

**PNG**  
**Sustainable Development Program**  
**Limited**

**Annual Report**  
**2002**

## Contents

1. Letter from the Chairman
2. Highlights
3. Chairman's Report
4. The Board of Directors and Members
5. Chief Executive Officer's Report
6. The Company's Staff Team
7. Income, Funds Allocations and Expenditure as at 31 December 2002
8. Investment Activities
9. Sustainable Development Program Activities
10. Ok Tedi Mining Ltd
11. Directors' Report on Company's Accounts

### **ANNEX:**

1. Agreements entered into by the Company in relation to BHP Billiton's exit from OTML and Transfer of Shares to the Company

### **Supplement To Report**

Financial Report for Period from Date of Incorporation (20 October 2001) to 31 December 2002 comprising the:-

- Directors Report and Statement
- Auditors' Report
- Income Statement
- Balance Sheet
- Cash Flow Statement
- Attached financial statement of Ok Tedi Mining Limited as at 31 December 2002

**PNG Sustainable Development Program Limited  
Port Moresby**

**30 April 2003**

**The Independent State of Papua New Guinea  
BHP Billiton Limited  
Ok Tedi Mining Limited**

In accordance with Program Rule 20 of the Articles of Association of the PNG Sustainable Development Program Limited, I submit to the Independent State of Papua New Guinea, BHP Billiton Limited, and Ok Tedi Mining Limited the Annual Report 2002, covering the period since incorporation of the Company on 20 October 2001 to 31 December 2002. The Annual Report also includes the financial statements and the report of the auditor which are published separately as a supplement to the Annual Report.

Furthermore, in accordance with Program Rule 19.3, the key elements of the Annual Report will be presented for discussion at the Annual Report Meeting of the Company to commence from 9.00 am Thursday 12 June 2003 at the Crown Plaza Hotel, Port Moresby.

**Sincerely,**

**ROSS GARNAUT AO  
Chairman  
Board of Directors**

## Highlights

### PNG Presence and Operations

- PNG Sustainable Development Program Limited is now a reality with the Board of Directors and Members appointed and in full control of the Company. The Port Moresby Office has been established, the Chief Executive Officer and core staff appointed with full operational control.

### Engagement with PNG Stakeholders

- The Company has been accorded opportunity by the PNG Government for the Chairman, Board Directors and the Chief Executive Officer to discuss the role of the Company with Government Ministers and Members of Parliament, Provincial Governors, and National Government Agencies.
- Constructive dialogue has been established with the Western Provincial Government, with the Company offering to support financial management and institutional strengthening within Western Province as an immediate priority.

### Income and Expenditure

- Cash position of Company as at 31 December 2002 was US\$ 6.4 million or K 26.8 million, which has since increased to US\$ 37.5 million or K 147.3 million as at 30 April 2003.
- For period to 30 April 2003, Company received dividend income of K 161 million from Ok Tedi. Payments of K 26.8 million in Stamp Duty and Dividend Withholding Tax were made to PNG Government. K 96.9 million was allocated to the Long Term Fund, and K 48.5 million for Sustainable Development Programs.

	2002		2003 (To 30 Apr)	
	US\$	K	US\$	K
• <b>Gross Dividend Income</b>	<b>7.2 m</b>	<b>29.9 m</b>	<b>34.3 m</b>	<b>131.9 m</b>
• <b>Total Expenditure</b>	<b>3.3 m</b>	<b>15.3 m</b>	<b>3.6 m</b>	<b>14.0 m</b>
○ Payments to PNG Govt	2.9 m	13.6 m	3.4 m	13.2 m
○ Admin. & Other Overhead Expenses*	0.4 m	1.7 m	0.2 m	0.8 m
• <b>Short-term Investments</b>	<b>6.4 m</b>	<b>26.8 m</b>	<b>37.5 m</b>	<b>146.7 m</b>
• <b>Status of Funds:</b>				
○ <b>Long Term Fund</b>	<b>3.6 m</b>	<b>14.9 m</b>	<b>23.3 m</b>	<b>96.9 m</b>
○ <b>Current Purpose Fund</b>	<b>1.8 m</b>	<b>7.5 m</b>	<b>11.6 m</b>	<b>48.5 m</b>
○ <b>General Fund</b>	<b>0.6 m</b>	<b>2.7 m</b>	<b>2.0 m</b>	<b>8.3 m</b>
• <b>Cash Position</b>	<b>6.4 m</b>	<b>26.8 m</b>	<b>37.5 m</b>	<b>147.3 m</b>
Note: * Includes establishment costs for PNG office.				

## **Sustainable Development Program**

- Preliminary discussions have been held on several strategic initiatives which could be supported by the Company under its Development Program Funds. Where the possibilities of low-risk investments with high financial returns are good, some investment from the Long Term Fund will be considered. The Board has approved support for the Western Provincial Government in strengthening financial management to take effective control of its financial resources. Other initiatives include opportunities for income generation through sustainable agro-forestry, oil palm, cocoa and coconut production, the Highlands Highway Rehabilitation Project, sustainable power generation based on domestic gas, geothermal and hydro-electric resources. Other areas of discussion have included education, health and local-level capacity building.

## **Governance**

- The first Annual Report Meeting of the Company will take place in Port Moresby on 12 June 2003 providing the Company with an opportunity to formally discuss this report with all stakeholders in Papua New Guinea.
- The Company's first Annual Report including Financial Statements and Auditor's Report has been completed for the period ending 31 December 2002 and will be presented to the PNG Government, BHP Billiton, OTML, and the Annual Report Meeting.

## **Ok Tedi Mining Limited**

- The Company has responsibility for and supports the good governance of Ok Tedi Mining Limited through its nominee Director on the Board of OTML, Dr Garnaut, and in indemnifying OTML's Independent Directors.
- New arrangements for OTML are being implemented, with anticipated improvements in efficiency during 2003 and in future years.
- PNGSDP Ltd is participating in Government-appointed Ok Tedi Mine Closure Planning Committee.

## **Looking Ahead**

- Investment Operations of the Company, most importantly the Long Term Fund, will be strengthened with increased financial resources and appointment of Investment Adviser/Funds Manager during 2003.
- Expect significant income from OTML Dividends and from Company's investments during 2003 and subsequently.
- Appointment of Advisory Council and convening of Annual Report Meeting in Port Moresby on 12 June 2003 will provide forum for program development and consultations with Papua New Guinea stakeholders.
- Sustainable Development Program strategy and programs to be developed during 2003, and together with forecasts of cash flows, a 5-year Program and Budget to be prepared in time for Annual Report Meeting in 2004.

## CHAIRMAN'S REPORT

PNG Sustainable Development Program Limited is a unique and valuable addition to Papua New Guinea's development opportunities.

The company is the result of an agreement between the world's largest mining company, BHP Billiton, headquarters in Australia, and the Papua New Guinea Government.

BHP Billiton, as the majority shareholder in the mine had become increasingly concerned about the projected environmental impacts of continuing to operate the mine. At the same time, BHP Billiton understood the view of the PNG Government that there were substantial social and economic benefits to the people of PNG and particularly the Western Province deriving from the mine's operation. Billiton's preferred response, including early mine closure, was not, however, acceptable to the PNG Government and the Western Province communities and accordingly, BHP Billiton decided to withdraw from the project in a way that would maximise the social benefits of continued operation. Mutually agreeable governance arrangements were essential considerations in the subsequent negotiations.

The result was long negotiations and an agreement that was highly favourable to Papua New Guinea's development. BHP Billiton agreed to cooperate in the encouragement of OTML employees to continue at Ok Tedi for as long as they were needed. It provided a large line of credit to assist Ok Tedi in managing the periodic shutdowns that accompany drought and low levels of the Fly River. It agreed to support the marketing of minerals from Ok Tedi if this were necessary. And it agreed to transfer its majority shares in the Ok Tedi mine to a new company, PNG Sustainable Development Program Limited, that would have the role of spending profits from the mine wisely on development in Papua New Guinea.

In return, the Papua New Guinea Government agreed to arrangements that BHP Billiton thought would lead to responsible governance of the large asset that it was transferring to support development in Papua New Guinea.

