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Directors' Report

For the year ended 31 December 2016

The directors of Oil Search Foundation Limited as trustee of the Oil Search Foundation trust ("the Foundation") present their report with respect to the results for the financial year ended 31 December 2016 and the state of the Foundations affairs at that date.

DIRECTORS

The names and particulars of the directors of the trustee during and at the end of the financial year were:

Gerea Aopi (Non-Executive director)

Peter Botten (Non-Executive director)

Stephanie Copus-Campbell (Executive director)

PURPOSE AND MISSION

The Oil Search Foundation is a development partner dedicated to improving the lives of Papua New Guineans. Our vision is for every adult and child in Papua New Guinea to have access to functioning and effective health and education services. To achieve our vision we contribute to nationwide development goals by working in partnership with government and stakeholders to improve development outcomes and achieve system stability and functionality. Our focus is on health, leadership and education, and women's protection and empowerment because in these fields we can make a real difference.

We recognise that Papua New Guineans know what is best for Papua New Guineans. Our work therefore aligns with PNG's own development priorities to ensure our programs have strong ownership and result in sustainable benefits for the communities with which we work.

Identifying PNG's priorities is only the first step. Working closely in partnership with individuals in communities right through to decision-makers at the national level is the key to realising our success.

DEVELOPMENT STREAMS

The Oil Search Foundation Strategy 2015-2020 is underpinned by three organisational pillars, each with a high-level development goal.

PILLAR 1: SIGNATURE PROGRAMS

We deliver Signature Programs in selected locations to improve development outcomes.

PILLAR 2: DEVELOPMENT PARTNER

We support the national development agenda as an active and effective Development Partner.

PILLAR 3: ORGANISATIONAL PERFORMANCE

We have appropriate internal support systems to achieve our objectives and deliver on our purpose.

The Strategy enables the Oil Search Foundation to develop expertise in specific locations in the Papua New Guinea Highlands and Gulf where we will build partner capacity to deliver services and direct the country's own resources towards development priorities that are most beneficial to communities. We will support national development priorities through our commitment to grant implementation as well as engage as an active development partner with a focus on achieving better outcomes for Papua New Guineans.

PERFORMANCE MEASUREMENT

At the Foundation, we take performance measurement seriously as we know that effective decision making and forward planning is founded upon solid measurement of our outcomes and performance. We have a performance framework and targets that aligns with the targets and priorities of Papua New Guinea and the Government.

In 2016 we invested in improvement in our monitoring and evaluation systems, laying the foundations for improved measurement of performance and informed program design.

The Oil Search Foundation reported a net result of \$1,042,113 (2015: \$25,801).

CHANGE IN ACCOUNTING POLICIES

No changes in accounting policies occurred during the financial year.

DONATIONS

No donations were made during the current financial year by the foundation.

INDEPENDENT AUDIT REPORT

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report. Audit fees are disclosed in note 6 to the financial statements.

Directors' Report

For the year ended 31 December 2016

REGISTERED OFFICE

Oil Search Foundation
Ground Floor, Harbourside East Building
Stanley Esplanade
Port Moresby
Papua New Guinea

Signed in accordance with a resolution of and
on behalf of the directors.



