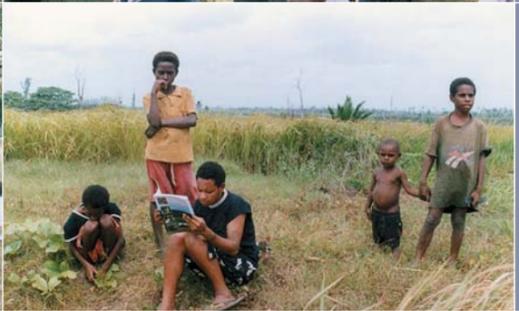
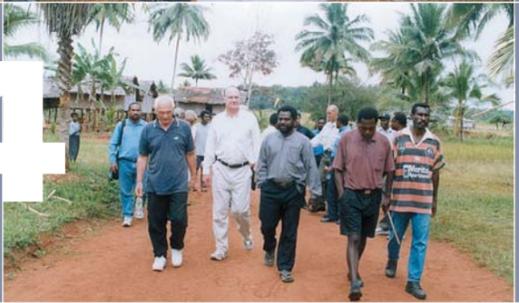
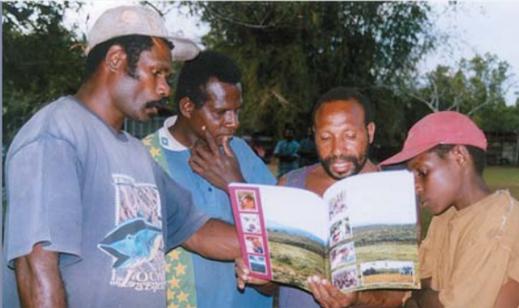


2004



Contents |

Letter from the Chairman.....	2
Our Mission and Values	3
Highlights of 2004.....	4
Chairman's Report.....	8
The Board of Directors	12
Members of the Company.....	16
Chief Executive Officer's Report	17
The Management Team	19
Administration and Corporate Services.....	21
The Advisory Council.....	23
The Annual Report Meeting.....	26
Income, Funds Allocations and Expenditure.....	27
Investment and Funds Management Activities	28
Sustainable Development Program Activities	29
Ok Tedi Mining Ltd Operations.....	36
Directors' Report on the Company Accounts	38
Summarised Income Statement	
Summarised Balance Sheet	
2004 Financial Statements.....	40
ANNEXES:	
A. Agreements entered into by the Company in relation to BHP Billiton's exit from OTML and Transfer of Shares to the Company.....	67
B. Basic Statistics of Papua New Guinea and Western Province.....	69
C. Map of Papua New Guinea	70
Corporate Directory.....	72

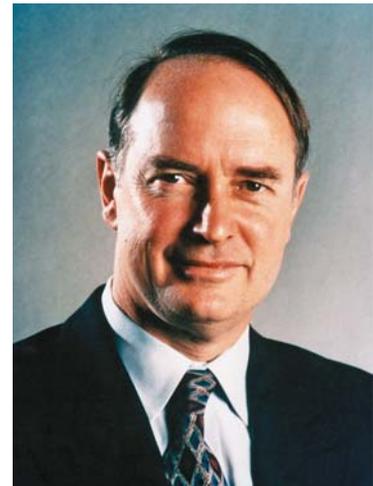


| Letter from the Chairman

PNG Sustainable Development Program Limited

Port Moresby,

4 May, 2005



The Independent State of Papua New Guinea

BHP Billiton Limited

Ok Tedi Mining Limited

In accordance with Clause 20 of the Company's Program Rules under 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 2004, covering the financial year ending 31 December 2004. The Annual Report also includes the financial statements and the report of the Auditor. Furthermore, in accordance with Clause 19.3 of the Program Rules of the Company, the key elements of the Annual Report will be presented for discussion at the Annual Report Meeting of the Company, to commence at 9.00 am on Tuesday 24 May 2005 at the Conference Hall, Holiday Inn Hotel, Port Moresby.

Sincerely,

A handwritten signature in dark ink, appearing to read 'R. Stewart', written in a cursive style.

'Promoting development that meets the needs of the present generation and establishes the foundation for continuing progress for future generations of Papua New Guineans'

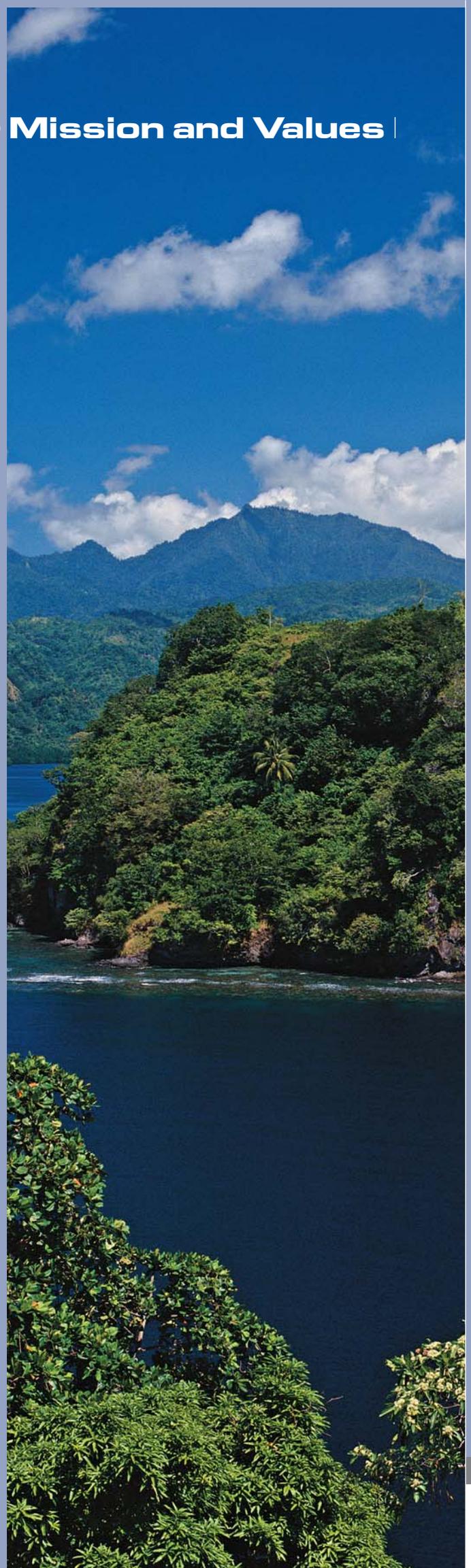
We recognise the significant onus of trust, responsibility and challenge that has been placed upon the Company.

We will be honest, fair and accountable in all our dealings, while promoting equality and efficiency in our conduct and activities.

We commit ourselves, through the activities of the Company, to promote and improve the quality of life of current and future generations of the people of Papua New Guinea, especially of Western Province.

We will achieve this by:

- investing and managing wisely the income and resources of the Company;
- undertaking investments and supporting development programs and projects that are sustainable-providing significant benefits in the short and long term to the people, local communities, provinces and the nation;
- meeting the best international standards-financial, physical, cultural, social and environmental-in our activities;
- working together with the people of Papua New Guinea in partnership with the government, churches and other non-government development and business partners.



Highlights of 2004

Income and Expenditure

At 31 December 2004, the Company had received US\$64.2 million (K207.1 million) in gross dividend income from Ok Tedi Mining Ltd, resulting in significant increases in its Long Term Fund from US\$42.1 million (K138.5 million) in 2003 to US\$79.4 million (K256.1 million). Income from investments totalled US\$3 million (K9.7 million).

Development Program expenses were US\$1.9 million (K6.1 million). Total commitments to programs and projects were US\$16.3 million (K52.9 million) and specific project-level funding approvals totalled US\$10 million (K32 million) at 31 December 2004.

Income and Expenditure (US\$ million, K million)

	2004		2003	
	US\$	K	US\$	K
Revenue	67.2	216.8	67.9	242.1
OTML Dividend	64.2	207.1	65.5	233.4
Income from Investments	3.0	9.7	2.4	8.7
Total Expenditure	11.4	36.8	9.5	33.4
Taxes (Payments to PNG Govt)	6.4	20.7	6.5	23.3
Contractual Obligations	0.4	1.3	0.8	2.8
Admin and Other				
Overhead Expenses*	2.7	8.7	1.8	6.3
Dev & Invest Program	1.9	6.1	0.3	1.0
Status of Funds				
Long Term Fund	79.4	256.1	42.1	138.3
Development Fund	38.0	122.6	20.9	68.8
General Fund	2.9	9.4	1.4	4.7

The Development Fund also increased from US\$20.9 million (K68.8 million) in 2003 to US\$38 million (K122.6 million) by 31 December 2004. In accordance with the Company's Rules, US\$12.5 million (K40.4 million) of this was allocated to the Western Province Development Fund and US\$25.5 million (K82.2 million) was allocated to the National Development Fund.

The Company paid US\$6.4 million (K20.7 million) in tax to Papua New Guinea, mostly in the form of Dividend Withholding Tax. It also paid US\$0.4 million (K1.3 million) to OTML as subsidy for OTML's loan facility.

Administration expenses amounted to US\$2.7 million (K8.7 million), which included legal and accounting services under outsourcing arrangements and establishment costs related to office and program management.

Investment and Funds Management Operations

The Company's total funds under investment overseas and within Papua New Guinea amounted to US\$119.2 million (K384.5 million).

Newton Investment Management Ltd of London has been the Company's Investment Adviser/Fund Manager since September 2003, and by year's end managed investments worth US\$109.2 million (K352.3 million).

During this period, the Company invested from its Development Funds a total of US\$7.1 million (or K22.9 million), principally in Treasury Bills, and inscribed stocks with the Bank of Papua New Guinea.

A second overseas Investment Adviser/Funds Manager, Schroders & Co. Ltd also of London, was appointed in November 2004. No funds were transferred to Schroders during 2004.

Highlights of 2004 |

Sustainable Development Program Initiatives

A number of strategic initiatives were developed and pursued during the year. Management also continued to investigate other potential sustainable development opportunities the Company could support under its Development Fund, or under the Long Term Fund for projects that fulfil that Fund's 'low-risk' investment criteria.