Under the agreement between BHP Billiton and the Papua New Guinea Government, all of the dividends from OTML that would once have gone to BHP Billiton now go to PNG Sustainable Development Program Limited. The mining company and PNG Sustainable Development Program Limited pay the same taxes to the Papua New Guinea Government, including dividend withholding tax, that would have been paid by the mine and BHP Billiton if the Ok Tedi mine had continued to operate under the old arrangements.

Under the agreement, two thirds of the dividends, after paying withholding taxes to the Papua New Guinea Government and after meeting the administrative costs of the company, are to be invested in a Long Term Fund, to ensure that the amount of resources available from PNG Sustainable Development Program Limited to support development

in the Western Province and Papua New Guinea are about the same during the life of the mine and after the mine eventually closes. This "Long Term Fund" will be used to ensure that the infrastructure that supports the lives of so many people in the Western Province does not disappear completely after the closure of the mine. It will also be used to maintain a substantial development effort in Papua New Guinea for at least four decades after the mine closes. The remaining one third of dividends after meeting company costs is to be spent on current development programs in the Western Province and the rest of Papua New Guinea. Out of this, one third of all the development expenditure will be in Western Province and two thirds in the remainder of Papua New Guinea.

The Board of Directors of PNG Sustainable Development Program Limited is required to place the Long Term Fund in "low risk investments". Only in that way can we be sure that the Long Term Fund can make a maximum positive contribution to Papua New Guinea development after the mine closes.

The new company is incorporated in Singapore. The main reason why BHP Billiton and the Papua New Guinea Government agreed on the Singapore location is that this allows the Long Term Fund to be invested in profitable investments anywhere in the world without attracting any taxation in Singapore or anywhere else. As a result, much more money will be available to support development in the Western Province and elsewhere in Papua New Guinea after the mine closes.

Under the agreements between Papua New Guinea and BHP Billiton, three Directors are appointed by BHP Billiton. This is the only continuing role that BHP Billiton plays in the governance arrangements. BHP Billiton has appointed Patricia Caswell, Jim Carlton and myself to these positions.

Under the agreements, three Papua New Guinea institutions - the Treasurer, the Papua New Guinea Chamber of Commerce and Industry, and the Bank of Papua New Guinea - each appoint one Director to the Board. The Treasurer has appointed Sir Ebia Olewale. The Chamber of Commerce and Industry has appointed Don Manoa and the Bank of Papua New Guinea has appointed Jakob Weiss.

These six Directors appoint one Singapore Director. This is Mr. Lim How Teck who was appointed after an extensive search by an international executive search firm.

The Board of Directors engaged a major international executive search firm to assist in its search for a Papua New Guinea Chief Executive Officer with appropriate qualifications and experience. Mr. Robert Igara was appointed in November with the advice of Downing Teal, the external advisers. In the months since then, Robert Igara has put together an excellent small team of Papua New Guinean professionals to support him in managing the affairs of the Company from Port Moresby headquarters.

PNG Sustainable Development Program Limited has already played an important role in Papua New Guinea development, as its establishment allowed the Ok Tedi mine to continue operating for its normal life.

The Company will play another important role in future, as the money that would have gone as dividends to BHP Billiton in Melbourne comes back to support development in Papua New Guinea. The role will be especially important after the eventual closure of the mine, when the wise investment of the Long Term Fund will support the continuation of infrastructure and development in Western Province and other parts of Papua New Guinea for at least forty years after the closure of the mine.

**ROSS GARNAUT AO**  
**Chairman**  
**PNG Sustainable Development Program Limited**

## **THE BOARD OF DIRECTORS**

The Board of Directors is responsible for strategic direction and for managing the business of the Company, including monitoring the performance of the company to ensure consistency with the Company's Program Rules. The Board is also accountable to and for reporting to the Members, to the Government of Papua New Guinea, to BHP Billiton, to Ok Tedi Mining Limited, and to other Papua New Guinea stakeholders.

The Board is not subject to direction of BHP Billiton or the Independent State of Papua New Guinea.

The Board of Directors comprises:

### **Dr Ross Garnaut AO, BA, PhD**

#### **Chairman**

Appointed by BHP Billiton on 20 May 2002. Dr Garnaut is Professor of Economics in the Research School of Pacific Studies at the Australian National University. He has written extensively on East Asia and the Southwest Pacific economies, and serves on university and research institution boards in Australia, the US, China, and Indonesia. He has been Head of the Department of Economics and Director of the Asia Pacific School for Economics and Management. He was Senior Economic Adviser to Australian Prime Minister Robert Hawke, and subsequently served as Australia's Ambassador to China. He is currently Chairman of Lihir Gold Ltd; Chairman of Lonely Planet Publications Pty Ltd; and former Chairman of the Bank of Western Australia Ltd and of the Primary Industry Bank of Australia Ltd. Dr Garnaut is also a director of Ok Tedi Mining Ltd as the nominee of PNG Sustainable Development Program Limited. He has a lengthy association with PNG. He served as First Assistant Secretary responsible for financial and economic policy in the Department of Finance in Port Moresby in 1975 and 1976.

### **Mr. Donald Manoa**

Appointed to the Board on 10 October 2002 by the PNG Chamber of Commerce and Industry. Mr Manoa from Papua New Guinea, was most recently a Commissioner with the Commission of Inquiry into the National Provident Fund. He served as General Manager of PNG Electricity Commission in 1987, and subsequently joined Shell and was appointed General Manager of Shell Papua New Guinea Limited in 1991 to 2000. He is currently Chairman of New Guinea Islands Produce, a director of Barclay Bros (PNG) Ltd, Agmark Pty Ltd and First Investment Finance Ltd, and served as Chairman of Shell (PNG) Ltd, a director of ANZ Banking Group (PNG) Ltd, Air Niugini and Shorncliffe PNG Ltd. He has also served in community services including the National Volunteer Service.

### **Honourable Sir Ebia Olewale Kt**

Appointed to the Board on 9 April 2003 by the PNG Minister for Treasury. Sir Ebia, from the Western Province of Papua New Guinea, was a member of the House of Assembly from 1968 to 1982. He was a member of the Select Committee that played a

major role in PNG's preparation for Independence, and held the Ministries for Education and Commerce in the self government period, 1972-75. During the year of Independence in 1975, Sir Ebia was Minister for Justice and therefore politically responsible for the adoption of PNG's Independence Constitution. After the 1977 elections he served as Deputy Prime Minister, Minister for Justice and Minister for Foreign Affairs and Trade. He also served as a member of the Commonwealth Observer Mission to the first multi-racial elections in post apartheid South Africa in 1994. He is currently Chancellor of the PNG's University of Goroka. Prior to his appointment, he was a consultant to Ok Tedi Mining Ltd.

**Dr Jakob Weiss BA Econ, MA Econ, MBA, PhD**

Appointed to the Board on 13 November 2001 by Bank of Papua New Guinea. Dr Weiss, from Tel Aviv, Israel, is currently Dean of the Department of Economics at the College of Management in Israel. He was a long serving Central Banker with the Bank of Israel and the Federal Reserve Bank of USA. He was seconded from the IMF to the Bank of PNG from 1988 to 1994 and an advisor to the Bank of PNG until August 2002. He was an advisor to several former Soviet Union Republics, served as a member of the Board of the Mercantile Discount Bank of Israel, on the Board and as Chairman of the Investment Committee of a large pension-superannuation fund with operations in the United States, Europe and Israel. Dr Weiss is also Adjunct Professor of Economics at Ben Gurion University in Israel and Georgetown University and the State University of New York.

**Honourable Jim Carlton AO BSc**

Appointed to the Board on 20 May 2002 by BHP Billiton. Mr. Carlton was, for 7 years the Secretary General of the Australian Red Cross. Prior to that was a Federal Member of Parliament in Australia from 1977 to 1994, including serving as Minister for Health, and Minister Assisting the Minister for National Development and Energy. He also held several Shadow Ministries including on Sustainable Development and Environment, and as a member of the Parliamentary Committees on Long Term Strategies, and Foreign Affairs and Defence. Mr Carlton led two Australian Parliamentary delegations overseas and served as a Commonwealth Observer at the return of Zambia to democracy in free elections, and a member of the Myer Committee which selected the first Centres of Excellence in Australian Universities. He has also served on the Australian National Commission for UNESCO, the consulting firms - McKinsey & Company, the Boston Consulting Group. He is currently Chairperson of the National Archives of Australia Advisory Council, Australia Innovation Council, a Council member of the Australian Strategic Policy Institute, a member of the Interim Australian School of Government, an Adjunct Professor of the National Institute for Governance at Canberra University, and a Professorial Fellow in the Centre for Public Policy at Melbourne University.