Peter Botten

Director
Sydney, 23 March 2017



Gereia Aopi

Director
Sydney, 23 March 2017



Stephanie Copus-Campbell

Director
Sydney, 23 March 2017

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2016

	Notes	2016 \$	2015 \$
REVENUE			
Donations received	5	18,615,743	11,610,568
Interest Income		17,389	12,501
TOTAL INCOME		18,633,132	11,623,069
OPERATING EXPENSES			
Pillar 1 – Signature Programs			
Hela Program		2,222,944	1,898,433
Gulf Program		1,580,228	
Hela Provincial Health Authority Program		2,336,034	
Pillar 2 – Development Partner			
Grant Management Unit		659,187	
Women Protection and Empowerment		779,074	
Leadership and Education		358,715	
Global Fund Programs			
– HIV			
– Implementing Partners Expenditure		2,190,632	1,807,628
– Sub Recipient Expenditure		2,234,935	835,681
– Oil Search Funded Expenditure		801,227	1,231,990
– Integrated Bio Behavioural Study – Partners Contribution		419,368	
– Malaria			
– Implementing Partners Expenditure			583,116
– Sub Recipient Expenditure		–	446,159
– Oil Search Funded Expenditure		–	–
Reproductive Health Training Unit		834,696	1,257,516
Sorptomist		3,737	228,198
PNG Industry Malaria Initiative		36,559	180,652
Closed Programs			152,380
Pillar 3 – Organisation Performance			
Accountability and Administration		2,944,237	2,430,297
Monitoring and Evaluation		159,188	135,501
Foundation expansion			367,301
Fx loss		34,821	51,620
Gain on disposal of fixed assets		(4,564)	(9,204)
TOTAL EXPENSES		17,591,019	11,597,268
Surplus for the year	6	1,042,113	25,801
TOTAL COMPREHENSIVE INCOME		1,042,113	25,801

The Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the notes to and forming part of the financial statements set out on pages 8-12.

Statement of financial position

At 31 December 2016

	Notes	2016 \$	2015 \$
NON-CURRENT ASSETS			
Property, plant and equipment	10	182,215	153,007
		182,215	153,007
CURRENT ASSETS			
Cash and cash equivalents	9	5,736,666	4,387,029
Trade and other receivables	8	838,824	485,557
		6,575,490	4,872,586
TOTAL ASSETS		6,757,705	5,025,593
EQUITY AND LIABILITIES			
Retained surplus		5,243,391	4,201,278
CURRENT LIABILITIES			
Trade and other payables	7	1,514,314	824,315
TOTAL LIABILITIES		1,514,314	824,315
TOTAL EQUITY AND LIABILITIES		6,757,705	5,025,593

The Statement of Financial Position should be read in conjunction with the notes to and forming part of the financial statements set out on pages 8-12.

Statement of Changes in Equity

For the year ended 31 December 2016

	Retained earnings \$	Total \$
BALANCE AT 1 JANUARY 2015	4,175,477	4,175,477
Total Comprehensive Income	25,801	25,801
BALANCE AT 1 JANUARY 2016	4,201,278	4,201,278
Total Comprehensive Income	1,042,113	1,042,113
BALANCE AT 31 DECEMBER 2016	5,243,391	5,243,391

The Statement of Changes in Equity should be read in conjunction with the notes to and forming part of the financial statements set out on pages 8-12.

Statement of Cash Flows

For the year ended 31 December 2016

	2016 \$	2015 \$
Cash flows from operating activities		
Receipts from donations	18,262,476	11,501,100
Payments to suppliers and employees	(16,808,390)	(11,599,533)
Cash generated / (used) from operations	1,454,085	(98,433)
Interest received	17,389	12,501
Net cash generated / (used in) operating activities	1,471,474	(85,932)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	9,922	84,314
Payments for property, plant and equipment	(131,759)	(12,470)
Net cash generated by / (used in) investing activities	(121,837)	71,844
Cash flows from financing activities	-	-
Net increase in cash and cash equivalents	1,349,637	(14,088)
Cash and cash equivalents at the start of the year	4,387,029	4,401,117
Cash and cash equivalents at the end of the year	5,736,666	4,387,029

The Statement of Cash Flows should be read in conjunction with the notes to and forming part of the financial statements set out on pages 8-12.

Notes to the financial statements

1. GENERAL INFORMATION

The Oil Search Foundation was created in Papua New Guinea. The addresses of its registered office and principal place of business are disclosed in the Directors Report. The principal activities of the Foundation are disclosed in the Directors Report.

The financial statements were authorised for issue by the Directors of the Trustee on 23 March 2017.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs and the new interpretations that are mandatory effective

Below is a list of the amendments to IFRSs and the new interpretations that are mandatory effective for the annual reporting period beginning 1 January 2016.