By end-2004, the Company had approved funding for

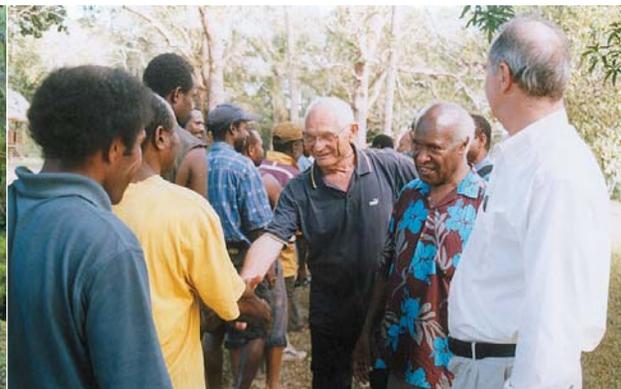
development projects totalling US\$10.0 million (K32 million) from the Development Fund, with US\$4.4 million (K14.1 million) for projects within Western Province, and US\$5.6 million (K18.1 million) for projects in other parts of Papua New Guinea.

At 31 December 2004, the Company had committed a total of US\$16.3 million (K52.9 million) to sustainable development programs including at the general program and major projects level. These commitments are from

	US\$m	Km
• Community Sustainable Development Program	4.6	15.0
• Hospital Facilities and Equipment Rehabilitation Fund	1.5	5.0
• PNG Sustainable Energy Ltd	0.5	1.6
• Sustainable Energy Fund	1.5	5.0
• Lake Murray Village Rubber Project	3.7	11.8
• PNG Microfinance Ltd	2.3	7.5
• National Roads Rehabilitation and Maintenance Project (Oro and Central Province Roads)	2.2	7.0
Total Funds Committed (million)	16.3	52.9

Development Project Funding Approvals, Commitments and Disbursements to 31 December 2004 (US\$ and K, millions)

	Western Province Development Program		National Development Program	
	US\$	K	US\$	K
Approved Project Funding	4.4	14.1	5.6	18.1
Commitments in 2004	0.1	0.4	0.5	1.7
Disbursement in 2004	0.1	0.4	2.5	8.1
Cumulative Disbursements	0.1	0.4	2.5	8.1
Balance Remaining Against Approved Funding	4.2	13.3	2.6	8.3



Highlights of 2004

At the National Program level, the Company approved the following development initiatives during 2004:

- co-financing of US\$2.3 million (K7.4 million) to support the government's counterpart contribution of 30 per cent to rural roads projects in the Oro and Central provinces under the World Bank sponsored National Roads Maintenance and Rehabilitation project for six provinces;
- commitment of US\$1.5 million (K5 million) as seed capital to support rehabilitation of base hospitals, including training hospitals, under the National Hospital Equipments and Facilities Rehabilitation Fund;
- establishment of a national microfinance company, PNG Microfinance Ltd (PNGMFL), with the Company providing nearly US\$2 million (K6 million) equity and a US\$0.5 million (K1.5 million) technical assistance grant to support training of microfinance clients;
- establishment of a subsidiary company, PNG Sustainable Energy Ltd (PNGSEL) and a Sustainable Energy Fund (SEF), to support and invest in commercial power projects and electrification of small urban centres and rural communities. The Company has committed seed capital of US\$1.5 million (K5 million) to the Fund.

Ok Tedi Mining Limited

PNG Sustainable Development Program Ltd continued to support its subsidiary, Ok Tedi Mining Ltd (OTML), with the objective of ensuring continuing sound, responsible and profitable operation of the Ok Tedi Copper and Gold mine

in the Western Province of Papua New Guinea. This support includes providing indemnity cover for OTML's independent directors and subsidising OTML's Loan Facility.

Buoyed by favourable market conditions, OTML turned in a strong result for 2004, despite some operational difficulties related to the dry spell and technical failure in the milling process. Financially, OTML performed strongly, declaring a net profit of US\$123.4 million (K395.1 million) for the year.

In addition to dividends, a total of US\$85 million (K279.9 million) was paid to the PNG and Western Province governments in taxes, mining levies and royalties. This means that a total US\$191 million (K616.1 million) generated by OTML went to the benefit of the people of Papua New Guinea. In addition, OTML directly employed almost 2000 people, with around 1500 contractor employees, and also spent a further US\$51 million (K164.5 million) in Papua New Guinea on other goods and services.

OTML's relationship with mine landowner communities strengthened in 2004. The Special Mine Lease Landowners renewed their commitment to the project, signing a Memorandum of Agreement (MOA) with the Western Province and PNG governments to continue supporting mine operations. Mine Landowner communities also benefited from an increase in their share of mine royalties from 30 to 50 per cent, and continued preferential treatment from OTML business activities and training.



Governance

The Board focused its attention on developing several strategic sustainable development initiatives, and continued its program of visiting rural communities and consulting stakeholders in Western Province and other parts of the country. These consultations re-affirm the importance of focusing on sustainable income-generating activities.

The Company convened its second Annual Report Meeting with stakeholders in Port Moresby on 27 May 2004 to discuss the Company's 2003 Report. Representatives of the Government of Papua New Guinea, the Western Provincial Government, Ok Tedi Mining Limited, international development partners and communities attended. As part of its community relations program, the Company, together with Newton Investment Management Limited, sponsored a funds management seminar to coincide with the Annual Report Meeting, which was attended by members of the public.

Administration and Corporate Services

2004 was the first year of operations across the full range of the Company's core functions, and saw delivery of the Company's sustainable development programs begin. A project management and financial accounting system has been selected and design and installation of the system has commenced and will continue in 2005.

The Company continued to strengthen its Management and Program staff in Port Moresby, appointing Mr Camillus Midire as General Manager and a further two

community sustainable development program staff. Both the Western Provincial Administration and OTML staff continued to provide valuable support, including participating actively in project-specific studies.

Looking Ahead

The Company's strategic initiatives in sustainable development at both the community level and through major project investments, especially in Western Province, will continue to be the immediate focus during 2005, in particular on rubber, cashew nuts, forestry, tourism, microfinance, rural electrification, health facilities, road infrastructure and shipping.

The Company's two subsidiaries, PNG Microfinance Ltd and PNG Sustainable Energy Ltd, commenced operations as independent business entities with other commercial shareholders. In the sectors in which these subsidiary companies operate, the Company will refocus its role to performing shareholder functions and supporting roles for specific rural and community project activities being undertaken on its behalf by the two subsidiaries.

The Community Sustainable Development Program gathered momentum, with the first two projects implemented and four others approved. The Program demands on management will increase as projects already approved are implemented, and new projects approved and the number of community-level partners and the geographical coverage of projects increase during 2005, within Western Province and in other provinces of Papua New Guinea.



Chairman's Report

Through 2004, PNGSDP Ltd took its place as a substantial participant in Papua New Guinea and especially Western Province development.

The management team under the leadership of Chief Executive Officer Robert Igara is now at full strength, with the appointment of General Manager Camillus Midire in 2004 and Chief Financial Officer Vere Arava in 2005. It is working effectively on the identification and evaluation of development projects, in selection of program managers to take responsibility for implementation, and supervision of project delivery. The team is also working well with the Board in carrying out the Company's responsibilities in relation to governance of the Ok Tedi Mine, investment of the Long Term Fund, and in corporate affairs.

PNGSDP Ltd has three main areas of responsibility: the delivery of sustainable development services; the continued good governance and good financial performance of the Ok Tedi mine; and the management of the Long Term Fund to support development after the eventual closure of the Ok Tedi mine.

The central function of the Company is to promote sustainable development in Western Province and in Papua New Guinea more generally. The Board of Directors has confirmed its view that PNGSDP can make its most valuable contribution through support for sustainable income-generating activities in Western Province and in rural Papua New Guinea. Sustainability is understood to have governance, management, financial, environment and social dimensions.

Some income-generating projects in agriculture (rubber in Western Province), infrastructure (sustainable power generation in Western Province and road rehabilitation in two other provinces) and micro-finance have commenced. Others in agriculture (especially oil palm and rubber), agro-forestry, sustainable power, transport and communications are at an advanced stage of preparation.

In last year's Chairman's Report, I noted that the allocation of development funds amongst income-generating activities will be guided by the number of sustainable family income units that are generated for



each thousand kina spent. The Board has set a maximum level of expenditure from PNGSDP Development Funds for each sustainable family income unit generated by the project. This limit is higher in Western Province than in the rest of the country.

The Board of Directors is developing a parallel concept-setting a maximum level for subsidy per family for expansion of access to electric power-for allocations to energy projects.

The preferred model for delivering income-generating projects continues to be the "nucleus estate-outgrower model". Within this model, an established, profitable enterprise with appropriate experience owns and manages a commercial enterprise, and beyond its central business activities, receives payments from the PNGSDP Development Fund for delivering services on a sustainable basis to associated rural communities.

PNGSDP has been instrumental in the establishment of two new commercial enterprises within this model. PNG Microfinance Limited will be jointly owned by PNGSDP and the Bank of South Pacific Limited, and we look forward to the World Bank's International Finance Corporation joining the Company during 2005. Sustainable Energy Limited is jointly owned by PNGSDP and the Snowy Mountains Engineering Corporation (SMEC). These two companies will operate with a core of profitable commercial activities, and in addition will play an agency role for PNGSDP in the delivery of services to rural and other low-income communities. The expansion of PNG Microfinance and PNG Sustainable Energy Limited will be supported by later injections of equity and loan funds from beyond the founding partners.

PNGSDP looks forward to contributing to the establishment or expansion of "nucleus" enterprises in other sectors in the year ahead, most importantly in agriculture and economic infrastructure.

The Sustainable Community Development Fund implemented its first two projects in 2004 (both in Western Province) and has gained strong momentum in the early months of 2005. This Fund helps community organisations with a good track record of achievement to

Chairman's Report

extend their activities. Projects are relatively small, and can be undertaken with less elaborate preparation than major income-generating projects.

The Company is pleased with the development of its relations with the international financial institutions over the past year. At the suggestion of the World Bank President James Wolfensohn to Robert Igara and myself in a meeting early in 2004, later supported by the Papua New Guinea Government, PNGSDP is accepting counterpart funding responsibilities for a World Bank project on rehabilitation of roads with agricultural development roles in a number of provinces. This has re-established momentum in an important World Bank project that had been stalled. The International Finance Corporation's-the private investment arm of the World Bank-commitment to PNG Microfinance Ltd will be the IFC's first investment in Papua New Guinea. We look forward to this being the first of many.