**Ms Patricia Caswell BA, BA(Hon), Dip Ed, Teachers' Dip, BEd**

Appointed to the Board on 20 May 2002 by BHP Billiton. Ms Caswell is currently Executive Director of Global Sustainability at the Royal Melbourne Institute of Technology in Melbourne. Ms Caswell has served as the Executive Director of the Australia Conservation Foundation, Executive Director of PLAN International Australia,

a secondary school and TAFE teacher, a trade union leader, and in various public and private bodies in Australia.

**Mr. Lim How Teck B Acc, CPA, FCMA, AIBA, PBM\***

Following an extensive independent search by an international executive firm Egon Zehnder International, Mr. Lim was appointed to the Board on 31 January 2003 as a Singapore resident director by the Board of PNG Sustainable Development Program Limited. Mr. Lim, a certified public accountant is currently a Board member, Executive Director and Group Chief Financial Officer of Neptune Orient Lines Ltd of Singapore. He has served and continues to serve on several statutory boards in Singapore and corporations around the world. He has been honoured by the Singapore Government for his contribution to Singapore with a PBM. (\*Note: Mr Lim replaced John Moline, who was appointed on an interim basis. Mr Moline resigned on 31 January 2003).

**Board Meetings**

The Board has adopted a policy of visiting Papua New Guinea to discuss development priorities and programs every three months prior to its scheduled meetings in Singapore.

**Board Committees**

The Board has established two Committees to assist with its work. They are the Audit Committee and the Investment Committee. The **Audit Committee** comprises Mr Lim as Chairman, Dr Weiss, and Dr Garnaut. The **Investment Committee** comprises Dr Weiss as Chairman, Dr Garnaut, and Mr Lim.

**MEMBERS OF THE COMPANY**

As a Company “limited by guarantee”, PNG Sustainable Development Program Limited does not have shareholders. In addition to the Board of Directors, the Constitution of the Company provides for the appointment of a minimum of two persons as Members of the Company.

The Members of the Company are responsible for adopting the Annual Accounts and Audit Report, appointing the Auditors and approving other business which the Board of Directors may refer to Members from time to time. This includes amendments to the Memorandum and Articles of Association and Program Rules. Changes to the Program Rules can only be made with the consent of both BHP Billiton and the Independent State of Papua New Guinea. The Members meet during the Annual General Meeting and during Extraordinary General Meetings. The Chairman of the Board of the Directors also serves as Chairman of the Annual General Meeting and Extraordinary General Meetings but has no voting power.

The Members of the Company as at 31 December 2002 comprised:

- **Jim Carlton** – Appointed 19 June 2002.
- **Donald Manoa** – Appointed 8 November 2002.
- **Lim How Teck** – Appointed 11 March 2003.

(Note: Stacy Choog Hui Hui was appointed 5<sup>th</sup> September 2002 and resigned on 8 November 2002. Loo Lian Ee appointed 20 October 2001 to 19 June 2002. John Moline was appointed 20 October 2001 and resigned on 11 March 2003)

The Members of the Company have convened several Extraordinary Meetings to approve amendments to the Memorandum and Articles of Association and Program Rules of the Company. During 2003, an Annual General Meeting of Members will be held to adopt the 2002 Accounts and appoint auditors for 2003.

## CHIEF EXECUTIVE OFFICER'S REPORT

*The year 2002 saw PNGSDP Ltd establish itself in Papua New Guinea. We opened our Office in Port Moresby on 5 November 2002, appointed core staff, supported the work of the Board of Directors and Members, and introduced the Company to Papua New Guinea, especially explaining to the new PNG Government the company's functions and potential contribution to sustainable and long term development of the nation.*

### **PNG SDP Ltd - A Unique and Bold Challenge**

PNG Sustainable Development Program Ltd is faced with a challenging and exciting future, in a country which has so much potential and yet daunting challenges.

The Company has only one mission, and that is to support programs which bring about sustainable development which benefits the people of Papua New Guinea, in particular the people of Western Province. This is an enormous challenge for the Company.

The Company is also a party to a number of the agreements which were entered into to give effect to BHP Billiton's exit from Ok Tedi Mining Limited, and which formed the basis of BHP Billiton's share transfer to PNG Sustainable Development Program Limited. Some of these agreements also impose an obligation on the Company, both actual and contingent, which are secured by a charge over the dividend stream attached to the Company's shares in Ok Tedi Mining Limited. These include the granting of indemnity to the Independent State of Papua New Guinea and BHP Billiton against environmental claims, indemnity to the Independent Directors of Ok Tedi Mining Limited, and interest subsidy to OTML for increased borrowing costs and charges incurred by OTML as a result of not being a subsidiary of BHP Billiton.

Given the unique and complex arrangements associated with the establishment of the Company and the arrangements associated with BHP Billiton's exit from OTML and Papua New Guinea, we have devoted and will continue to devote our attention to informing, building confidence and gaining the trust of our stakeholders in Papua New Guinea, especially the people of Western Province about the Company and addressing issues of concern to them.

On the positive side, the agreement which gave birth to the company, the constitution and the arrangements under which the Company is to operate, and the financial resources that the Company will manage, invest and spend, provide a sound and stable basis to support and sustain our investments and development programs for the long term.

Because we are a Papua New Guinea company, incorporated in Singapore, and with a mandate to invest in the international market, with the objective of maximising the contribution to sustainable development in Western Province and Papua New Guinea, we face a unique management and operational challenge.

## **Strong Governance Arrangements**

The arrangements impose on the Company additional reporting and compliance requirements above those normally applied to Papua New Guinea companies to ensure that the Company is fully accountable and transparent in its operations. We will report to the Government of Papua New Guinea, to BHP Billiton, and to the company's subsidiary Ok Tedi Mining Limited. We will also make publicly available our Annual Report, and provide opportunities for interested parties to discuss it with the Company's Board of Directors and management.

We have completed the independent audit of our accounts since the Company's incorporation in Singapore on 20 October 2001 to 31 December 2002. This is our first Annual Report which we will present together with a report on the most recent developments to our Annual Report Meeting involving all our stakeholders in Port Moresby on 12 June 2003.

The Company's first Annual General Meeting was held in Singapore on 9 April 2003 whereupon the audited accounts of the Company was adopted. Several extraordinary meetings were held during the period and in early 2003 to approve refinements to the Articles of Association and Program Rules.

The Company's accounts are subject to inspection by the authorised representatives of the Independent State of Papua New Guinea and BHP Billiton. The Company will be consulting with both parties to establish guidelines for such inspections and confirming their respective authorised representatives. The Company will recommend to the PNG Government that the Auditor General of Papua New Guinea should be its representative.

## **Working with Ok Tedi Mining Limited**

The responsible management and operation of the Ok Tedi Mine, especially its community and environmental programs, are of particular interest to the Company. Therefore, we aim to build a close, supportive but independent role in our relationship with OTML.

In addition to the participation of Dr Garnaut as a director of OTML, the Company executed Indemnity Deeds with the Independent Directors of OTML in accordance with the Option Deed concluded with OTML. The Company is also a participant in the Committee overseeing the Mine Closure Plan. This will enable the Company to examine the infrastructure relating to the mine which needs to be maintained after the closure of the mine.

## **Dividend Income from Ok Tedi Mining Limited**

During 2002, PNGSDP Ltd received one payment from Ok Tedi Mining Ltd of gross dividend totaling US\$7.2 million or K29.9 million. Two more dividend payments totaling US\$34.3 million or K131.9 million were received during 2003 up to April 30. The Company expects to receive significant dividend income from OTML during the remainder of 2003 and for the remainder of the Ok Tedi mine life.

## **Investment Operations**

The Company undertook its first investments in 2002 of US\$6.4 million or K26.8 million in short-term notes in several currencies managed by ANZ Banking Group's Hong Kong Branch, to mature on 4 June 2003. Additional short-term investments in low risk currencies of US\$30.8 million or K118.8 million were made during April of 2003 with income from the two OTML dividend payments in 2003. These investments will mature on 2 July 2003. This brings the total value of the Company's current short-term investments to US\$37.5 million or about K146.7 million as at 30 April 2003 which also includes the value of foreign exchange gains on our investments of US\$0.8 million or K3.0 million, and interest of US\$0.1 million or K0.5 million.

