

1.5 Registrar and Paying Agent

The Bank of Papua New Guinea acting as agent for the Minister for Treasury and the Treasury, is authorised to make payments of monies due on the Stocks.

1.6 Changes in Agent

The Government of the State reserves the right to appoint another person as its issuing agent, registrar or paying agent or for the Treasury to perform those functions. In such circumstances, Stockholders will be advised at the relevant time.

2. COUPON INTEREST

Stocks will bear Coupon Interest on their respective Principals at the Coupon Interest Rate.

Coupon Interest is payable semi-annually (half the annual amount) in arrears on each Coupon Interest Payment Date up to and including the Maturity Date.

The first Coupon Interest payment will be for a full semi-annual period and will be payable on the Coupon Interest Payment Date next following issuance. However, if issuance is in the period from the Record Date up to, but not including, the Coupon Interest Payment Date, the payment (which will only be for a full semi-annual period) will be made on the next succeeding Coupon Interest Payment Date.

Example:

An Inscribed Stock maturing on 15 November 2006 has semi-annual interest payment dates of 15 May and 15 November. If a tender is held on 19 May 2004 for settlement on 21 May 2004, the first Coupon Interest payment will be a full semi-annual payment, representing the period from 15 May 2004 to 15 November 2004, payable on 15 November 2004 (i.e., the Payment Date next following issuance).

If a tender is held on 3 November 2004 for settlement on 5 November 2004 (i.e., after the Record Date of 10 business days prior to the next Coupon Interest Payment Date of 15 November 2004), the first Coupon Interest payment will be a full semi-annual payment, representing the period from 15 November 2004 to 15 May 2005, payable on 15 May 2005 (i.e., next succeeding Coupon Interest Payment Date).

Coupon Interest payments are domiciled for payment in Papua New Guinea and will be paid to the Stockholder Registered on the Record Date by:

- i. Cheque to:
 - a. The Stockholder; or
 - b. The authorised agent of that Stockholder; or
- ii. Crediting an account at any licensed Bank in Papua New Guinea.

The Paying Agent will accept instructions prior to the Record Date from Stockholders in regard to payment of Coupon Interest.

The Paying Agent will post cheques on the Banking Day immediately prior to the Coupon Interest Payment Date.

For Coupon Interest payments other than by cheque, if the Coupon Interest Payment Date is not a Banking Day, payment will be made on the next succeeding Banking Day without payment of additional interest.

Coupon Interest will cease to accrue on the Stocks from the Maturity Date.

3. FEES AND DEDUCTIONS

3.1 Fees

The registration, transfer, Coupon Interest payments, Principal repayment, issue of certificates of title and certifications of transfers of Stocks will be made free of any fees, duty, charges, deductions or levy, except to the extent required by law.

3.2 Deductions

In accordance with the provisions of the Income Tax Act 1959, interest withholding tax will be deducted from Interest payments to Stockholders, unless an original or certified copy of an exemption certificate is produced to the Paying Agent before the Record Date of the relevant Coupon Interest Payment Date. Deductions of interest withholding tax will be made at the maximum rates from time to time applicable unless a Stockholder provides evidence satisfactory to the Paying Agent that a lesser rate is applicable.

The Government of the State and its Paying Agent, BPNG will be entitled to rely upon information given by a Stockholder when making any deductions of interest withholding tax.

4. BIDDING PROCEDURES

4.1 Announcement of Periodic Tenders

Invitations to tender will be made by the Issuing Agent from time to time. Each invitation will include details of:

- The amount offered and Maturity Dates of Stocks for which bids will be invited;
- The Coupon Interest Rate and the dates that Coupon Interest will be paid on such Stocks;
- The date of the first Coupon Interest payment;
- The closing date and time for bids;
- The Settlement Date of the Stocks; and
- The announcement time of results of such tenders.

All Invitations to tender and all tenders of Stocks shall be made in terms of and pursuant to this information memorandum.

4.2 Registration of Bidders

Only bidders who are registered for this purpose with the Issuing Agent may place bids. Details of the registration process can be obtained from the Issuing Agent.

4.3 Bids

Each bid for Stocks must be of a minimum amount of K 100,000 (Principal) and in multiples of K 10,000 (Principal) thereafter.

Each bid must state the Yield sought by the bidder. The Yield is to be expressed to the second decimal place (e.g., 12.48%). Decimal places beyond two will be disregarded.