The Ok Tedi mine performed well financially in 2004, despite some operational challenges. Performance is even stronger in the early months of 2005.

The continued interest of the Board of Directors and the efforts by management of OTML have led to significant improvements in the mining company's interaction with communities affected by the mine. The environmental challenges of the mine continue to be considerable. Environmental impacts are monitored closely, as a basis for informed assessment by the Papua New Guinea regulatory agencies and affected communities. This is a necessary basis for informed decisions should opportunities emerge for extending the life of the mine. Some changes in mine development strategy that have the effect of extending mine life may generate more favourable trade-offs between environmental impacts and social and economic benefits. PNGSDP accepts a responsibility to ensure that such alternatives are assessed thoroughly by OTML.

The Long Term Fund was invested almost entirely with Newton Investment Management Limited in 2004. The return on the Fund of 2.14 per cent was well below the 8.06 per cent recorded in 2003. The lower returns reflected the assessment by PNGSDP and its advisers that global bond markets embodied an unacceptable degree of risk in 2004, with expectations of rising interest rates. As a result, the majority of the Newton portfolio was held in US dollar cash and near-cash assets, at a time when cash interest rates were between 1 and 2 per cent per annum.

From early 2005, part of the Long Term Fund has been placed with a second international fund management group, Schroders and Co., also of London. The Investment Committee and Board of Directors of PNGSP continue to examine Papua New Guinea investment opportunities for the Long Term Fund. Any Papua New Guinea investments of the Long Term Fund would need to meet the "Low Risk" requirements of the Company's Rules, and also to provide reasonably high expected returns. We recognise the potential for such investments to contribute to Papua New Guinea's economic development.

Through 2004, the Company received as dividends from OTML US\$67.2 million-about the same in US dollars, but significantly less in kina than the year before. At the end of 2004, the Long Term Fund had assets of US\$79.4 million, and the Development Fund had US\$38.0 million available to support development activities in future.

During the first four months of 2005, to the end of April, about US\$52 million has been received as dividends from OTML, or US\$46.8 million after payment of withholding taxes to the Papua New Guinea government. In these four months, the assets of the Long Term Fund have increased to about US\$110 million, and the Development Fund to US\$52.9 million after disbursements of US\$3.3 million.



Chairman's Report

The Company's development programs now have strong momentum. The emphasis so far has been on thorough project evaluation and preparation, which has led to slow beginnings but good prospects for sustainable development outcomes. The results of thorough preparation are becoming more widely apparent through the current year.

PNGSDP is a unique company, presenting unique challenges to its Board of Directors and management. The Board is confident that a basis has been established for meeting these challenges sustainably. The Board expects PNGSDP to be a major contributor to Papua New Guinea development for many decades. Its confidence is underpinned by the good work of the management team under Robert Igara's leadership.

The development contribution of PNGSDP is supported by an increasingly favourable economic climate in Papua New Guinea. The country has had good fortune from international commodity markets, and has used this opportunity to strengthen the foundations for economic

stability and growth. The Company has enjoyed the support and encouragement of Ministers with portfolios that are important for its work. It thanks in particular the Ministers with portfolio responsibilities for the Company, Treasurer Bart Philemon and Minister for Mining Sam Akoitai. The Company is putting considerable effort into developing productive relations with Governor Bob Danaya and his Western Province administration, and with other Western Province Members of the National Parliament.



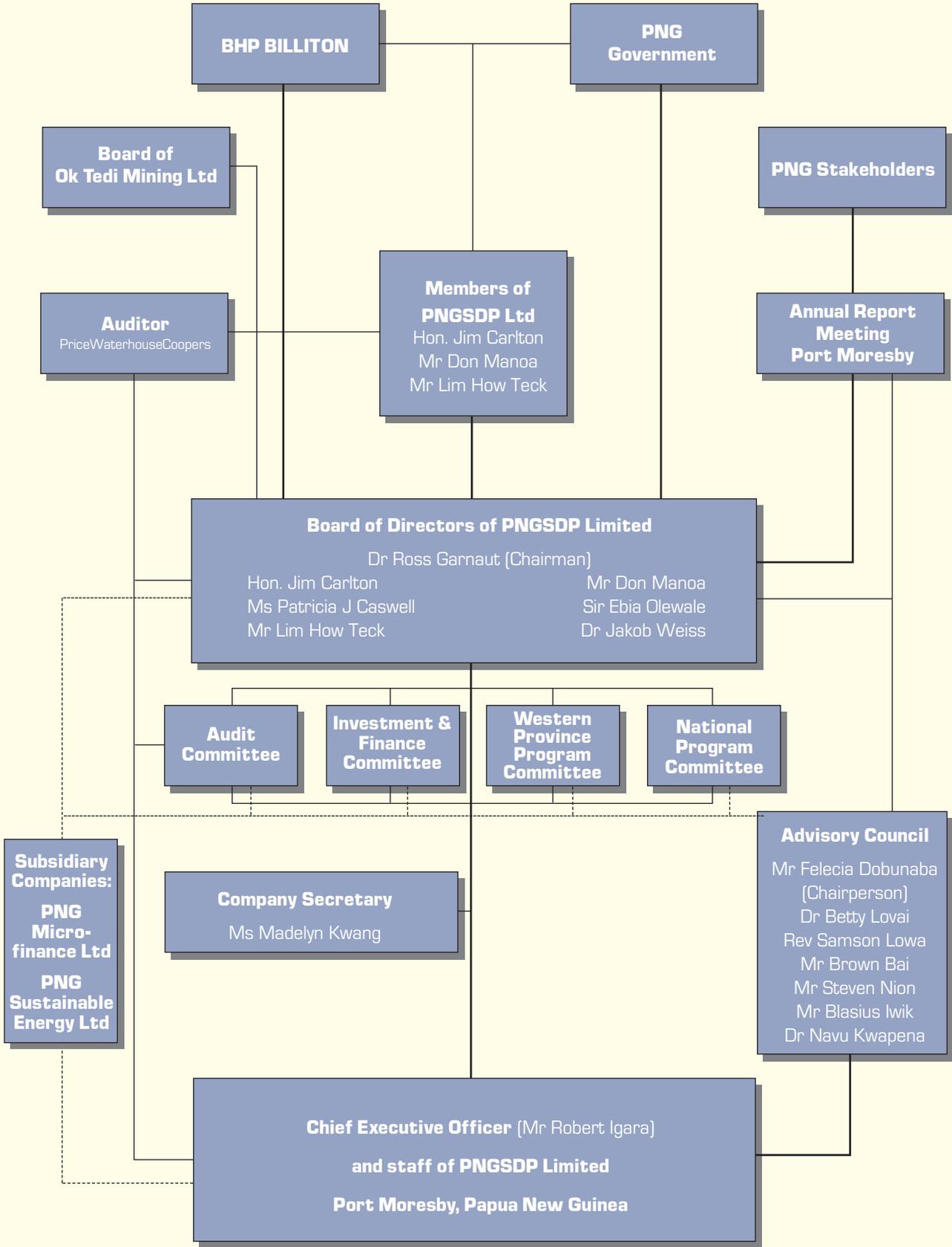
DR ROSS GARNAUT AO BA PhD

Chairman

PNG Sustainable Development Program Limited



Governance Structure PNGSDP Ltd |



The Board of Directors

The Board of Directors is responsible for strategic direction and for managing the business of PNG Sustainable Development Program Limited, including monitoring its performance to ensure consistency with the Company's Program Rules. The Board also reports 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 the direction or control of BHP Billiton or the Independent State of Papua New Guinea.

The Board of Directors consists of Dr Ross Garnaut (Chairman), Mr Donald Manoa, Sir Ebia Olewale, Dr Jakob

Weiss, Hon. Jim Carlton, Ms Patricia Caswell and Mr Lim How Teck.

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. The Board held six meetings during 2004 as follows: 13 February (Singapore), 1 April (Singapore), 21 April (Singapore), 26 May (Port Moresby), 13 August (Singapore), and 12 November (Singapore).

Details of Directors' Appointments and Attendance

Director	Number of Meetings Attended 2004	Date of Appointment
Dr Ross Garnaut	6	20 May 2002
Dr Jakob Weiss	6	13 November 2001
Hon. Jim Carlton	6	20 May 2002
Sir Ebia Olewale	6	9 April 2003
Ms Patricia Caswell	6	20 May 2002
Mr Donald Manoa	6	10 October 2002
Mr Lim How Teck	6	31 January 2003

Board Committees

The Board has established four Committees to assist with its work. They are:

Audit Committee

Mr Lim How Teck (Chairman)
Dr Ross Garnaut
Dr Jakob Weiss

Investment & Finance Committee

Dr Jakob Weiss (Chairman)
Dr Ross Garnaut
Mr Lim How Teck

Western Province Program Committee

Sir Ebia Olewale (Chairman)
Dr Ross Garnaut
Mr Donald Manoa

National Program Committee

Mr Donald Manoa (Chairman)
Dr Ross Garnaut
Hon. Jim Carlton
Ms Patricia Caswell



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 and Asian 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 United States, China and Indonesia. He has been Head of the Department of Economics and Director of the Asia Pacific School of Economics and Management. He was Senior Economic Advisor to Australian Prime Minister, Robert Hawke, and served as Australia's Ambassador to China. He is currently Chairman of Lihir Gold Ltd; and former Chairman of the Bank of Western Australia Ltd, the Primary Industry Bank of Australia Ltd and Lonely Planet Publications Pty Ltd. Dr Garnaut is also a director of Ok Tedi Mining Ltd as the nominee of PNG Sustainable Development Program Limited. He served as First Assistant Secretary responsible for financial and economic policy in the Department of Finance in Port Moresby in 1975 and 1976.



Honourable Sir Ebia Olewale Kt

Appointed to the Board on 9 April 2003 on the nomination of the Minister for Treasury. Sir Ebia, from the Western Province, 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 the Nation'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 responsible for the adoption of Papua New Guinea's Independence Constitution. After the 1977 election, 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 University of Goroka. Prior to his appointment, he was a consultant to Ok Tedi Mining Ltd.