The Board approved in April 2003 the Company's Investment Policy and Guidelines for investments of our resources, especially of the Long Term Fund. We also expect to appoint our Investment Adviser/Funds Manager in 2003.

## **Long Term Fund**

By the end of 2002, the Long Term Fund allocation amounted to US\$3.6 million or K14.9 million, which has now increased to US\$23.3 million or K96.9 million following receipt of two dividend payments from OTML in the first half of 2003.

## **Current Purposes (Development Program) Fund**

The Current Purpose Fund balance was US\$1.8 million or K7.5 million by end of 2002, increasing to US\$11.6 million or K48.5 million by April 2003. From this, US\$3.8 million or K16.2 million is allocated for development programs in Western Province, whilst US\$7.8 million or K32.3 million is allocated for the rest of Papua New Guinea.

## **General Fund**

The General Fund allocation as at 31 December 2002 was US\$0.6 million or K2.7 million, increasing by 30 April 2003 to US\$2 million or K8.3 million. At the end of the year, any underutilized part of the General Fund will be allocated to the Long Term Fund and Current Purposes Fund in accordance with the Program Rules of the Company.

## **Expenditure and Payments to PNG Government**

The Company spent a total of US\$3.3 million or K15.3 million during the period to 31 December 2002. Of this, US\$2.9 million or K13.6 million was paid to the PNG Internal Revenue Commission as Stamp Duty and Dividend Withholding Tax. An additional US\$3.4 million or K13.2 million was paid in Dividend Withholding Tax during the period to 30 April 2003, bringing the total amount paid to the PNG Government at US\$6.3 million or K26.8 million.

There was no development program expenditure during the period.

## **Sustainable Development Program**

We have engaged in preliminary discussions on several proposals under our Sustainable Development Program and have now identified several projects for possible support. These are the Highlands Highway Rehabilitation Project, sustainable rubber, oil palm industry, cocoa and other agricultural development in the Western Province and several other provinces, eco-forestry, tourism, and sustainable power generation from domestic gas, geothermal and hydro resources to support economic production and social services, as well as several proposals in the area of education, health and local-level capacity building.

## **Management and Organisational Strategy**

Establishing and building a network of partnerships is a core element of our strategy. We will have a small core staff based in Papua New Guinea, complemented with short term expertise. Management of our investment and sustainable development program operations will be undertaken by Program Managers. We will also seek to work closely with Government agencies, churches, other NGOs, and private enterprise in Papua New Guinea as well as with international aid agencies.

## **Accounting and Administration**

The Company initially engaged two Singapore companies Drewcorp Services Pte Ltd of Singapore to provide corporate secretarial and administrative support, and Outsource Centre Pte Ltd (a subsidiary of PriceWaterhouseCoopers Singapore), to provide the initial accounting services. PriceWaterhouseCoopers Port Moresby was subsequently engaged in November 2002 to provide administrative and accounting support in Port Moresby. Full operational control of the Company's administration and finances has now been established within the Company in Port Moresby, from December 2002.

The Company has appointed the ANZ Banking Group in Singapore and Hong Kong as our international bankers and the Bank of South Pacific Commercial Centre, Gordons, Port Moresby as our Papua New Guinea bankers.

## **Staff of PNG SDP Ltd**

The staff we employ, the systems and procedures we establish, and the way we conduct business must be of the highest standards equivalent to international best practise. The nature of our work also requires a mixture of knowledge and skills which can be found in government, in international development agencies, in funds managers and investment houses, and in a normal commercial enterprise. Our activities will cover investment, development program management, community affairs, and government relationships, as well as responsible supervision of a majority equity in the Ok Tedi mine.

All our full-time staff are all Papua New Guineans and based in Port Moresby. We will provide every opportunity to build up our staff capability to perform their best, consistent with best international practise. Our staff continue to gain first-hand experience on the job. Team spirit, loyalty to and identification with the company are emerging.

Total staff strength as at 30 April 2003 is six with a part-time Singapore resident Company Secretary.

### **Looking Forward**

Over the next 12 months we will focus on improving understanding among our Papua New Guinea stakeholders, formulating our development program strategy, programs and budget, and preparing Operational Guidelines, Procedures and Systems. A five (5) year Program Plan and Budget will be prepared in time for the Annual Report Meeting in 2004. This work takes into account the relevant initiatives and experiences of the government, international development agencies, non-government organisations, churches, the private sector, and communities.

This Annual Report and the Annual Report Meeting on 12 June 2003 provide a first formal public opportunity for the Company to launch its presence in Papua New Guinea. Papua New Guinea stakeholders will, I believe, come to acknowledge that the Company can make a major contribution to the future development of the nation, if given the opportunity.

### **Acknowledgements**

It would not have been possible to establish the Company's operations in Singapore and Papua New Guinea without support.

The support of the Government of Papua New Guinea, especially the Ministers for Treasury and Mining, the Chief Secretary to Government, and the Secretaries and staff of the Departments of Prime Minister & National Executive Council, Treasury and Mining, towards establishment of the Company and in releasing staff to join the Company is appreciated.

Drewcorp services Pte Ltd of Singapore, PriceWaterhouseCoopers Port Moresby, and Gagens Lawyers provided administrative, accounting and legal services.

The new Managing Director of Ok Tedi Mining Limited and his team in Tabubil and Port Moresby also gave and continue to give valuable support to the Company, including initial office space in Port Moresby.

The staff of the PNG Sustainable Development Program Limited have fully committed themselves to their tasks. They represent the Papua New Guinea face and presence of the Company, and do so proudly.

Finally, I would like to thank the Chairman and the Board of Directors for guiding me through the formative stages of the Company during 2002.

**ROBERT IGARA CMG**

**Chief Executive Officer**

**Papua New Guinea Sustainable Development Program Limited**

## **THE COMPANY'S STAFF TEAM**

### **Robert Igara CMG, BEcon, Grad. Dipl. in Intl. Law, MBA Chief Executive Officer**

Mr Igara served as the Chief Secretary to Government between 1997 and 2002, and concurrently as Acting Secretary for Treasury from July 2001-August 2002. He also served as Secretary for Trade and Industry, as Director of the Office of International Development Assistance, and has held several senior positions in the Departments of Foreign Affairs and Trade, including diplomatic postings in Fiji and Australia. He was also Chairman of the Boards of Directors of several newly established statutory agencies – the PNG Investment Promotion Authority, the PNG Forestry Authority, and the Small Business Development Corporation. He served as Director on Orogen Minerals Ltd, PNG-Halla Cement Corporation, and currently serves as a Director on the Bank of PNG and Oil Search Ltd.

### **Sean Ngansia BEcon; Dip in Eco Policy Analysis Program Manager – National Development Programs**

Prior to joining the Company, Mr. Ngansia was Acting Assistant Secretary of the General Investments Branch of the Commercial Investments Division, Department of Treasury. Mr Ngansia joined the PNG public service in 1992 as a Senior Programs Officer in the Department of Finance & Planning from 1992-1994, Department of Trade & Industry from 1995 to 1997, before joining the Department of Treasury serving there from 1998 to 2001.

### **Henry Ivarature BA (Hons), MA, PhD Program Manager – Western Province Program**

Dr Ivarature, prior to his appointment to the Company on 27 January 2003, was Head of the PNG APEC Unit and PNG's Senior Official to Asia Pacific Economic Cooperation (APEC) within the Department of Prime Minister & National Executive Council, where he also served as Director of Special Projects within the Central Agencies Coordination Committee Secretariat and the Office of Chief Secretary to Government.

### **Janet Sios, BA, MBA (Executive) Accountant Administrator**

Commenced 24 January 2003. Ms Sios, a registered accountant, was previously with the Minerals Resources Development Corporation from 1994-2002 rising to be the Manager Accounts. She also served with Price Waterhouse as senior accountant.

### **Company Secretary**

Since date of incorporation on 20 October 2001 and as at 31 April 2003, the Company Secretaries (part-time) have been: Miss Hue Siew Chia, appointed 20 October 2001 and resigned on 6 December 2002; and Ms Madelyn Kwang, appointed 6<sup>th</sup> December 2002.