- Amendments to IAS 9 Defined benefit plans: Employee contributions;
- Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle; and
- Amendments to IAS 36 Annual Improvements to IFRSs 2011-2013 Cycle.

The application of the amendments to IFRSs and the new interpretation that are mandatory effective have been reviewed and considered to have no material impacts on the financial statements of the entity for the annual reporting period beginning 1 January 2016.

New and amended IFRSs that are not mandatory effective (but early adoption allowed)

Below is a list of new and amended IFRSs that are not yet mandatory effective (but allow early adoption) for the annual reporting period beginning 1 January 2016.

- IFRS 9 *Financial Instruments*;
- IFRS 14 *Regulatory Deferral Accounts*;
- IFRS 15 *Revenue from Contracts with Customers*;
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to IAS 1 *Disclosure Initiative*
- Amendments to IAS 16 and IAS 36 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities; Applying the Consolidation Exception*; and
- *Annual Improvements to IFRS 2012-2014 Cycle*.

The entity has not allowed the early application of the new and amended IFRSs that are not mandatory effective (but allow early application) for the annual reporting period beginning 1 January 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in these financial statements are expressed in US dollars, as this is the functional and presentational currency of the Foundation.

Basis of preparation

Title of goods purchased by sub recipients with grant funds allocated to them remains with the sub recipient unless otherwise directed by the Foundation.

The principal accounting policies are set out below.

Revenue recognition

Donations, gifts in kind and contributions are recognised at their fair value when received or receivable.

Interest revenue is recognised as it accrues.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the Foundation's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Government grants

Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them and that the grants will be received.

Notes to the financial statements (cont'd)

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the entity should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

The Foundation is exempted from income tax under Section 25A of the PNG Income Tax Act 1959, as a charitable institution.

Property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment. Any gain or loss on the disposal of assets is determined as the difference between the carrying value of the asset at the time of disposal and the proceeds from disposal, and is included in the results in the year of disposal.

Depreciation

Depreciation on corporate plant and equipment is calculated on a straight line-basis so as to generally write off the cost of each fixed asset over its estimated useful life on the following basis:

Motor Vehicles	20%
Office Furniture	13%
Computer Equipment	33%
Medical Equipment	20%
Other Plant	15%

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Financial Assets & Liabilities

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Other financial liabilities will consist of trade payables and accruals.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the foundation's accounting policies, directors of the trustee are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives of property, plant and equipment

As described above, the foundation reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

Notes to the financial statements (cont'd)

5. DONATIONS RECEIVED

	2016 \$	2015 \$
Oil Search Limited	12,293,524	7,900,000
Global Fund	5,611,336	1,066,143
Australian Government	484,770	–
Centres for Disease Control	220,000	–
World Health Organisation	34,922	–
Other	(28,809)	2,644,425
Total revenue	18,615,743	11,610,568

6. NET SURPLUS FOR THE YEAR

Profit for the year from continuing operations has been arrived at after charging (crediting):

	\$	\$
Auditor's remuneration		
Auditing the financial statements	15,750	16,685
	15,750	16,685
Salaries and Wages	4,490,545	4,417,371
Depreciation of property, plant and equipment	97,193	103,924

7. TRADE AND OTHER PAYABLES

	\$	\$
Trade creditors	1,291,648	759,017
Accruals	222,666	65,298
	1,514,314	824,315

8. TRADE AND OTHER RECEIVABLES

	\$	\$
Prepayments	213,791	214,918
Other debtors	625,033	270,639
	838,824	485,557

9. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

	\$	\$
Cash at bank	5,733,751	4,385,686
Petty Cash held	2,915	1,343
	5,736,666	4,387,029

Notes to the financial statements (cont'd)