Bids for Stocks may be submitted by:

- i. Transmitting and committing a bid via the BPNG tendering facility to the Issuing Agent's tender box; or
- ii. Any other methods as specified by the Issuing Agent.

No bid may be withdrawn or amended after it has been lodged.

The Government of the State reserves the right to accept bids for the full amount of an Invitation to Tender or any part thereof and to reject any bid or part thereof on any grounds whatsoever, notwithstanding that the full amount of Stocks in an Invitation to Tender has not been taken up.

Should a successful bidder fail to take up the Stocks allotted on Settlement Date, the Issuing Agent reserves the rights to recover losses sustained as a result of the default or any other money or damages that may be lawfully due to it. The bidder may also be precluded from participating in subsequent tenders and/or lose their bidder registration status.

5. TENDER RESULTS

5.1 Announcement of Results

Results will be announced in accordance with the tender process released by the Issuing Agent.

5.2 Allotment

Allotment of Stocks in respect of successful bids for each maturity will be made in ascending order of Yields bid.

At the highest Yield accepted, Stocks will, if necessary, be allotted as far as practicable on a pro-rata basis in relation to the amount available at that Yield, except that successful bidders shall be allotted an amount that is an exact multiple of K 10,000 (Principal) with the minimum allotment being K 100,000 (Principal).

In the event that the number of bidders at the highest acceptable Yield multiplied by K 100,000 exceeds the amount of Stocks available at that Yield, the Treasury may either increase the amount available so that a minimum number of K 100,000 parcels of Stocks can be issued on a pro-rata basis to each successful bidder at that Yield, or decrease the amount available so that no allocation of Stocks is made at that Yield.

5.3 Oversubscription

The Government of the State reserves the right to accept oversubscription of up to 25 per cent of the amount offered for tender in any maturity. This is subject to the provision that the total amount of bids accepted in all maturities does not exceed the total amount offered for tender, notwithstanding the provision made to exceed the total amount available in the allotment of bids. Where Stocks are offered in the same tender as other Government of the State securities, there are no provisions to allow the oversubscription between Stocks and those other securities.

5.4 Underissuance

The Government of the State reserves the right to issue less than the full amount of Stocks offered in any tender.

6. REGISTRATIONS, SETTLEMENT AND TRANSFER

6.1 Settlement Price

The settlement price per N Kina of Principal shall be calculated on the basis of the following formula:

$$\text{Settlement Price per Kina N Principal} = \left[\frac{\frac{1}{(1+i)^n} + r \left[c + \frac{1 - \frac{1}{(1+i)^n}}{i} \right]}{(1+i)^{\frac{a}{b}}} \right] N$$

Where N = the Principal of the Stock (Kina)

r = the annual Coupon Interest Rate divided by two hundred, i.e., the semi-annual Coupon Interest Rate (%)

i = the Yield divided by two hundred, i.e., the semi-annual yield (%)

c = where the Settlement Date is after the Record Date and up to, but not including, the next Coupon Interest Payment Date "c" has the value of 0, otherwise "c" has the value of 1

n = the number of full half years between the next Coupon Interest Payment Date and the Maturity Date

a = the number of days from the Settlement Date to the next Coupon Interest Payment Date

b = the number of days in the half year ending on the next Coupon Interest Payment Date

Example:

The settlement price for a bid of K 1,000,000 at a yield of 14.12% for an Inscribed Stock with a 12.5% coupon, maturity date of 15 November 2006, and semi-annual interest payment dates of 15 May and 15 November, for a tender on 19 May 2004 is computed as follows:

N = K 1,000,000

r = 0.0625 (annual Coupon Interest Rate divided by two hundred)

i = 0.0706 (the Yield divided by two hundred)

c = 1 (Settlement Date of 21 May 2004 is before the Record Date of 1 November 2004)

n = 4 (number of full half years between next Coupon Interest Payment Date of 15 November 2004 and the Maturity Date of 15 November 2006)

a = 178 (the number of days from the Settlement Date of 21 May 2004 to the next Coupon Interest Payment Date of 15 November 2004)

b = 184 (the number of days in the half year ending on the next Coupon Interest Payment Date – the number of days from 15 May 2004 to 15 November 2004)

Settlement Price = $\frac{0.76119 + 0.0625 \left(1 + \frac{(1 - 0.76119)}{0.0706} \right)}{1.0706^{178/184}} \times 1,000,000$

= **K 968,995.00**

The settlement price will be rounded to the nearest Kina (0.01 to 0.49 of a toea being rounded down and 0.50 to 0.99 of a toea being rounded up).