## **INCOME, FUNDS ALLOCATIONS AND EXPENDITURE TO 31 DECEMBER 2002**

### **INCOME**

The principal income of the Company at this stage is dividends from its shareholding in Ok Tedi Mining Limited.

During 2002, the Company received one payment from Ok Tedi Mining Ltd of gross dividend totaling US\$7.2 million or K29.9 million.

In accordance with its commitments under the Funding Facility Deed signed with the Company, BHP Billiton provided initial capital of US\$3.5 million to the Company to meet establishment costs. This advance is interest free and will be repaid after the company has in excess of US\$50 million in the Long Term Fund.

### **EXPENDITURE**

The Company spent a total of US\$3.3 million or K15.3 million during the period to 31 December 2002. Of this, US\$2.9 million or K 13.6 million was paid to the PNG Internal Revenue Commission as Stamp Duty and Dividend Withholding Tax (consisting of US\$2.2 million or K10.7 million Stamp Duty in relation to the transfer of BHP Billiton shares to the Company, and US\$0.7 million or K2.9 million in dividend withholding tax), and US\$0.4 million or K1.7 million was spent on Administrative costs during the period.

There was no development program expenditure during the period.

The Company's Program Rules stipulate that operational expenses of the Company (excluding Investment and Development Program costs) should not exceed 15 % of the average annual income of the Company during the immediate preceding 3 accounting years.

### **LONG TERM FUND**

The Long Term Fund represents two-thirds of income received from Ok Tedi Mining Limited after deducting operating expenses and all other legal contractual obligations.

The Long Term Fund must be invested in "low risk investments". The Fund can be used **before Ok Tedi Mine closure** to meet contractual obligations and to meet a call by OTML for further capital requirements. **After Ok Tedi Mine closes** (in 2010 under current understandings), the Long Term Fund is to be used to fund sustainable development programs in Western Province and elsewhere in Papua New Guinea.

There will be special emphasis in the Western Province on mitigation against the impact of mine closure on social and economic activities.

The Company therefore aims to increase and diversify the Long Term Fund investments in a way that supports a maximum contribution to development in Papua New Guinea and particularly Western Province. We are mindful of the desirability of building the Fund and its sustainable earnings to a point that enables annual earnings from investments to meet annual expenditure requirements during the period after mine closure without diluting the real capital of the Fund.

By the end of 2002, the Long Term Fund allocation amounted to US\$3.6 million or K14.9 million.

### **CURRENT PURPOSES (DEVELOPMENT PROGRAM) FUND**

The Current Purposes Fund represents one-third of income received from Ok Tedi Mining Limited after deducting operating expenses and all other legal contractual obligations. The Current Purposes Fund is to be used to support and fund programs and projects which promote sustainable development which benefit the people of Papua New Guinea, in particular Western Province. In accordance with the rules one third of the funds are to be applied to programs benefiting the people of Western Province, and the other two thirds to be applied to programs which benefit the people of Papua New Guinea.

By end of December 2002, the Current Purpose Fund balance was US\$1.8 million or K7.5 million.

### **GENERAL FUND**

In accordance with Clause 14 of the Rules of the Program, a yearly budget of administration costs must be prepared and approved by the Board. The General Fund allows for an allocation to fund the Budget of the Company.

The General Fund allocation as at 31 December 2002 was US\$ 0.6 million or K2.7 million.

## INVESTMENT ACTIVITIES

### **Investment Policy and Guidelines**

In pursuing its object, the Company is able to invest and utilise its available resources from the Long Term Fund (LTF), the Current Purposes Fund and the General Fund in accordance with the Program Rules of the Company. The Rules require that investments in the LTF be placed in low risk investments.

The objective of the Company's investments is to:

- Significantly build up the Long Term Fund through interest rate earnings, dividends, capital gains and foreign exchange gains;
- Diversify its current investment portfolio risk against interest rate, foreign exchange and other financial markets; and
- Invest portions of the Long Term Fund in Papua New Guinea in low risk strategic investments. These may in some circumstances in themselves generate significant sustainable economic and development benefits for Papua New Guinea and its people.

The Board established an Investment Committee to oversee its Investment Policy and Guidelines, and will appoint an Investment Adviser/Funds Manager in 2003 to manage the Company's overseas investments, especially of the Long Term Fund.

### **Investment Operations**

During early December 2002, the Company placed US\$ 6.4 million or K 26.8 million from its first dividend income in short-term investments not exceeding 6 months duration and limited to major currencies. This investment will mature on 4 June 2003. Management of these investments has been undertaken on the Company's behalf by the ANZ Banking Group through its Hong Kong Branch.

## SUSTAINABLE DEVELOPMENT PROGRAM ACTIVITIES

The development challenges facing the nation are well known. Significant resources and effort have been spent on promoting development, including with the support of international development partners. The Company will need to take account of these efforts and experience in developing its sustainable development policies and programs.

Combining its investment and developmental roles with its long term focus gives the Company a unique and important role in facilitating sustainable development in Papua New Guinea, in partnership with the Government, the Private Sector, Churches and other NGOs.

The Board of Directors and Management engaged in preliminary consultations with Papua New Guinea stakeholders especially with the Papua New Guinea and Western Province Governments on the Company's role in supporting sustainable development in Papua New Guinea, and Western Province in particular. The Chairman and several members of the Board visited Western Province including Ok Tedi Mine at Tabubil.

As part of its consultative process, the Company is participating in the National Development Forum process sponsored by the Consultative and Implementation Monitoring Committee (CIMC) which brings together all sectors of the community in discussing and finding solutions to national development problems. The Advisory Council will also play an important role in this on-going process.

Several potential programs and projects for support by the Company are also under investigation. Immediate opportunities lie in agriculture, forestry, tourism, fisheries, infrastructure, education and health sectors, and in capacity building at the local level.

The Company received a request from the PNG Government to participate in the Highlands Highway Rehabilitation Project, to cost approximately K250 million. It is being coordinated by the World Bank with potential support from AusAID, the Asian Development Bank and Japan. The Company's support for the project would facilitate significant international financing to secure the rehabilitation of a strategic highway providing transport access into the populous and economically productive Highlands region. The Company's evaluation of its participation in this project is focusing on the quality of governance, the effectiveness of management, and the sustainability of improvements generated by the project.

For the Western Province, the Company has offered assistance to the Western Province Government in financial management, and capacity building. We are also examining the potential for eco-forestry, tourism, agriculture involving rubber and oil palm, road infrastructure as well as support for secondary and technical education, and health in the area of maternal and infant mortality, and major public health issues. A study into the future use and maintenance of key mine-related infrastructure after the Ok Tedi mine closes is of particular interest.

During 2003, the Company will conduct detailed development program identification and formulation work and will present its reports to the Advisory Council, relevant agencies of government, other PNG stakeholders, and international development partners in preparation for consideration by the Board. Following this and estimates of the Company's likely income, an initial 5 year rolling development program and budget will be prepared in time for discussion at the Annual Report Meeting in 2004. The preparations being undertaken of the Government's Medium Term Development Strategy (MTDS) for 2004 – 2008, also provides a valuable opportunity to identify specific national development programs for possible support by the Company within its Sustainable Development Program agenda for the next 5 years.

## OK TEDI MINING LIMITED

### New Era for Ok Tedi Mining Limited

In February of 2002, new arrangements surrounding the future operations of Ok Tedi mine were finalized and a new chapter for Ok Tedi Mining Limited (OTML) commenced. With the transfer of BHP Billiton's interests from OTML to PNG Sustainable Development Program Ltd (the Company), the Company became the majority shareholder of OTML. This means that 82 percent of OTML is owned by Papua New Guinea interests and substantially all of the economic benefits of the Ok Tedi mine now flow back to PNG. Inmet Mining of Canada continues to hold its 18 percent interest in OTML.

The new ownership of OTML as 30 April 2003 is:

	Ordinary Shares	% Holding
• PNG Sustainable Development Program Ltd	122,200,000	52
• Independent State of Papua New Guinea	70,500,000	30*
• Inmet Mining Corporation (of Canada)	42,300,000	18

Note: The State's interests consist of: Independent State of PNG 15%, Mine Lease Landowners 2.5%, Fly River Provincial Government 2.5%, and Mineral Resources Ok Tedi No. 2 on behalf of the people of Western Province 10%.