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture \$	Computer Equipment \$	Other Plant \$	Medical Equipment \$	Motor Vehicles \$	Total \$
2016						
Cost						
Balance at 31 December 2015	12,017	105,390	9,478	36,297	302,623	465,805
Additions	740	82,656	-	-	48,364	131,759
Disposals	-	(33,517)	-	-	(47,755)	(81,271)
Balance at 31 December 2016	12,757	154,529	9,478	36,297	303,232	516,293
Accumulated depreciation and impairment						
Balance at 31 December 2015	4,410	84,494	4,537	28,170	191,186	312,797
Charge for the year	1,596	22,436	1,103	7,847	64,211	97,193
Depreciation on disposals	-	(30,955)	-	-	(44,958)	(75,913)
Balance at 31 December 2016	6,006	75,975	5,640	36,017	210,439	334,077
Carrying amount at 31 December 2016	6,751	78,554	3,838	280	92,793	182,215
2015						
Cost						
Balance at 31 December 2014	13,657	112,990	9,478	43,332	547,360	726,817
Additions	-	12,471	-	-	12,919	25,389
Disposals	(1,640)	(20,071)	-	(7,035)	(257,655)	(286,402)
Balance at 31 December 2015	12,017	105,390	9,478	36,297	302,623	465,804
Accumulated depreciation and impairment						
Balance at 31 December 2014	2,936	78,340	3,116	25,015	267,166	376,573
Charge for the year	1,562	21,656	1,422	7,259	72,870	104,769
Depreciation on disposals	(89)	(15,502)	-	(4,104)	(148,850)	(168,545)
Balance at 31 December 2015	4,410	84,494	4,537	28,170	191,186	312,797
Carrying amount at 31 December 2015	7,607	20,896	4,941	8,126	111,437	153,007

Notes to the financial statements (cont'd)

11. FINANCIAL INSTRUMENTS

Capital management

The Foundation manages its capital to ensure that it will continue to be able to fulfil its charitable purposes in Papua New Guinea.

The Foundation is not subject to any externally imposed capital requirements.

Categories of financial instruments	2016 \$	2015 \$
FINANCIAL ASSETS		
Cash and cash equivalents	5,736,666	4,387,029
Trade and other receivables	838,824	485,557
FINANCIAL LIABILITIES		
Trade and other payables	1,514,314	824,315

Financial risk management objectives

The Foundation does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Title of goods purchased by sub recipients with grant funds allocated to them remains with the sub recipient unless otherwise directed by the Foundation.

The carrying amounts of the foundation's foreign currency denominated monetary assets and monetary liabilities are as follows:

	2016 \$	2015 \$
Assets denominated in Kina	609,192	542,231

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Foundation. The Foundation has adopted a policy of only dealing with credit worthy counterparties and operates within Oil Search Limited Financial Risk Management Procedure.

Exposure to credit Risk	2016 \$	2015 \$
Cash at Bank - Australia and New Zealand Banking Group	5,711,446	-
Cash at Bank - Bank of South Pacific	22,305	1,142
Cash at Bank - Westpac Banking Group	-	4,384,544

Liquidity risk management

The Foundation manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows.

Fair value of the foundation's financial assets and financial liabilities

The directors of the trustee consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

12. SUBSEQUENT EVENTS

There has not been any matter or circumstance, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Foundation, the results of those operations, or state of affairs of the Foundation in future years.

Independent auditor's report

Deloitte.

Deloitte Touche Tohmatsu

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Independent Auditor's Report to the Members of Oil Search Foundation

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Oil Search Foundation (the "Foundation") which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Foundation's financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the financial reporting requirements of the Trust Deed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

Other Information

The Directors of the Trustee are responsible for the other information. The other information comprises the Directors' Report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors of the Trustee for the Financial Report

The Directors of the Trustee are responsible for the preparation of the financial report in accordance with International Financial Reporting Standards and the financial reporting requirements of the Trust Deed, and for such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors of the Trustee are responsible for assessing the ability of the Foundation to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report (cont'd)

Deloitte

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Director's and management, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Proper accounting records have been kept by Oil Search Foundation. During the year ended 31 December 2016 we did not provide any other services to Oil Search Foundation.


DELOITTE TOUCHE TOHMATSU



Benjamin Lee
Partner
Registered under the Accountants Act 1996

Port Moresby, 23 March 2017

Oil Search Foundation Limited

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