Settlements during the period from the Record Date up to, but not including, the Coupon Interest Payment Date of any Stocks offered for tender will be on an ex-coupon interest basis. All other settlements will be on a cum-coupon interest basis.

6.2 Settlement

Bidders must fully pay for the Stocks allotted to them on the Settlement Date.

Details on the settlement of Stocks are available from the Issuing Agent.

All settlements must be for amounts of Stocks of at least K 100,000 (Principal) and in multiples of K 10,000 (Principal) thereafter.

For any Stocks not fully paid for by a successful bidder after the expiry of the Settlement Date:

- i. The Treasury reserves the right to cancel those Stocks; or
- ii. The Issuing Agent reserves the right to take up those Stocks.

6.3 Form of Stocks

Stocks will be issued in registered form, having a minimum Principal of K 100,000 and multiples of K 10,000 thereafter.

Subsequent to the issue of Stocks in a tender, the Stocks may be transferred to Persons in parcels having a minimum Principal of K 10,000 and multiples of K 1,000 thereafter. The issue of the Stocks will be effected and evidenced by particulars of the Stocks being entered in the Register by the Registrar.

6.4 Registration of Stocks

Individual Persons, or two or more Persons as joint tenants with right of survivorship may hold stocks. Organizations or trusts, which are not incorporated, should complete their application in the full name(s) of the trustee(s). The Registrar will enter no notice of any trust in respect of any Stocks in the Register or receivable. Each Stockholder is to be regarded as the absolute beneficial owner of the Stocks Registered in its name and the Treasury and the Registrar shall not be affected by any trust or other equity affecting any Stock, whether or not it is aware of the same.

If two or more Persons apply to be registered as Stockholders as tenants in common, the Registrar may, after receiving an application from either Person and notifying the other Person(s) of its intentions to do so, divide the Stocks into the share for which each Person is expressed to be entitled and register each Person as the holder of the Stocks representing the Person's share. If the Stocks cannot be divided into shares where the minimum is K 10,000 and a multiple of K 1,000, the Registrar may refuse to accept the application.

6.5 Certificates of Title

On application by any Stockholder, the Registrar will issue to the Stockholder a certificate of title certifying that the Stockholder is the Registered holder of the Principal of Stocks as referred to therein.

The certificate of title will be evidence of the ownership of the Stocks to which it relates by the Person named therein as the Stockholder.

The transfer, whether by delivery or otherwise, of any such certificate of title will not operate as a transfer of the legal interest of the Stockholder in the Stocks to which it relates. Any transfer of Stocks must be in such form as the Registrar prescribes and in accordance with section 6.9 of this information memorandum.

The Registrar will enter in the Register particulars of the issue of every certificate of title to Stocks.

The Registrar and Paying Agent will not record any dealing or repay any Stocks until the certificate of title has been cancelled.

Where any certificate of title to Stocks has been lost, destroyed, mutilated or rendered illegible, the Registrar, on receiving evidence to its satisfaction of the loss or destruction or, as the case may be, on the surrender of the mutilated or illegible certificate of title, may on such terms and subject to such conditions as the Registrar prescribes, issue a substitute certificate of title with the word "substitute" stamped or written thereon and will record the issue thereof in the Register.

Every such substitute certificate of title will have the same effect, to all intents and purposes, as the original certificate of title for which it was substituted.

6.6 Clearing and Settlement Systems

The clearing and settlement system, operated by the Registrar, will transfer ownership of Stocks from the transferor (or seller of the Stocks) to the transferee (or purchaser of the Stocks) upon receipt of a bank cheque from the transferee on the settlement date.

6.7 Notices of Registration/Transfer

The Registrar will issue notices of registration for Stocks to the transferee following the registration of a transfer or issue of Stocks. These notices do not constitute a certificate of title, but merely advise the registration of the Stocks.

The Registrar will issue a notice to the transferor following the registration of a transfer of Stocks.

6.8 Register

The Registrar shall enter in the Register the following particulars of every holder of Stocks:

- Name and address of the Stockholder;
- Principal of the Stocks held;
- Coupon Interest Rate payable on the Stocks;
- Coupon Interest Payment Dates of the Stocks;
- Maturity Date of the Stocks;
- Such other particulars as may, from time to time, be required by the Treasury; and
- The Registrar may from time to time, consider such other particulars as necessary.