The new arrangements eliminate the past uncertainty regarding the future operation of the Ok Tedi mine. The agreements and the new regime should provide stability for the future operation of the Ok Tedi mine and allow mine management to focus on maximizing the value for the benefit of all stakeholders.

### Ok Tedi Mine Governance

The other significant aspect of the new arrangements is the way in which OTML is governed in future. A new Board of Directors has been formed to oversee the governance of OTML. Each of the three shareholders appoints one Director. The Board is also to include three directors that are independent of the shareholders and they will play a critical role in ensuring that OTML has all the resources at its disposal to continue to operate as a world-class competitive operation.

### Community Support for Ok Tedi Mine

The other key aspects of these new arrangements are the Community Mine Continuation Agreements (CMCAs) with communities affected by the Mine's operations. The large majority of villages, representing more than 50,000 people, are signatories to these agreements. These agreements define the terms under which the communities affected by the mine's operations have supported the mine's continuation. During 2002, Ok Tedi started to implement various aspects of the CMCAs and committed itself to working with the communities to ensure that the funds generated from these agreements are put to good use.

The new arrangements also saw the establishment of the **Ok Tedi Development Foundation**, which will be responsible for supporting OTML's community support programs.

### **OTML's Contribution to PNG**

During the period ended December 2002, OTML contributed directly and indirectly benefits to Papua New Guinea valued at K2.2 billion, details of which are set out in the table below.

<b>Production</b>	719,863 dry metric tonnes of copper concentrate, an increase of almost 25,000 tonnes from 2001, and containing 211,313 tonnes of copper, 509,106 troy ounces of gold and 1,039,369 troy ounces of silver
<b>Export</b>	K1,241.8 million, which is 20.6 percent of PNG's total exports and 11 percent of GDP
<b>Royalties</b>	K17.39 million to Western Province government and K7.1 million to landowners
<b>Mining Levy</b>	K43.8 million to PNG Government
<b>Dividends</b>	K 47.3 million to shareholders, including K11.4 million to PNG Government, K 6.0 million to Mineral Resources Ok Tedi No.2 Limited and K29.9 million to PNGSDP Ltd
<b>Dividend Withholding Tax</b>	K4 million (K3 m from PNGSDP Ltd & K1 m from Inmet)
<b>Compensation Payments</b>	K70.36 million to local communities in return for agreements on mine continuation. This includes CMCA payments in January and December 2002.
<b>Infrastructure Expenditure</b>	K329.1 million on schools, roads, health and community Facilities
<b>Tax Credit Scheme</b>	K14.7 million on Government-led development projects in health, education, roads, bridges, airports, police and utilities
<b>Training Expenditure</b>	K5.4 million on staff training and community education scholarships, totaling K40.62 million since 1981
<b>Business Development</b>	75 local businesses assisted, which turned over K174.8 million
<b>Employment</b>	1,883 people employed, 93 per cent of whom were PNG citizens, and 694 from the preferred area. Total PNG wage and salary payments of K 80 million.
<b>Contractors</b>	K446.6 million on contractors, K316.1 of which was paid to PNG companies

(Note - December 2002: PNG K 1.00 = US\$ 0.244)

## **PNG Sustainable Development Program Limited and OTML**

The new arrangements also impose contractual obligations on the Company in relation to OTML in recognition of the importance of OTML as the Company's sole source of income and to ensure that OTML remains a profitable and responsible mining operation over its remaining economic life.

Our Company is required to appoint one director to the Board of OTML and the Board of the Company has appointed Dr Garnaut to the Board of OTML. It is a requirement under the OTML Constitution for non "independent" directors fees to be paid by their nominating body and therefore Dr Garnaut's fees are met by the Company.

By 30 April 2003, three payments have been made by OTML to the Company as dividend totaling US\$41,476,240 or K161,823,000 with US\$4,147,624 or K16,182,300 deducted or payment to the PNG Internal Revenue Commission as Dividend Withholding Tax. Forecasts indicate a continuing healthy stream of dividend income from OTML.

As part of the new arrangements the Company is a party to an Option Deed with OTML under which OTML has a right to require the Company to execute a deed of indemnity in respect of a person who is, or is about to be, appointed or deemed to be appointed a director under paragraph 59(2) of OTML's Constitution if OTML is unable to obtain, maintain or renew Directors & Officers Insurance for that person on "Commercial Terms". Such directors are independent non-executive directors with extensive professional experience relating to the mining industry and OTML's Managing Director is deemed to be a director appointed under paragraph 59(2) (the Independent Directors). OTML exercised its right under the Option Deed on 6 February 2002 and the Board approved the Deeds of Indemnity for each independent director of OTML. The deeds have been dispatched to each OTML director for execution.

The Ok Tedi Mine closure will have significant impact on Western Province and the nation. The Company is required to give first priority under the Long Term Fund in supporting economic and social services in mitigating the consequences of mine closure within Western province. As part of the new arrangements OTML is required to prepare and submit a Mine Closure Plan. A major component is consultation between all interested parties to identify and examine the feasibility of alternative uses for key mine related infrastructure post mine closure. OTML is required to set aside funds (provisionally estimated at US\$150 million) for mine closure and decommissioning. The Company has been invited to participate in the **Ok Tedi Mine Closure Planning Committee** by the Department of Mining. This provides an avenue for working together with all stakeholders.

OTML has significant experience in development activities within the Western Province, which will be valuable to the Company. In addition, the establishment and operation of the Ok Tedi Development Foundation provides an opportunity to work together within Western Province.

## **Environment**

A new environmental regime is provided for in the new Ok Tedi arrangements. As part of this regime, OTML has converted its test dredging operation at Bige into a permanent one to mitigate the future impact of aggradation build-up in the Ok Tedi and Fly River systems at an annual cost of approximately US\$30 million. Through its ongoing investigations, Ok Tedi has identified the potential for acid rock generation (ARD) at the dredge sand stockpiles as an environmental issue requiring research into long term ARD mitigation options. Although there is no occurrence of ARD at this time, in either the dredge stockpiles at Bige, or in the waste rock dumps at the mine, OTML has identified the need to mine additional limestone to provide a sufficient safety factor for the neutralizing capacity of the waste rock and tailings discharge in the Ok Tedi Mani and Ok Tedi River systems. OTML has adjusted its mine plans to obtain the necessary levels of limestone production.

Ok Tedi and BHP Billiton are co-defendants in legal proceedings commenced in the State of Victoria, Australia alleging breach of a 1996 settlement agreement relating to earlier claims for damages arising from the environmental impacts of the mine. OTML has advised that it has good defenses to this action. The Company is not a party to those proceedings. As a shareholder of OTML, a limited liability corporation incorporated under the laws of PNG, the Company enjoys the legal protections afforded to shareholders.

However, under the new arrangements the Company indemnifies BHP Billiton for all liability arising under a claim for environmental damage arising out of the operation of the mine after 7 February, 2002; and indemnifies the State against all liability arising under a claim for environmental damage caused by the operation of the mine before 7 February 2002 resulting from an act or omission by BHP Billiton in breach of its obligations under its management agreement or in breach of environmental law.

## **Ok Tedi Mine Operations and Performance**

The shareholders are committed to continuing to invest in new technology and equipment to ensure that OTML achieves its maximum potential. This is all translating into lower costs and more productivity, which will ultimately benefit all stakeholders. This was demonstrated in the operational results in 2002 as OTML reported record production of over 211,000 tonnes of copper metal and 515,000 ounces of gold. This was achieved in spite of the fact that OTML had to face the impacts of the El Nino weather system in 2002 that disrupted shipping in the latter half of the year.

OTML has tackled the changes in 2002 head on and has completed the year as a more productive and focused company. We believe that the new business model for OTML is sustainable and will result in benefits for many years to come. OTML is even more committed to maintaining its goals of world-class production, safety standards, continuous improvement and ongoing and sustainable development.

In 2003, OTML should:

- Mine and mill 29 million tonnes of ore at 0.8 per cent copper and 0.8 grams per tonne gold
- Produce 193,000 tonnes of copper and 500,000 ounces of gold

With new organizational structures in place and technical upgrades undertaken during the first quarter of 2003, OTML is well positioned to benefit from a strong production year. We expect that OTML's operating results will provide the Company with a source of significant cash flow via dividend payments in 2003.