Honourable Jim Carlton AO, BSc

Appointed to the Board on 20 May 2002 on the nomination of BHP Billiton. Mr Carlton was, for seven years, the Secretary General of the Australian Red Cross. Prior to that he was a Federal Member of Parliament in Australia from 1977 to 1994, serving as Minister for Health, and Minister Assisting the Minister for National Development and Energy. He also held a number of Shadow Ministry positions in opposition, including Sustainable Development and Environment, Health, Treasury, Education 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. He also served on the Australian National Commission for UNESCO, the Australian Foreign Minister's Aid Advisory Council, and the Australian National Advisory Council on Peace and Disarmament. He is a former Chairman of the Advisory Council of the National Archives of Australia. He is currently Chairman of the Australian Innovation Association, Council Member of the Australian Strategic Policy Institute, Board Member of the Australian New Zealand School of Government, Senior Advisor to the Boston Consulting Group and a Professional Fellow in the Centre for Public Policy at Melbourne University.

The Directors



Mr Donald Manoa

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

Ms Patricia Caswell, BA (Hon), BEd



Appointed to the Board on 20 May 2002 on the nomination of BHP Billiton. Ms Caswell is Chief Executive Officer of the Victorian Association of Forest Industries in Melbourne. She was formerly the Executive Director of the Global Sustainability Institute at the Royal Melbourne Institute of Technology University in Melbourne. She has served as the Executive Director of the Australian Conservation Foundation, Executive Director of PLAN International Australia, as a secondary school and TAFE teacher, a trade union leader, and on various public and private bodies in Australia.

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



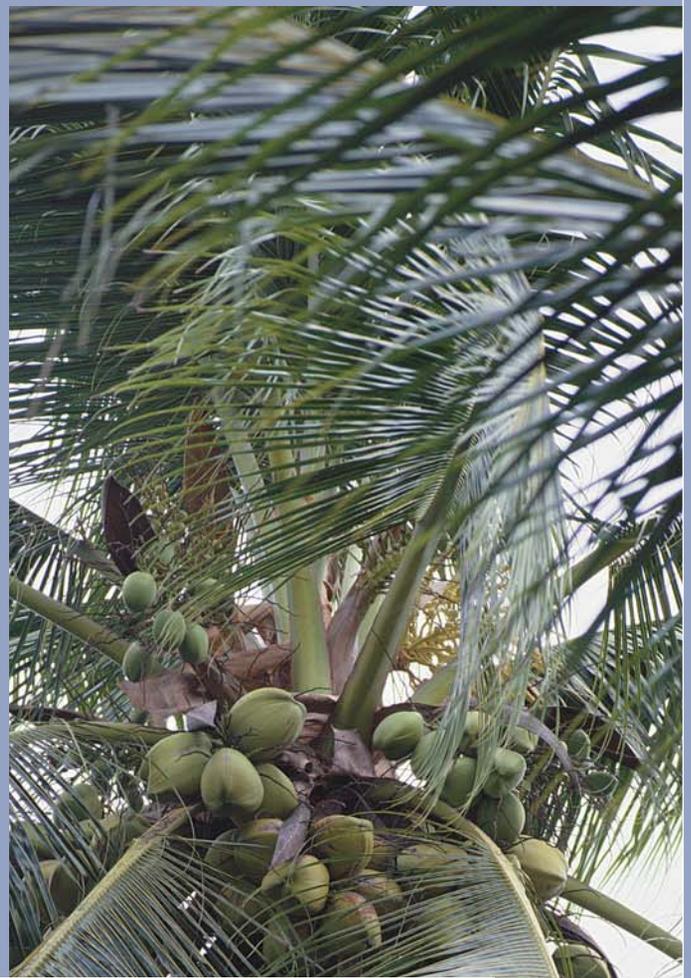
Appointed to the Board on 13 November 2001 on the nomination of the Bank of Papua New Guinea. Dr Weiss, from Tel Aviv, Israel, is currently Dean of the Department of Economics at the College of Management in Israel. He was a long-serving official with the Bank of Israel and the US Federal Reserve Bank. He was seconded from the IMF to the Bank of Papua New Guinea from 1988 to 1994 and was an advisor to the Bank of Papua New Guinea until August 2002. He was an advisor to several former Soviet Republics, served as a member of the Board of the Mercantile Discount Bank of Israel, and 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.

Mr Lim How Teck, BAcc, CPA, FCMA, AIBA, PBM



Following an extensive independent search by the international executive search 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 at present a Board member, Executive Director and Group Chief Financial Officer of Neptune Orient Lines Ltd of Singapore. He continues to serve on several statutory boards in Singapore and corporations around the world. He has been honoured with a PBM by the Singapore Government for his contribution to Singapore.

“Promoting development that meets the needs of the present generation and establishes the foundation for continuing progress for future generations of Papua New Guineans”



Seated: Sir Ebia Olewale, Dr Ross Garnaut, Ms Patricia Caswell.
Standing: Dr Jakob Weiss, Hon. Jim Carlton, Mr Lim How Teck, Mr Donald Manoa.

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 people 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 that 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 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 Directors also serves as Chairman of the Annual General Meeting and Extraordinary General Meetings but has no voting power.

During 2004, the Members of the Company did not have any Extraordinary meetings and held the Annual General Meeting of Members on 21 April 2004 to adopt the 2003 Directors' Report and Accounts. The Company maintained PriceWaterhouseCoopers of Singapore as its auditors for 2004.

Company Secretary

The Company Secretary is Ms Madelyn Kwang, who was appointed on 6 December 2002, and works from the Company's registered office at 20 Raffles Place #09-01, Ocean Towers, Singapore



The Members of the Company as at 31 December 2004 were:

- Hon. Jim Carlton.....Appointed 19 June 2002
- Mr Donald Manoa.....Appointed 8 November 2002
- Mr Lim How TeckAppointed 11 March 2003



Chief Executive Officer's Report |

2004 saw the Company perform the full range of functions it is required to undertake under its Constitution and Program Rules. These functions-ranging from its role as a 52 percent shareholder in Ok Tedi Mining Ltd, its supporting roles for OTML, BHP Billiton and the State related to the exit of BHP Billiton and creation of PNG Sustainable Development Program Ltd, global funds management, and as a development Company-impose unique challenges for management.



contribution from Papua New Guinea stakeholders. The Company's direct engagement with stakeholders and unique public annual reporting arrangements to PNG stakeholders have been well received. On the whole, PNG Stakeholders, especially in Western Province, welcome the Company's approach and initiatives. The Western Provincial Administration and OTML continue to provide valuable support to the Company in undertaking project preparatory studies.

The leadership and support of the Chairman Dr Ross Garnaut and the Board of Directors of the Company has ensured that the Company continued to develop its policy and strategic initiatives in ways that can meet Papua New Guinea's development challenges and opportunities effectively. At the same time, the Company is able to maintain its focus on key strategy and program initiatives whilst empowering key partners to perform program implementation.

Under their guidance, management's attention during the year focused on identifying opportunities for sustainable development especially in Western Province. Significant potential in agriculture, forestry, fishery, and tourism, have been identified but progress will also require addressing the constraints of geography, small and dispersed population, as well as poor transport, power and communications infrastructure. These extend the scope of project preparatory work beyond the core components of a project especially into wider but critical supporting infrastructure issues.

The establishment of PNGSDP Ltd's two subsidiary companies - PNG Microfinance Ltd and PNG Sustainable Energy Ltd - commenced new phases in the Company's delivery strategy with Company management relying on the subsidiaries to deliver programs on its behalf under agency agreements. Staff will therefore work in support of the efforts of the two subsidiaries to ensure effective delivery of the development program activities.

The commencement of delivery of its sustainable development programs during the year enabled Management to better explain and demonstrate the role and contribution of the Company as well as the expected

At 31 December 2004, funding commitments to sustainable development programs and projects totalled US\$16.3 million (K52.9 million) and specific project-level funding approvals totalled US\$10 million (K32 million). Development Program expenses were US\$1.9 million (K6.1 million) and increased to US\$3.3 million in the four months to end April 2005.

For management and staff, 2004 represented a year of significant learning, confidence-building and progress. The next phases of program development and implementation will involve supporting the development partners who assume the major responsibility for project management and implementation. Program Managers' capability to oversee implementation will be assisted by the project management and financial accounting system being installed. Direct and regular field monitoring, however, will continue to be the best approach for ensuring effective delivery and accountability.

The Company's Management and Program Staff continued to be strengthened in Port Moresby with the appointment of Mr Camillus Midire, former Secretary for National Planning & Monitoring, as General Manager, and two community sustainable development program staff. With the increase in funds under management, growth in investment operations, and a number of development projects proceeding to the implementation phase, a decision was taken to strengthen the Company's in-house accounting capability by appointing a Chief Financial Officer. Deloitte Touche Tohmatsu will continue to provide supporting accounting services to the Company.

Logistical constraints and maintaining regular close consultations with key stakeholders and local

communities emerged as important challenges to management and administrative staff in implementing and delivering development programs.

It would have been extremely difficult for the Company to perform its tasks without the support and advice of many organisations and individuals, especially in Western Province. These range from village leaders, district administration and advisory staff, church agency and NGO staff, to private companies. The support of Governor for Western Province Hon Bob Danaya and the Members of National Parliament Hon Roy Biyama, Member for Middle Fly and Minister for Labour & Industrial Relations, Hon. Conrad Haoda Member for South Fly, and Hon Martin Tabi Member for North Fly, as well as of the Western Province Administrator Mr Nelson Hungrabos and his staff have been most valuable. Likewise, the Managing Director of OTML Mr Keith Faulkner and his staff all contributed significantly.

I also want to record our appreciation to the leaders and officials of the Government of Papua New Guinea, especially Hon Bart Philemon, Minister for Finance & Treasury, Hon Sam Akoitai, Minister for Mining, the Secretary for Treasury, Mr Simon Tosali and the Secretary for Mining, Mr Kuma Aua, and their staff for their constant support during the year.

The Company's Advisory Council under chairmanship of Ms. Felecia Dobunaba provided valuable advice and guidance. We look forward to their continued guidance in the coming year.

The leadership and support of the Chairman Dr Garnaut and Directors of the Board have allowed the Port Moresby-based Team-the Program Managers, and especially myself as Chief Executive Officer-to increase our knowledge, skills and confidence. I wish to record our thanks to Dr Garnaut and the Board.

We look forward to advancing the Company's investment and sustainable development initiatives in 2005, working together with the Governments of Papua New Guinea and Western Province, and our development partners to provide our people the opportunity to participate in and benefit from the investments and sustainable development initiatives supported by the Company.