The Registrar may correct errors and remedy omissions in the Register and may call in any outstanding certificates of title for that purpose.

6.9 Transfer of Stocks

The Stockholder may, by way of a form of transfer in such form as the Registrar prescribes, transfer to any other Person all or any of the Stocks of which it is the holder. Transfers must be a minimum Principal of K10,000 and in multiples of K 1,000 thereafter. No transfer may be made if, as a result thereof, the Principal of the Stocks Registered in the name of the transferor or the transferee would be less than K 10,000.

On production to the Registrar of a duly executed form of transfer accompanied by the certificates of title (if issued) and such other evidence as the Registrar may require to prove the authority of the Persons signing the same to sign on behalf of the transferor, the Registrar will enter in the Register the name of the transferee as the Registered holder of the Stocks to which the form of transfer relates.

When the right to any Stock is acquired by any Person in any manner other than by a form of transfer, the Registrar, on application by or on behalf of the Person entitled, and on being satisfied that the Person is entitled to be registered as the Stockholder, will enter the Person in the Register as the holder of the Stocks.

Upon registration of a form of transfer or other assignment on the Register, the transferee will be recognised as entitled to the Stocks.

No transfer will be registered in the period from the Record Date immediately prior to the Maturity Date, to the Maturity Date.

6.10 Certification of Transfers (Markings)

The Registrar may, on the application of a Stockholder, certify on a form of transfer of Stocks that the person named therein as transferor is entered on the Register as the Stockholder. Any such certification may be subject to such conditions as the Registrar prescribes.

Where a form of transfer of Stocks has been certified under this section, the Registrar and Paying Agent may refuse to record any dealing with the Stocks until the form has been produced to it and the certification thereon cancelled, or the certification has expired by virtue of its conditions, or the Stocks have matured.

The Registrar will enter in the Register particulars of every form of transfer certified under this section.

6.11 The Securities Act 1997

The initial wholesale offers of Stocks at tenders conducted by the Issuing Agent is made to Persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. As a consequence, the wholesale offer does not constitute an "offer to the public" as defined under the Securities Act 1997 ("the Securities Act") and is not subject to the provisions of that Act.

When any Stocks are offered to the public in Papua New Guinea for the first time, registered bidders must make any such offer in strict compliance with all applicable provisions of the Securities Act and the conditions of any applicable exemption notice.

Bidders in each tender for the Stocks undertake to comply with the requirements of the Securities Act, with the conditions of any exemption notice issued in respect of the Stocks and (without limiting the foregoing) with the requirements specified by the Issuing Agent when on-selling Stocks to members of the public.

In addition to the above, bidders undertake to comply with any applicable laws and regulations in any other jurisdiction in which they offer or sell any Stocks purchased at tender.

7. REPAYMENTS

Stocks are domiciled for repayment in Papua New Guinea and will be repaid to the Stockholder Registered on the Record Date immediately prior to the Maturity Date by:

- i. Cheque to:
 - a. The Stockholder; or
 - b. The authorised agent of that Stockholder; or
- ii. Crediting an account at any licensed Bank in Papua New Guinea.

The Paying Agent will accept instructions prior to the Record Date from Stockholders in regard to repayment of the Stocks.

The Paying Agent will post cheques on the Banking Day immediately prior to the Maturity Date.

For repayment other than by cheque, payment will be made on the Maturity Date but, if the Maturity Date is not a Banking Day, payment will be made on the next succeeding Banking Day without payment of additional interest.

Stocks are not repayable prior to the Maturity Date.

8. OTHER

8.1 General

No commission will be paid on the Stocks sold by tender.

8.2 Purchase, Cancellation and Further Issues

The Treasury or agencies of the Government of the State may at any time offer to purchase, beneficially, Stocks from any Person. Any Stocks so purchased may be lent, retained, sold or cancelled at the discretion of the Treasury.

The Treasury reserves the right to issue Stocks with the same Maturity Date and Coupon Interest Rate as any other Stocks already on issue, from time to time and whether by Invitation to Tender or otherwise.

8.3 Bids by Retail Investors

Should any Person that is not a registered bidder (e.g., retail investor) wish to submit a bid in a tender, they should submit their bid through a registered bidder. A list of registered bidders can be obtained from the Issuing Agent.