## DIRECTORS' REPORT ON COMPANY'S ACCOUNTS

### Financial Statements

The audited financial statements for the Company and the Group financial statements consisting of the financial statements of the Company and the separate financial statements of its subsidiary, Ok Tedi Mining Limited, for the financial period 20 October 2001 (date of incorporation) to 31 December 2002 were signed on 31 January 2003. These include fully audited statements for the entity PNG Sustainable Development Program Limited. Consolidated financial statements were not presented for the period as the last audited financial report for the Company's subsidiary, Ok Tedi Mining Limited, was for the year ended 30 June 2002, which does not coincide with the parent company's financial year. Ok Tedi Mining Limited has now changed its year end to 31 December, and audited consolidated financial statements for the Company and its subsidiary will be presented for the year ended 31 December 2003 and future periods.

The summarised statement of financial performance and statement of financial position set out below have been extracted from the audited financial statements of the Company, which are presented in Singapore Dollars. Amounts have been converted to Kina for presentation purposes at the year end exchange rate of 0.4286. Reference should be made to the supplement document to the Annual Report incorporating the financial statements of the company for a true and fair view of the financial position of the Company as at 31 December 2002 and its performance for the period then ended in accordance with generally accepted accounting practice and the auditors report thereon.

The detailed audited financial statements of the Company for the period 20 October 2001 to 31 December 2002 comprising the:

- Directors' Report and Statement
- Auditors' Report
- Income Statement
- Balance Sheet
- Cash flow Statement
- Attached financial statement of Ok Tedi Mining Limited as at 31 December 2002,

are presented in a supplementary report which forms part of the Annual Report.

## Summarised Statement of Financial Performance

	S\$'000	K'000
Dividend income 1/	12,737	29,718
Interest income	61	143
<b>Total Revenue</b>	<b>12,798</b>	<b>29,861</b>
Staff costs	57	134
Directors' remuneration	270	630
Auditors' remuneration	15	35
Other administrative expenses	401	936
<b>Total Expenditure</b>	<b>743</b>	<b>1,735</b>
Operating surplus	12,055	28,126
Papua New Guinea Withholding Tax 2/	1,274	2,972
<b>Net surplus after tax</b>	<b>10,781</b>	<b>25,154</b>

Notes:

1. A dividend of US\$7.2million was received from Ok Tedi Mining Limited during the period
2. The tax expense relates to dividend withholding tax paid to the PNG Internal Revenue Commission. The income of the Company is not subject to tax in Singapore.

## Summarised Statement of Financial Position

	S\$'000	K'000
Investment in subsidiary /1	5,478	12,782
Cash and bank balances	11,493	26,815
Other assets	218	509
<b>Total Assets</b>	<b>17,189</b>	<b>40,106</b>
Loan from BHP Billiton Limited /2	6,115	14,266
Other liabilities	293	686
<b>Total Liabilities</b>	<b>6,408</b>	<b>14,952</b>
<b>Net Assets</b>	<b>10,781</b>	<b>25,154</b>
General fund /3	1,158	2,701
Long term fund /3	6,416	14,969
Current purpose fund /3	3,207	7,484
<b>Total Funds</b>	<b>10,781</b>	<b>25,154</b>

Notes:

1. The Company acquired a 52% interest in Ok Tedi Mining Limited from BHP Billiton Limited at no cost. The cost of investment relates to stamp duty paid to the PNG Internal Revenue Commission and legal fees incurred in relation to the transfer of the shares. The Company's share of the net tangible assets of the subsidiary at 31 December 2002 was US\$261.2 million.
2. The loan from BHP Billiton Limited was drawn down from the funding facility deed signed between the Company and BHP Billiton Limited on 22 November 2001. This loan is interest free
3. The Company is required by its rules to apply its income from Ok Tedi Mining Limited and other sources to a Long Term Fund, the Current Purpose Fund and the General Fund attributable to the operations of the Company. Details of the nature and usage of these Funds is included in Section 5 of this report.

## **Corporate Governance**

The names of the directors in office at the date of this report are:

Ross Garnaut- Chairman (appointed 20 May 2002)  
James Joseph Carlton- (appointed 20 May 2002)  
Patricia Joy Caswell (appointed 20 May 2002)  
Jakob Weiss (appointed 13 November 2001)  
Donald Wabirao Manoa (appointed 10 October 2002)  
Lim How Teck (appointed 31 January 2003)  
Sir Ebia Olewale (appointed 9<sup>th</sup> April 2003)

### **Acquisition of subsidiary**

As part of the agreements between BHP Billiton and the Independent State of Papua New Guinea which came into effect on 20 December 2001, the Company acquired 52% interest in OTML for zero consideration. The Company's share of the net tangible assets of the subsidiary was US\$278.6 million.

### **Director's interest in shares or debentures**

There were no registered shareholding in the Company and its subsidiary by any of the directors as at the date of this report.

### **Directors' Remuneration**

The Members approved initial Directors' Fee levels at A\$80,000 per annum and for the Chairman of the Board at A\$120,000 per annum. These levels were established by the Company prior to the appointment of the current Board, and, were recommended by BHP Billiton as being appropriate for the Company in the future. Consistently, with BHP Billiton's recommendation, fee levels will be raised annually at 1 July in line with the increase in the Australian Consumer Price Index, taking the index as at 30 June 2003 as the base.

### **Directors' contractual benefits**

Since the date of incorporation, the directors have not received any contractual benefits entered into with the Company except for Dr. Ross Garnaut who is a nominee director of the Company's subsidiary and will be receiving remuneration in this capacity.

### **Tax Payments to PNG**

The Company paid US\$3.1 million. or K12.7 million as Stamp Duty on the Share Transfer transaction and US\$0.7 million or K3.0 million in Dividend Withholding Tax to PNG authorities during the period. No tax has been paid to Singapore authorities.

### **Appointment of the Auditors**

The auditors, PricewaterhouseCoopers have been reappointed as auditors of the Company for 2003.

### **Audit Committee**

The audit committee appointed:

Lim How Teck - Chairman  
Ross Garnaut  
Jakob Weiss

The committee is responsible fully for the internal and external audits of the Company and to ensure full compliance with all regulatory requirements.

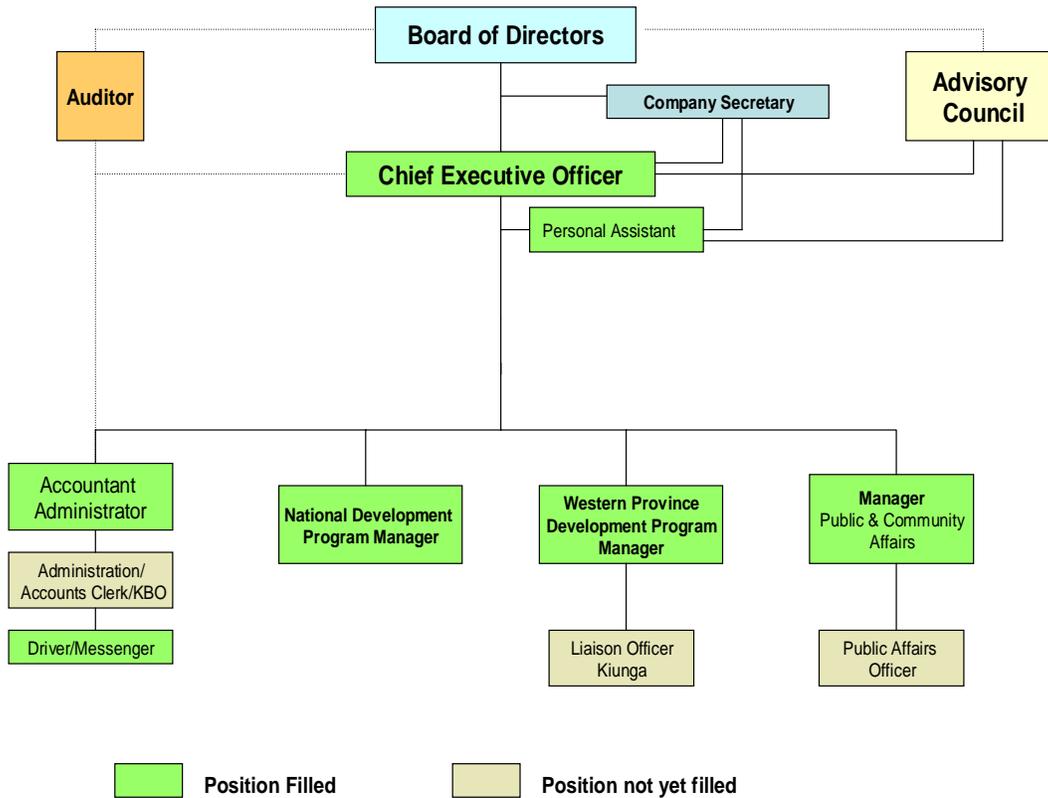
### **BHP Billiton Limited (BHP) Loan Facility**

As at 31 December 2002, the amount of US\$3.5 million remained unpaid by the Company under the loan facility with BHP Billiton.