ROBERT IGARA, CMG

Chief Executive Officer PNG Sustainable Development Program Limited



The Management Team |



Mr 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 to August 2002. He has 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 statutory agencies—the Papua New Guinea Investment Promotion Authority, the Papua New Guinea Forestry Authority, and the Small Business Development Corporation. He served as a Director of Orogen Minerals Ltd and PNG-Halla Cement Corporation, and is at present a Director of the Bank of Papua New Guinea and Oil Search Ltd. He is also a nominee director of PNGSDP on the boards of Microfinance Ltd and PNG Sustainable Energy Ltd.



Mr Camillus Midire, OBE, BA, (Bus.Studies)

General Manager

Camillus Midire joined the Company on 7 June 2004 as General Manager. Prior to his appointment, he served in the public service and held many senior positions over a 25-year career in the Departments of Finance, Treasury and National Planning in the areas of budget and programming, development policy and planning, decentralised planning and resourcing, aid coordination and programming. He served as the Secretary for National Planning and Monitoring from 1999 to 2001 and was a member of the Central Agency Committee responsible for the overall coordination of government policy, planning and administration. In this capacity, he also played key roles in policy dialogue and programming discussions between donor agencies and the government, including international financial institutions. He served on a number of Government boards and committees, including the National Forest Board, the Pharmaceutical Tenders Board, the Consultative Implementation and Monitoring Council (CIMC) and the Central Agency Coordination Committee (CACC).



Mr 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 Papua New Guinea Public Service in 1992 and from 1992 to 1994 was employed as a Senior Programs Officer in the Department of Finance and Planning. He then worked for the Department of Trade and Industry from 1995 to 1997, before joining the Department of Treasury, where he served from 1998 to 2001.

The Management Team



Dr Henry Ivarature, BA (Hons), MA, PhD

Program Manager-Western Province Programs

Prior to his appointment to the Company on 27 January 2003, Dr Ivarature was Head of the Papua New Guinea APEC Unit and was Papua New Guinea's Senior Official to the Asia Pacific Economic Cooperation (APEC) within the Department of Prime Minister and 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.



Mr Ati Wobiro, BEcon, MA Econ & Soc Studies, M Dev Admin

Program Coordinator - Western Province Programs

Prior to Mr Wobiro's appointment on 4 August 2003, he was a lecturer in management at the University of Papua New Guinea. He has also served in the Western Province Administration as the Provincial Planner, and as Program Development Manager for World Vision International. He has been Executive Manager for Finance and Corporate Planning with the Papua New Guinea Telecommunications Authority, and a lecturer in economics at the Papua New Guinea University of Technology. He has also worked as a private consultant in project management.



Mr Gago Mamae CBE (Brig-General Retired)

Program Manager-Community Sustainable Development Program

Gago Mamae is a retired Brigadier-General of the Papua New Guinea Defence Force. He is a graduate of the Australian Army Staff and Command College and the Australian Administrative Staff College. He has held several key positions in the PNGDF, including Director of Supplies in 1976; Chief of Logistics from 1977 to 1980; and Commander of the PNGDF from 1981 to 1983. He served as a civil servant in the Department of Finance and Planning as Assistant Director in the Office of International Development Assistance from 1990 to 1992 and the Department of National Planning and Monitoring (Foreign Management Division) as Assistant Director for Special Programs from 1993 to 2000. He was Director-General of the National Security Advisory Committee in the Department of Prime Minister and NEC from June 2000 to May 2003.

Administration and Corporate Services |

The Company maintained a small administrative staff to perform back-up support services and relied on Deloitte Touche Tohmatsu to perform accounting services for the Company during 2004. Management's focus was on developing and establishing appropriate systems for sound administrative and financial management. The Board approved a Human Resources Manual and a Performance Management System, and acquisition of a new Project Management and Financial Accounting System to adequately serve the Company's growing and uniquely diverse operations.

The General Manager, Mr. Camillus Midire, was appointed in June 2004, and two program staff-Mr John Kassman and Mr Sam Tupou-were recruited to help manage the Community Sustainable Development Program (CSDP). This brought the total staff strength to 13.

The Company also acquired additional office space within the vicinity of its current Port Moresby office to accommodate the increase in staff and operational equipment.

Staff of the Company

At 31 December 2004, the Company had a total staff strength, including program management staff, of 13.

This consisted of:

Executive Team

Chief Executive Officer

Mr Robert Igara

Personal Assistant to the Chief Executive Officer

Ms Fae Maso

General Manager

Mr Camillus Midire

Program Management Staff

National Program Manager

Mr Sean Ngansia

Western Province Program Manager

Dr Henry Ivarature

Program Coordinator – Western Province

Mr Ati Wobiro

Program Manager [CSDP]

Mr Gago Mamae

Community Projects Coordinator (National)

Mr John Kassman

Community Projects Coordinator (Western Prov.)

Mr Sam Tupou

Accounts and Administration

Accounts and Administrative Officer

Ms Dorothy Pomat

Secretary/Receptionist

Ms Deanna Dawanincura

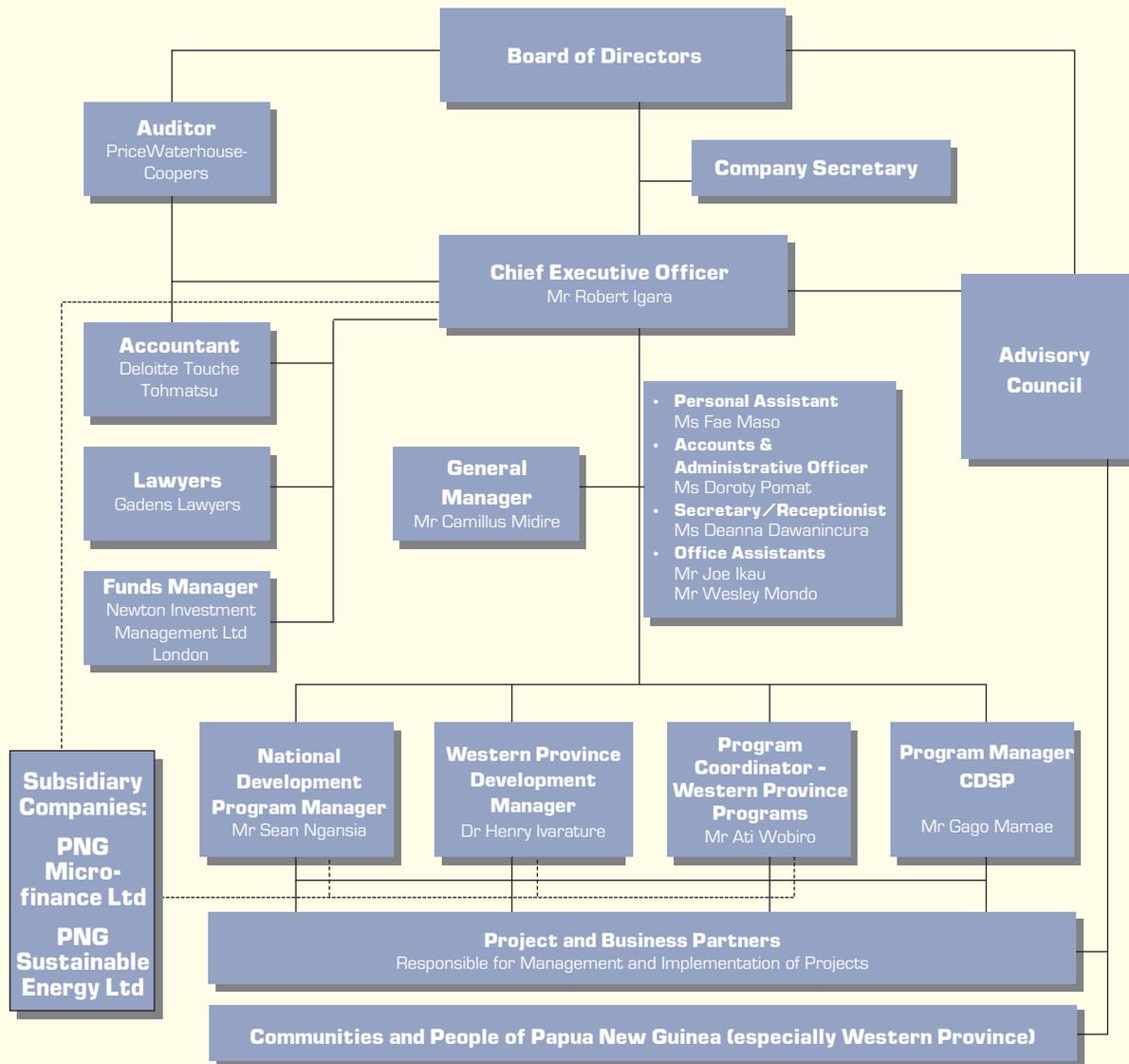
Office Assistant

Mr Joe Ikau

Office Assistant

Mr Wesley Mondo

Organisational and Program Management Structure



Seated: Deanna Dawanincura, Camillus Midire, Robert Igara, Fae Maso.
Standing: John Kassman, Henry Ivarature, Sean Ngansia, Wesley Mondo, Dorothy Pomat, Ati Wobiro, Sam Tupou.

The Advisory Council |

The Company's Program Rules provide for the Board to appoint up to seven eminent and appropriately skilled Papua New Guineans, each for a term of two years, to serve on the Company's Advisory Council. They are to provide impartial advice and comment on the Program of the Company. The Council reports to the Chief Executive Officer. Its function is to provide the CEO with:

- strategic advice on the development and implementation of the Program, including advice on the integration of the Program's initiatives within the overall development objectives of Papua New Guinea;
- assistance with sharing and disseminating information about the Program to Project Partners and Stakeholders;
- feedback in relation to Project proposals put to the Company for funding;
- assistance to monitor and review Projects funded by the Company.

The members of the Council are: Ms Felecia Dobunaba, Chairperson, Dr Betty Lovai, Rev. Samson Lowa, Mr Brown Bai, Mr Steven Nion, Dr Navu Kwapena and Mr Blasius Iwik, all eminent Papua New Guineans who bring significant expertise and experience to PNG Sustainable

Development Program Ltd. They represent key sectors of the wider community and provide the Company with access to independent monitoring and advisory support. Two members, Dr Betty Lovai and Mr Blasius Iwik, are from Western Province, ensuring that the Company maintains its special focus on the province. Mr Ati Wobiro replaced Mr Gago Mamae in 2004 as Secretary to the Advisory Council.