8.4 Listing on the Stock Exchange

The Stocks may be listed on the Port Moresby Stock Exchange. Details on listing can be obtained from the Port Moresby Stock Exchange or from the Registrar.

8.5 Use of Information Memorandum

This information memorandum is intended for use only in connection with the offer of Stocks in Papua New Guinea and must not be sent or given to any person outside Papua New Guinea in any jurisdiction in circumstances in which the offer of Stocks or use of this information memorandum would be unlawful.

8.6 Further Information on Inscribed Stocks

Further information on Inscribed Stocks and the management of the State's debt is shown on Treasury's website: www.treasury.gov.pg or requested through contacting First Assistant Secretary, Financial Evaluation Division, PO Box 542, Waigani, NCD, Papua New Guinea.

9. DEFINITIONS AND REFERENCES

For the purposes of this information memorandum the following definitions apply.

"Bank"	Has the meaning given to that term under the Banks and Financial Institution Act 2000.
"Banking Day"	Means a day not being a Saturday or Sunday on which Banks are open for general banking business in Port Moresby, Papua New Guinea.
"Coupon Interest"	Means the amount paid or due to be paid on the Coupon Interest Payment Date.
"Coupon Interest Payment Dates"	Means the dates, as specified in the Invitation to tender, in each year on which Coupon Interest is to be paid on the Stocks and includes the Maturity Date.
"Coupon Interest Rate"	Means the interest rate payable in respect of the Stocks, as specified in the Invitation to tender, expressed as a percentage per annum.
"Invitation to Tender"	Means an invitation issued by the Treasury pursuant to this information memorandum specifying the details of the Stocks to be offered by way of tender.
"Issuing Agent"	Means the Bank of Papua New Guinea acting as agent for the Treasury.
"Kina" and "K"	Means the lawful currency of Papua New Guinea.
"Maturity Date"	Means the date, as specified in the Invitation to tender, on which the Stocks are to be repaid.
"Paying Agent"	Means the Bank of Papua New Guinea acting as agent for the Treasury.
"Person"	Includes an individual, firm, company, corporation or unincorporated body of persons or any state or Government or any agency thereof (in each case, whether or not having separate legal personality).
"Principal"	Means the face, or nominal, amount of the Stock on which Coupon Interest is calculated i.e., the par value.
"Record Date"	Means close of business on the 10 th business day before the relevant Coupon Interest Payment Date or the Maturity Date or, if this is not a Banking Day, the preceding Banking Day.
"Register"	Means the Register of Stocks maintained by the Registrar and "Registered" has a corresponding meaning.
"Registrar"	Means the Bank of Papua New Guinea acting as agent for the Treasury.

"Settlement Date"	Means the value date for transfer of ownership as notified in the Invitation to Tender.
"Stocks"	Means the Government of the Independent State of Papua New Guinea Inscribed Stocks covered by this information memorandum.
"Stockholder"	Means, in respect of any Stock, the Person whose name from time to time is entered in the Register as the holder of that Stock.
"Yield"	Means the rate of return expressed as an annual percentage.

In this information memorandum, any reference to legislation includes, where appropriate, a modification or re-enactment of that legislation or legislation passed in substitution for it.

10. DIRECTORY

Bank of Papua New Guinea: www.bankpng.gov.pg

For bidding and tender information and to register as a bidder contact:

The Manager
Money Markets Unit, Financial Markets Department
Bank of Papua New Guinea
P.O. Box 121
Port Moresby, NCD
Papua New Guinea

Tel: (675) 322 7213
Fax: (675) 321 0918
Email: fmd@bankpng.gov.pg

For registry information contact:

The Registrar and Paying Agent
Registry Unit, Financial Markets Department
Bank of Papua New Guinea
P.O. Box 121
Port Moresby, NCD
Papua New Guinea

Tel: (675) 322 7360 / 322 7209
Fax: (675) 321 0918
Email: fmd@bankpng.gov.pg

For tender settlement information contact:

The Manager
Settlements Unit, Accounting and Finance Department
Bank of Papua New Guinea,
P.O. Box 121
Port Moresby, NCD
Papua New Guinea

Tel: (675) 322 7284
Fax: (675) 321 0918

Department of Treasury: www.treasury.gov.pg

The First Assistant Secretary
Financial Evaluation Division
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