



DEPARTMENT OF TREASURY

TERMS AND CONDITIONS FOR THE AUCTION OF PAPUA NEW GUINEA GOVERNMENT TREASURY BILLS

TREASURY BILLS ON OFFER

Treasury Bills of 182 and 364 day maturities will normally be offered, and other maturities may be offered occasionally. All maturities will not necessarily be offered at every auction. All Treasury Bills will be sold through competitive auction and at a discount and will be redeemable at par on maturity. The Treasury Bills are a charge on and are repayable out of the Government's Consolidated Revenue Fund.

ANNOUNCEMENT OF AUCTION

Bank of Papua New Guinea will announce, on behalf of the Government, to all registered bidders no later than 4pm of every Tuesday the details of the amount and maturity of Treasury Bills for which bids are invited.

APPLICATIONS

Registered Bidders must submit their bids before 11 am the next day (Wednesday) at the Financial Markets Department, Bank of Papua New Guinea, Douglas Street, Port Moresby using the attached form.

Each bid must be for a minimum lot of K100,000 face value and in multiples of K10,000 face value over that amount. Bids must be submitted on the basis of a rate of return to maturity (% per annum). Applications at different rates of return must be on separate forms and must separately comply with minimum bid requirements. The rate of return bid must be expressed to the second decimal place (e.g. 5.74%, 5.90%, 6.00%).

Investors who wish to participate in Treasury Bill auctions must be registered with the Bank of Papua New Guinea. Registration need only occur once and the process can take up to two weeks to complete. Registration makes it unnecessary to accompany a bid with a bank cheque for the face value amount and also allows bids to be submitted by secure fax or email in the prescribed form. Failure to maintain current registration information on file at the Bank of Papua New Guinea could invalidate a bid. The Department of Treasury reserves the right to refuse to provide or to withdraw registered status.

OTHER TERMS AND CONDITIONS

No brokerage or commission will be paid on Treasury Bills sold by auction.
No bid may be withdrawn or amended after it has been submitted.
Bids not in compliance with the terms and conditions are liable to rejection.
The Department of Treasury reserves the right to reject any bid or part thereof.

ALLOTMENT

Acceptance of bids will be made in ascending order of rate of return bid, i.e. from the lowest to the highest rate of return bid. At the highest rate of return accepted, a pro rata distribution will be made if necessary. Acceptance of bids will be for minimum sized lots of K100,000 face value and in multiples

of K10,000 face value above that amount. Notice of acceptance or rejection of a bid or any part thereof will be made available to each bidder by close of business of the auction. Settlement instructions or return of bank cheques to unsuccessful bidders will accompany the notification.

SETTLEMENT

All successful bidders will pay at the rate of return they bid at and accepted. The common price per K100 face value, rounded to the nearest kina shall be calculated on the basis of the following formula:

$$\text{Common Price} = \frac{3650000}{ni + 36500} \quad \text{Where } n = \text{days to maturity; } i = \text{interest rate to two decimal places}$$

Settlement is to take place by 1.00 pm on the Friday following the auction. If Friday is a public holiday then settlement will be on the next working day (ie Monday if Monday is not a public holiday, or Tuesday if both Friday and Monday are public holidays).

Payments by the banks must be by debit to their account at the Bank of Papua New Guinea. In the case of other bidders, payment must be by bank cheque. It remains the responsibility of the bidders to ensure delivery of funds to Settlements Unit, Finance & Accounting Department of the Bank of Papua New Guinea by 1.00pm on the Friday following the settlement day. Treasury Bills will not be allotted if funds are not received by the designated deadline. All applicable refunds will be made by cheque drawn on the Bank of Papua New Guinea unless prior arrangements have been made to credit a bank account.

REGISTRATION

Bank of Papua New Guinea will register the Treasury Bills in the name of each successful bidder and notices to that effect will be issued on settlement date or shortly thereafter. Such notices will be advices of initial registration only and will be neither transferable nor negotiable.

The registered holder of any Treasury Bill may transfer the bill or any part of the bill in amounts of K100,000 or multiples thereof. Such transfers will be registered provided the completed transfer form is submitted to the registrar no later than 7 days prior to the date the bill is due to be repaid.

REPAYMENT ON MATURITY

Treasury Bills will be repaid at par (face value) on maturity by means of a cheque drawn on the Bank of Papua New Guinea or, with prior arrangement, the proceeds may be credited to a bank account designated by the holder. Alternatively the proceeds may be assigned for settlement of a successful bid at a following auction.

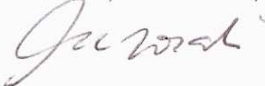
INTEREST WITHHOLDING TAX

Interest Withholding Tax of 15% will be charged at maturity for any investors who is not exempted from interest withholding tax by the Internal Revenue Commission. Proof of exemption from interest withholding tax is required in the process of registering as a bidder for Bill auctions.

ROLES AND LEGISLATION

The Minister for Treasury has appointed Bank of Papua New Guinea as the Government of the Independent State of Papua New Guinea as the agent and registrar for Treasury Bills, and delegated to the Secretary of the Department of Treasury the authority to set the terms and conditions and other matters necessary for the management of the borrowing of Treasury Bills. The Treasury Bills Act 1974 is the enabling legislation for Treasury Bills.

Other information on the roles, responsibilities and legislation are described in the Memorandum of Understanding between Treasury and Bank of Papua New Guinea regarding debt management. The Memorandum can be found on Treasury's website www.treasury.gov.pg and the Bank's website www.bpng.gov.pg, or requested through contacting First Assistant Secretary, Financial Evaluation Division, PO Box 542, Waigani, NCD, Papua New Guinea.



Simon Tosali
Secretary, Department Of Treasury
20 April 2007