The Advisory Council held four meetings in Port Moresby on 27 January, 5 July, 27 July and 22 October 2004, and made visits to Daru Island in Western Province and to West New Britain to observe the socio-economic impact of oil palm estate and smallholder operations. The Council has been able to monitor progress on the Company's sustainable development program activities and provide advice to both the Management and the Board on the Company's sustainable development program policy, strategy and project initiatives.



The Members of the Advisory Council



Ms Felecia Dobunaba, OBE, BA

Chairperson of the Advisory Council. Appointed to the Council on 11 June 2003, and by the Council members as Chairperson on 28 October 2003. Ms Dobunaba has extensive knowledge of and experience in social and development planning and program implementation. She has served as the Director of the Office of National Planning and as Secretary of the Department of Home Affairs and Youth. Ms Dobunaba is at present Director-General (Central Agencies Co-ordination Committee Secretariat) in the Department of Prime Minister and National Executive Council.



Dr Betty Lovai, BA (Hon), MA, PhD

Appointed to the Council on 11 June 2003. Dr Lovai is a Lecturer in Sociology and Anthropology at the University of Papua New Guinea. She has carried out social work amongst the poor in urban and in rural areas where essential services such as social and economic infrastructure are lacking. She has research and teaching experience in situation studies of communities and villages. Dr Lovai has undertaken consultancy work with UNICEF, the ADB, AusAid, JICA and World Vision.



Rev. Samson Lowa, BDiv, BEd, Dip.Sec.Teaching, Dip.Theo

Appointed to the Council on 11 June 2003. Rev. Lowa is the Moderator of the United Church of Papua New Guinea and the Solomon Islands, and is the President of the Papua New Guinea Council of Churches, and Director, Evangelism Exposition Ministry International, Fort Lauderdale, Florida. He is also a Director of the Bank of Papua New Guinea and a Director of Post PNG. Rev Lowa was, prior to serving the Church, a secondary school teacher.



Mr Brown Bai, CBE, BEcon

Appointed to the Council on 11 June 2003. Mr Bai has served within the Public Service of Papua New Guinea with distinction as head of the Departments of Treasury and Finance, Prime Minister and National Executive Council, and Primary Industry. He is also a former Deputy Director of the Office of National Planning. Mr Bai has held a number of senior diplomatic posts, including Ambassador to the EED, UNESCO, Italy, and Greece. He has been Managing Director of Papua New Guinea Banking Corporation. Mr Bai is an appointee to the Centre for International Agricultural Research (ACIAR) and is Chairman of the Rural Industries Council, Chairman of the Public Service Reform Advisory Group, Managing Director of Alam Investments Corporation, and a Director of Ramu Sugar Ltd, Hargy Oil Palm Ltd, and Galley Reach Holdings Limited.

The Members of the Advisory Council |



Mr Steve Nion BSc, MSc

Appointed to the Council on 11 June 2003. Mr Nion is Deputy Secretary of the Department of Mining. He has held the post of Chief Geologist, responsible for coordinating and managing the Papua New Guinea Geological Survey's mapping and data activities. Mr Nion is a member of the Earth Science Advisory Board, the South Pacific Geosciences Commission, and Alternative Papua New Guinea National Representative to the Coordinating Committee for coastal and offshore geosciences program in East and South East Asia.



Dr Navu Kwapena BSc, MSc, PhD

Appointed to the Council on 1 August 2003. An Environmental Ecologist by training, Dr Kwapena is Secretary of the Papua New Guinea Bio-Diversity and National Conservation Council. He was Chief of Wild Life and Chief Ecologist from 1974 to 1976. From 1980 to 1986 Dr Kwapena was First Assistant Secretary and Head of Wildlife Research, Management, and Conservation in the Department of Environment and Conservation. In the period 1986-91, Dr Kwapena completed a postgraduate degree course at the University of Sydney in the School of Biological Sciences. In April 2003, he was Acting Deputy Secretary in the Department of Environment and Conservation. Dr Kwapena is an ecologist and biologist concerned about the protection of native fauna and flora and sustainable use of natural resources and equitable sharing of benefits.



Mr Blasius Iwik, Dip. Rel. Studies

Appointed on 24 October 2003, representing the landowners of Western Province. Mr Iwik serves with the Roman Catholic Church in Kiunga, Western Province. He served as pastoral worker with St Brigid's Parish from 1986 to 1992. He was Diocesan Development Secretary from 1993 to 1997. He served as Communications and Public Relations Officer from 1997 to 2003 and is now serving in the same division with the added responsibility for Catholic Education.

The Annual Report Meeting

The Company is required under its Constitution to report annually to its stakeholders in Papua New Guinea. The second Annual Report Meeting was convened at the Holiday Inn Conference Room, Port Moresby, on 27 May 2004, during which the Company presented its 2003 Annual Report. The Meeting was officially opened by the Honourable Sinai Brown MP, Minister for National Planning and Rural Development.

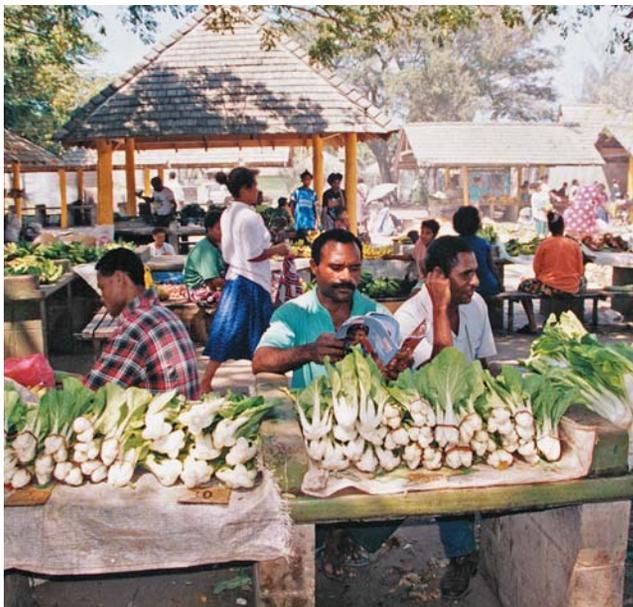
The meeting was well attended by Papua New Guinea stakeholders and provided a valuable opportunity to explain to key stakeholders the Company's role and potential contribution to Papua New Guinea's development, particularly in the Western Province.

Representatives of key stakeholders who attended the Annual Report Meeting included the Governor of Western Province, Hon Robert Danaya, MP; Members of Parliament for Western Province, Members of the Fly River Provincial Assembly, the Western Province Administration; key ministers of the National Government; Heads of National Departments; the Managing Director of Ok Tedi Mining Limited, Mr Keith Faulkner; private sector representatives; Senior Management of the Company; and representatives of international development partners.

The Company was represented by the Chairman and directors of the Board, the Chief Executive Officer and Program Staff, and representatives of its auditors, PriceWaterhouseCoopers.

On 26 May, the Board and Management also held a separate meeting at the Holiday Inn with the Governor of Western Province Hon Bob Danaya, the Member for Middle Fly Hon Roy Biyama, the Member for North Fly Hon Martin Tabi, and local-level government representatives from the province.

The Third Annual Report Meeting, to be held in Port Moresby on 24 May 2005, will also provide an opportunity to improve consultation and coordination between the National Government, Western Provincial Government, Ok Tedi Mining Ltd, stakeholders and the Company on initiatives to support development programs within Papua New Guinea, in particular the Western Province.



Income, Funds, Allocations and Expenditure to 31 December 2004

Income

The principal income of the Company during the year continued to be from its shareholding in Ok Tedi Mining Limited, from which it received several payments of gross dividends totalling US\$64.2 million (K207.1 million) during 2004. The Company also earned US\$3.0 million (K9.7 million) from dividends, interest and foreign exchange gains from its funds and investment operations.

Expenditure

Total expenses during the year were US\$11.4 million (K36.8 million), consisting of US\$6.4 million (K20.6 million) Dividend Withholding Tax payments to the Internal Revenue Commission of Papua New Guinea, US\$3.1 million (K10.0 million) for governance and administration expenses, and US\$1.7 million (K5.4 million) for development program activities.

Total allocations as at the end of the year were US\$79.4 million (K256.1 million) for the Long Term Fund, and US\$38 million (K122.6 million) for the Development Fund. US\$12.5 million (K40.3 million) was allocated to the Western Province Program, and US\$25.5 million (K82.3 million) to the National Development Program.

At the end of 2004, the Company had committed a total of about US\$10 million (K32.2 million) from the Development Fund for three projects, consisting of US\$4.6 million (K15.0 million) over five years for the Community Sustainable Development Program Fund (K5.0 million for Western Province and K10.0 million for the remainder of Papua New Guinea), US\$3.7 million (K11.8 million) for the Lake Murray Village Rubber Project, and US\$2.2 million (K7.0 million) as part of the counterpart financing towards the World Bank sponsored National Roads Maintenance and Rehabilitation Program in Oro and Central Province. Drawdown of funds will commence in 2005 following the signing of Project Funding Agreements for the implementation of individual projects.

The Long Term Fund

The Long Term Fund represents two-thirds of the income received from Ok Tedi Mining Limited after deducting operating expenses and all other contractual obligations arising out the BHP Billiton exit arrangements.

At 31 December 2004, the amount allocated to the Long Term Fund was US\$79.4 million (K256.1 million). With expected dividend payments from OTML, the Long Term Fund should increase substantially by the end of 2005.

The Long Term Fund is to be used in low-risk investments. The Fund can be used before the Ok Tedi mine closes to meet contractual obligations (for example, under the Subsidy Deed) and to meet a call by OTML for further capital requirements. After the mine closes, 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 mitigating the social and economic impact of mine closure.

The Company therefore aims to increase and diversify Long Term Fund investments in a way that supports a maximum contribution to development in Papua New Guinea and particularly the Western Province. The Company is 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 after mine closure without diluting the real capital of the fund. It is committed under its rules to continuing sustainable development expenditures for 40 years after mine closure.

The Development Fund

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

By the end of December 2004, the Development Fund balance was US\$38 million (K122.6 million). Of this, US\$12.5 million (K40.3 million) is for programs and projects in Western Province, and US\$25.5 million (K82.3 million) is for programs and projects throughout the rest of Papua New Guinea.