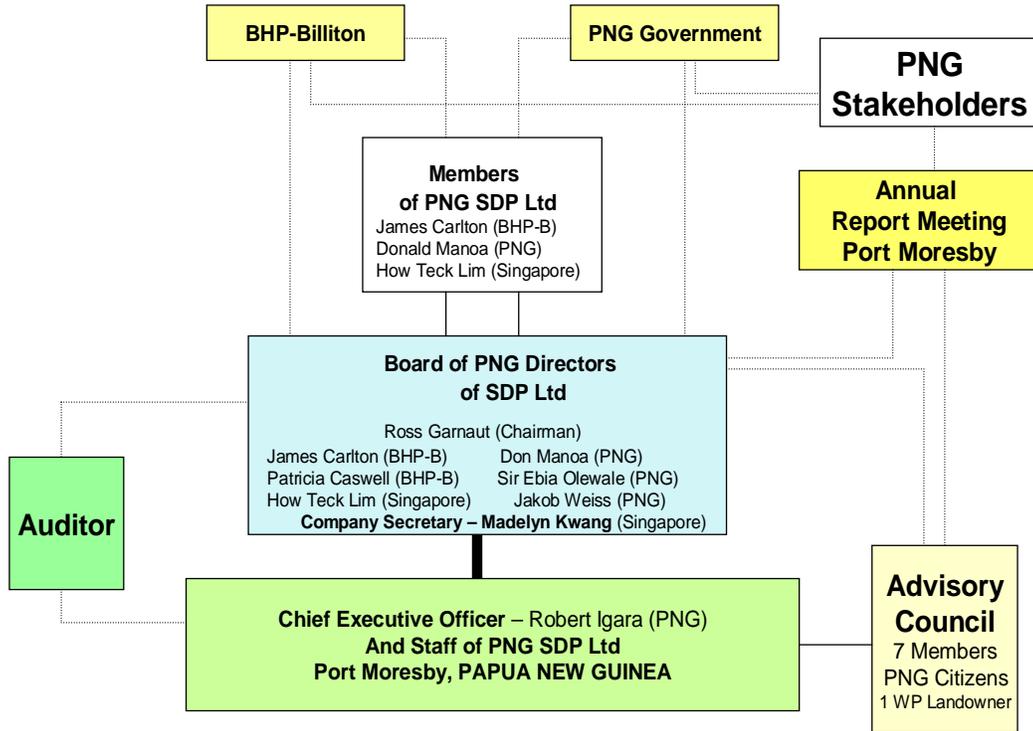
### **Development Program Expenditures**

As at 31 December 2002, no funds have been spent on development programs for the Western Province or for PNG as a whole. Programs are expected to commence in the second half of 2003.

# Organisational Structure



## Governance Structure – PNG SDP LTD



**AGREEMENTS ENTERED INTO BY THE COMPANY  
IN RELATION TO BHP BILLITON'S EXIT FROM OTML  
AND TRANSFER OF ITS SHARES TO PNGSDP LTD**

The Company is a party to a number of the agreements which were entered into to give effect to BHP Billiton's exit from Ok Tedi Mining Limited. A brief description of the documents to which the Company is a party, and a summary of the Company's obligation under each document, is as follows:

- **Master Agreement** dated 11 December 2001 between the Independent State of Papua New Guinea, Minerals Resources Ok Tedi No. 2 Limited (MROT), BHP Billiton Limited, BHP Minerals Holdings Proprietary Limited, Inmet Mining Corporation, Ok Tedi Mining Limited, and PNG Sustainable Development Program Limited. This agreement sets out how the overall transaction is to be documented and completed. The Company's principal obligation under this agreement is that it agreed to comply with the Rules of the PNG Sustainable Development Program.
- **Fourth Restated Shareholders Agreement** dated 11 December 2001 between the Independent State of Papua New Guinea, Inmet Mining Corporation, Mineral Resources Ok Tedi No.2 Limited, PNG Sustainable Development Program Limited, and Ok Tedi Mining Limited. This agreement restates the agreements between the new shareholders of OTML and, where necessary, amends the previous shareholders agreement to reflect the new shareholding in OTML following the transaction. No special obligations are imposed on the Company by this agreement which governs the relationship between the shareholders of OTML.
- **Deed of Indemnity – BHP Billiton** dated 11 December 2001 between PNG Sustainable Development Program Limited and BHPB. Under this deed the Company has agreed to indemnify any member of the BHP Billiton Group (other than OTML) and their directors officers and employees against:
  - any liability under a claim for environmental damage arising out of the operation of the mine after the effective date of the transaction (7 February 2002); and
  - any claim made in contravention of the undertaking given by the State to the BHPB parties not to prosecute them for a breach of environmental laws in relation to the operation of the mine prior to the effective date as contained in section 5 of the *Mining (Ok Tedi Mine Continuation (Ninth Supplemental) Agreement) Act 2001* (the **Act**).
- **Deed of Indemnity – The State** dated 11 December 2001 between PNG Sustainable Development Program Limited and the Independent State of Papua New Guinea. Under this deed the Company has agreed to indemnify the State against all liability arising under a claim for environmental damage caused by the operation of the mine before the effective date resulting from an act or omission by BHPB in breach of its obligations under its management agreement or in breach of environmental law.

- **Option Deed** dated 11 December 2001 between PNG Sustainable Development Program Limited and Ok Tedi Mining Limited. Under this deed the Company has agreed at the request of OTML to indemnify the independent directors of OTML in respect of claims against them arising out of their acting as such director to the extent that appropriate insurance is not available on commercial terms.
- **Subsidy Deed** dated 11 December 2001 between PNG Sustainable Development Program Limited and Ok Tedi Mining Limited. Under this deed the Company has agreed to pay as a non-refundable subsidy an amount equal to increased borrowing costs and charges incurred by OTML as a result of not being a subsidiary of BHPB up to an average weighted increase of all rates costs and charges of 2.5% and on a maximum loan commitment of US\$ 120 million.
- **Funding Facility Deed** dated 22 November 2001 between BHP Billiton Limited and PNG Sustainable Development Program Limited. Under this deed BHPB has agreed to provide a facility to the Company of up to (currently) US\$85 million to enable the Company to meet:
  - capital calls from OTML;
  - a claim under an indemnity given by the Company;
  - a financing subsidy to OTML under the Subsidy Deed; and
  - in certain circumstances, operating expenses.

The facility reduces to US\$70 million on 7 February 2004, and is not available after 7 February 2005. Advances under the facility do not bear interest, and repayments are only required out of available cash flow.

All of the Company's obligations (both actual and contingent) under:

- The Deed of Indemnity – BHP Billiton
- The Deed of Indemnity – The State
- The Funding Facility Deed, and
- The Subsidy Deed,

are secured by a charge over the dividend stream attached to the shares held by it in OTML (but not the shares themselves). This charge is held by a security trustee, Insinger Trust (Singapore) Limited (**Insinger**), in trust *parri passu* for all parties entitled to a payment under any of the above documents. Accordingly, the Company is also a party to the following documents (all dated 7 February 2002) which give effect to these security arrangements:

- An Equitable Mortgage of Shares in favour of Insinger;
- A Security Deed between PNGSDPL, OTML and Insinger; and
- A Security Trust Deed between PNGSDPL, BHPB, ISPNG, OTML and Insinger.