Investment and Funds Management Activities

Investment Policy and Guidelines

In pursuing its goals and objectives, the Company is able to invest and utilise its resources from the Long Term Fund, the Development Fund and the General Fund in accordance with the Program Rules of the Company. The Rules require that investments in the Long Term Fund be placed in 'low-risk' investments.

The objectives of the Company's investments are to:

- significantly build up the Long Term Fund through interest rate earnings dividends, capital gains and foreign exchange gains;
- diversify its investment portfolio against interest rate, foreign exchange and other financial market risks;
- invest portions of the Long Term Fund in Papua New Guinea in low-risk strategic investments. These may be in investment projects that generate significant sustainable economic and development benefits for Papua New Guinea and its people.

The Board has established an Investment and Finance Committee to oversee its Investment Policy and Guidelines, and approved Preliminary Investment Guidelines under which the Company's investments are to be managed.

International Funds Management Operations

Newton Investment Management Ltd (NIM) continued to receive and manage the Company's funds during the period. As at 31 December 2004, the Funds Balance managed by Newton amounted to US\$109.2 million (K352.2 million), consisting of Short Term Fund Portfolio investments valued at (including interest) US\$19.7 million (K63.5 million) and Long Term Fund Portfolio investments valued at (including earnings) US\$89.5 million (K288.7 million). The Long Term Fund Portfolio consisted of fixed interest investments of US\$80.1 million (K258.4 million) and equity investments of US\$9.4 million (K30.3 million).

The Board also appointed Schroders in November 2004 as the second Investment Adviser/Funds Manager to mitigate risk and encourage high levels of performance in its investments. No funds of the Company were transferred to Schroders during the period.

PNG Funds Management Operations

The Company also decided to undertake certain investments in Papua New Guinea's financial markets, especially from its Development Funds. The amount of funds invested will increase as more projects are approved for funding under the Development Fund.

Investment operations were undertaken in Papua New Guinea totalling US\$7.14 million (K23.03 million). The Papua New Guinea investment portfolio comprised Inscribed Stock of US\$4 million (K12.9 million), Treasury Bills of US\$1.2 million (K3.87 million), PNG Microfinance of US\$1.9 million (K6.13 million), and equity shares in New Britain Oil Palm of US\$0.04 million (K0.13 million). The Company entered into a five-year SWAP arrangement with the Bank of South Pacific, providing US\$5 million in exchange for K16.3 million, which was then invested into PNG Government Treasury Bills and Inscribed Stock.

Return on Funds Managed

During 2004, the weighted average rate of return on the Company's investment portfolios was 2.14 per cent for the Long Term Fund and 1.32 per cent for the Development Fund. The low returns on the Long Term Fund were attributed largely to low interest in the short-term Fixed Investment Market at a time when long-run trends were thought to be excessively risky. The lower return on investments of the Development Fund was attributed to the Company's initial equity investments in PNG Microfinance Ltd and PNG Sustainable Energy Ltd

Papua New Guinea Investment Opportunities

The Company evaluated several opportunities in PNG-based companies for possible equity investment from its Long Term Fund, should these meet the "low-risk investments" criteria. In addition to potential dividend income from these investments, the Company saw strategic opportunities from the operations of these companies in expanding village and smallholder income and employment opportunities on a sustainable basis.

Sustainable Development Program Activities

The Company continued to pursue its strategy of supporting investment in economic and key supporting infrastructure in partnership with all levels of government, the private sector, non-government organisations, and the community. During 2004, the Company focused its attention and efforts on several strategic sustainable development program initiatives targeting the community and village level, and several major projects involving significant investment and participation of development partners. Considerable attention was given to initiatives within Western Province during the year.

The Company's strategy and sustainable development program initiatives fall within the development priorities at the national level, set out in the PNG Government's draft Medium Term Development Strategy, and are consistent with the priorities announced by the Western Provincial Government.

These strategic initiatives relate to agriculture, forestry, tourism, financial services, communications, energy, shipping, port infrastructure, health, education, and capacity-building. Several are well advanced whilst others

are under further investigation and discussion with potential partners. Experience during the year re-affirms the model adopted by the Company to work in partnership with established business enterprises and community-level institutions, especially church agencies, in promoting economic and social development on a sustainable basis, with government providing a critical supporting role.

By 31 December 2004, the Company had approved funding for development projects totalling US\$10.0 million (K32 million) from the Development Fund, with US\$4.4 million (K14.1 million) directed to projects within Western Province, and US\$5.6 million (K18.1 million) to projects in other parts of Papua New Guinea.

Since commencing operations in 2002, the Company committed a total of US\$16.3 million (K52.9 million) to sustainable development programs including at the general program and major projects level by 31 December 2004. These commitments are from the Development Fund for the following programs and projects:

	US\$	K
Community Sustainable Development Program	4.6 m	15.0 m
Hospital Facilities and Equipment Rehabilitation Fund	1.5 m	5.0 m
PNG Sustainable Energy Ltd	0.5 m	1.6 m
Sustainable Energy Fund	1.5 m	5.0 m
Lake Murray Village Rubber Project	3.7 m	11.8 m
PNG Microfinance Ltd	2.3 m	7.5 m
National Roads Rehabilitation and Maintenance Project (Oro and Central Province Roads)	2.2 m	7.0 m
Total Funds Committed	US\$16.3 m	K 52.9 m



Sustainable Development Program Activities

Development Project Funding Approvals, Commitments and Disbursements to 31 December 2004 (US\$ and K, millions)

	Western Province Development Program		National Development Program	
	US\$	K	US\$	K
Approved Project Funding	4.4	14.1	5.6	18.1
Commitments in 2004	0.1	0.4	0.5	1.7
Disbursement in 2004	0.1	0.4	2.5	8.1
Cumulative Disbursements	0.1	0.4	2.5	8.1
Balance Remaining Against Approved Funding	4.2	13.3	2.6	8.3

The Board and Management of the Company continued direct assessment of opportunities and engagement with Papua New Guinea Stakeholders by visiting the Western Province, Central, and Morobe provinces, as well as several projects in the National Capital District. Consultations are held with national and provincial leaders in Port Moresby throughout the year and on the occasion of the Board's quarterly meetings and Annual Report Meeting.

Criteria for Support of Programs and Projects

The Company seeks to ensure the programs and projects it supports meet four principles and objectives:

- effective participation of local communities in the project, especially by ensuring;
 - proper awareness of, and commitment to, projects through close consultation and involvement;
 - maximum engagement in all facets of projects, from planning, development, construction and maintenance through to production and marketing;
 - employment and training for communities in skills associated with the project or other alternative employment and life skills;

- Demonstrated benefits to the local communities, specifically by
 - increasing the number of sustainable minimum family income units.
 - improving access to and quality of education and health services.
 - spreading risk and encouraging high levels of performance.
 - strengthening local leadership and capacity.
- Demonstrated managerial, financial, technical, marketing, and environmental capability to sustain operations or continuation of the benefits from the project for the long term
- Compliance with international best practice and human rights, cultural, social, economic, gender and environment standards.

The Company will further develop and publicise its criteria, and advance towards meeting these criteria during 2005.

Western Province Sustainable Development Program

The Company is mindful of its special responsibility to the people of Western Province, especially to support strategic investments that will provide the province with alternative economic, income-earning and employment opportunities after the Ok Tedi mine closes. During the period, the Company continued its investigations into sustainable development opportunities at community level, in micro-financial services, rubber production, oil palm, forestry, environment, fisheries, tourism, communications and power, as well as shipping and port development.

The Company sought the views of Western Province stakeholders through continuous dialogue and regular visits throughout the Province. It consulted with National Government Ministers and Officials, Western Province Members of Parliament, the Provincial Administration and community leaders, as well as with OTML.

The Western Province Administration and OTML continued to provide valuable operational support and advice during field visits to the province for project studies.

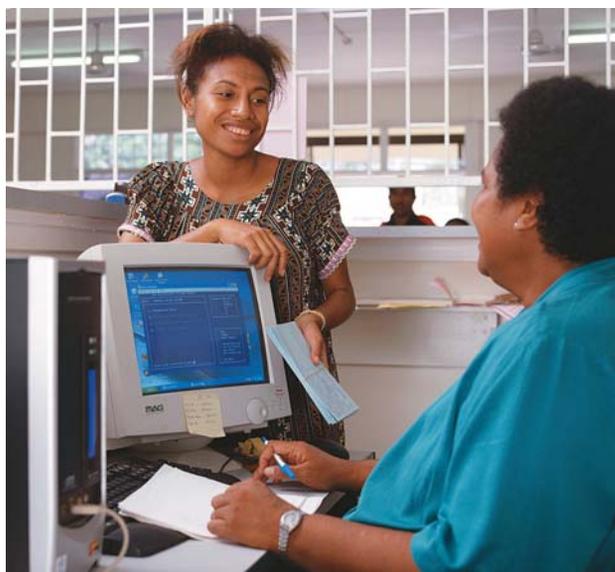
Supporting Community Sustainable Development Programs (CSDP) in Western Province

In 2004, the first two CSDP Projects were signed off and funded in the Western Province. The first project, with funding support of US\$71,920 (K 232,000), is for Rumginae Rural Hospital Equipment Support Project in the North Fly District, and is managed by the Evangelical Church of PNG. This project involved the provision of much

needed medical equipment for the Rumginae Hospital. The second project involved support for Australian Doctors International to procure and distribute 13,400 units of malaria bed-nets and 5,600 units of filariasis drugs for the remote Nomad area of Western Province, with the Company providing US\$76,570 (K247,000).

Another four CSDP projects in Western Province were approved by the Company in November 2004. Two projects consisted of health and capacity-building projects in the South Fly District with the United Church as the project partner. The third involves promotion of agricultural education and agriculture-related capacity-building with the Evangelical Church of PNG-operated Awaba Secondary School in the Middle Fly District, and will be implemented with technical assistance from Trukai Rice Ltd. The fourth is a pilot village barramundi fish farming project at Parama Village in the South Fly District, with a Western Province business enterprise, Maru Marine, providing management and marketing support and Bismarck Fisheries providing technical expertise. These projects have been designed to provide institutional capacity-building and support, skills training, promotion of self-reliance and health-care support.

The total funding provided for the Western Province CSDP projects up to the end of 2004 was US\$400,000 (K1.3 million). The cost of administering the CSDP program will be additional. The Company is developing other community-based projects for implementation in 2005.



Western Province Sustainable Development Program

Western Province Rubber Rehabilitation and Expansion Program

The Company's support in Western Province focused on supporting rubber production at the North and Upper Middle Fly, working with North Fly Rubber Ltd (NFRL), and at the South and Lower Middle Fly areas in cooperation with Sipef's Galley Reach Holdings Limited.

Rubber is grown throughout Western Province entirely by village households and, since 1994, mainly with the support of North Fly Rubber Ltd (NFRL), a joint venture between a Western Province trading company, Progress Pty Ltd and Ok Tedi Mining Ltd. NFRL provides training, technical advice, and buys and transports the rubber. NFRL sought the support of PNG Sustainable Development Program Ltd to expand rubber production in the Lake Murray area. The project will involve 840 families (about 4,000 people, or over half the population of the Lake Murray area) planting high-yielding rubber trees on 2,200 hectares, with rubber tapping expected to commence in 2012.

The Company signed a Project Funding Agreement with NFRL (the Project Partner) and the Lake Murray Village Rubber Grower Representatives on 31 May 2004 at Lake Murray. The Company will provide funding support of US\$3.7 million (K11.8 million) for the development of a village-based rubber project in the Lake Murray area with North Fly Rubber Limited as the technical partner responsible for implementation. The funding consisted of US\$2.2 million (K7 million) as a development grant and US\$1.5 million (K4.8 million) in soft loans for village growers. The loan is provided specifically to village households participating in the rubber project as support and sustenance during the land clearing and planting period, estimated to be four years. PNG Microfinance Ltd will manage the loans scheme under an agency

agreement, in accordance with a separate agreement signed with the Company on 3 September 2004.

Commencement of the project was significantly delayed, which resulted in re-examination of the project management structure and arrangements.

The Company also engaged with Galley Reach Holdings Limited to investigate estate and village out-grower rubber production at Oriomo in the South Fly District. The study confirmed the suitability of land for commercial rubber; adequate land availability for nucleus and out-grower operations and a processing factory; and the adequacy of river transport for the export of the product.

Western Province Sustainable Forestry Development Project

Discussions have taken place between the National Forest Authority and PNGSDP for the development of a sustainable forestry development project in the Wipim Tapila Forest Management Area (FMA) as an international model. The project would aim to demonstrate best-practice planning and management of forestry operations. A pre-feasibility study was conducted in 2004, finding prospects for a commercially viable project with capacity to produce 30,000m³ of logs per annum. The saw milling operation will involve value adding in the manufacturing of various furniture and other timber products and the seasoning operation which involves air and kiln drying. The study suggested, however, that a detailed resource inventory will be needed to confirm the log species distribution, the size distribution and an estimate of the true economic value of the resource. The National Forest Authority and the Company are committed to working in partnership with the landowners and the Western Provincial Government, in collaboration with a proven technical partner, to develop the model forestry project.



National Sustainable Development Program

The Company continued its two-pronged approach in identifying opportunities. The first involves support for community-level programs, and the second involves large investments with major established partners. Investigations during the year focused on opportunities for investment in agriculture, especially oil palm and rubber, road rehabilitation, telecommunications, power, and shipping, as well as hospital facilities. These initiatives are currently either under investigation or in development. Some of these are described in the next sections of the report.

Supporting National Community Sustainable Development Projects

The Company received numerous requests and proposals covering health, education, environment, water supplies, agriculture, and fisheries which required further investigation, especially in relation to project management and sustainability. One outcome of these requests and needs assessment is the establishment of separate funds for small urban centres and community power, hospital facilities and equipment rehabilitation, and the Company's support for a national microfinance institution.

Two projects were approved for funding support under the National Community Sustainable Development Program fund. The Company approved funding support of US\$62,000 (K 200,000) for construction of a single storey classroom and materials for roof tile and furniture making, as well as refrigeration maintenance for the Badili Vocational Centre in the National Capital District. The supervision and construction of the classroom will be undertaken by students. The Centre provides training for grade 6 to 10 school leavers to help them develop skills for self employment and self-reliance. A second project for

Pari Village women's centre, health clinic and school was approved. The project will provide a much-needed focus for facilitating village community organisation, leadership training and confidence-building with the support of the local church and member of parliament. The Company agreed to contribute up to US\$75,000 (K240,000) to this project.

Supporting National Hospital Equipment and Facilities Rehabilitation Program

The Company approved K5 million (US\$1.5 million) as seed capital for a National Hospital Facilities and Equipment Rehabilitation Fund to leverage other donor and corporate funding towards improving medical equipment and facilities at the major hospitals throughout the country. It is also hoped that these contributions, and those of others, will help generate an overall improvement in basic hospital services. The Company has approved support from the Fund during the year to renovate the maternity wing of Port Moresby General Hospital, support for the Fred Hollows initiative to establish and operate an Eye Facilities and Training Program for PNG at the Port Moresby General Hospital, and the replacement of critical medical equipment including a steriliser at the Boram Hospital in Wewak, at a total cost of US\$0.27 million (K0.87 million).

Providing Microfinance Services

Following previous study reports and its own assessment, the Company established PNG Microfinance Limited (PNGMFL) as the best approach to provide financial services to low-income earners in the formal and informal sectors in Papua New Guinea's urban areas and rural communities. The Company has provided US\$1.8 million (K6.0 million) as equity in PNGMFL and will provide a



National Sustainable Development Program

further US\$0.5 million [K1.5 million] as a grant for capacity-building programs for PNGMFL.

The Bank of South Pacific and the World Bank's International Finance Corporation have both given in principle agreement to take up equity of US\$1.2 million [K4 million] and US\$1 million [K3 million] respectively in PNGMFL. Agreement was reached with Ok Tedi Development Foundation and the ANZ Bank to transfer its microfinance project branches in Tabubil and Kiunga to PNGMFL.

An Interim Board and management team has been appointed, a business plan and operational policies and procedures approved, and a head office established.

On 24 December 2004, The Bank of PNG granted PNG Microfinance Limited a license to operate as a microfinance service provider throughout Papua New Guinea, paving the way for progress to be made in establishing branches in the NCD, Western Province and other parts of the nation.

Supporting National Road Infrastructure Maintenance and Rehabilitation

The Company decided to reallocate its funding commitment of US\$2.2 million [K7 million] to the Highlands Highway project in 2004 to support the government's counterpart financing contributions to the World Bank-sponsored National Roads Rehabilitation and Maintenance project covering six provinces. As the first phase, the Company agreed to fund roads in Oro and Central Provinces and agreed to investigate the requirements of the four other provinces for support in 2005.



Supporting National Energy and Electrification Program

Following investigations carried out in 2003 and 2004 into urban and rural power locations in Western, Central, Gulf, East and West New Britain, Bougainville and New Ireland provinces, the Company decided to establish:

- a company, PNG Sustainable Energy Limited (PNGSEL), with Snowy Mountains Engineering Corporation (SMEC), to develop large energy projects using alternative sources of energy, including hydro, geothermal, on a commercially sustainable basis; and
- a Sustainable Energy Fund (SEF) with an initial capital contribution of US\$1.5 million [K5 million] to support sustainable power projects for small urban centre and rural communities, appointing PNGSEL as project manager with responsibility for long-term sustainability.

PNG Sustainable Development Program Limited and SMEC agreed to contribute US\$500,000 each as initial capital for establishment of PNGSEL and the investigation and negotiation of initial major energy projects for investment.

The Company has also agreed to engage PNGSEL as its agent in delivering sustainable power to small urban centres and rural communities. PNG Sustainable Energy Limited has also been assigned the task of implementing a Small Urban Centre and Rural Power Program in the Western Province and the rest of Papua New Guinea. This program is being funded by PNG Sustainable Development Program Ltd.



Working in Partnership with International Business and Development Partners

The Company seeks to adopt a business model that requires credible and competent business partners to help drive, implement and manage its project initiatives. Whilst the Company does not seek to control or manage any of its project initiatives, it acknowledges that a degree of leadership and ownership is required to mitigate perceptions of the risks of doing business in Papua New Guinea. An example of this strategy is the Company's subsidiary PNG Sustainable Energy Ltd, established in 2004 with the Snowy Mountain Engineering Corporation (SMEC) as a co-founder shareholder. SMEC brings to the relationship significant expertise and experience in the power industry, including in Papua New Guinea. PNG Microfinance Ltd follows a similar approach, with both the Bank of South Pacific and International Finance Corporation expressing interest in becoming equity partners.

The Company also established a Sustainable Energy Fund and a Hospital Facilities and Equipment Rehabilitation Fund in 2004, providing seed capital contributions of US\$1.5 million [K5 million] to each. These funds provide another opportunity for cooperative approaches to development with international business and development partners.

The PNG Government invited the Company to facilitate the first visit to PNG of the Executive Vice President of the IFC and Managing Director of the World Bank, Mr Peter Woicke, accompanied by Dame Meg Taylor, the IFC's Vice President for Compliance. The visit provided an opportunity to increase Papua New Guinea's profile with the IFC, and facilitated follow up investigations into investment opportunities in Papua New Guinea by the IFC.

The Company agreed to assist the PNG Government's counterpart financing of rural road rehabilitation in Oro and Central provinces, enabling the Government to draw down an existing World Bank Loan. Also, at the request of the Government and the World Bank, the Company has facilitated a role for PNGSEL in implementing a proposed Teachers' Solar Lighting Project for rural locations. The ADB and AusAid have also expressed interest in working with the Company on several projects.



Ok Tedi Mining Limited Operations

Ok Tedi Mining Ltd (OTML) is the single largest business contributor to the economy of both the Western Province and Papua New Guinea. In 2004, OTML's export sales were US\$673.7 million (K2.1 billion), which represented 25.7 per cent of PNG's export earnings.

Today, the PNG Sustainable Development Program Limited owns 52 per cent of OTML, the National and Provincial governments and the landowners own 30 per cent, and Inmet of Canada 18 per cent.

A major responsibility of PNG Sustainable Development Program Ltd therefore is to ensure and support the continuing sound, responsible and profitable operation of the Ok Tedi Copper and Gold mine in the Western Province of Papua New Guinea. This support includes providing indemnity cover for OTML's independent directors and subsidising OTML's Loan Facility. Support also includes the exercise of joint control of the business, including through appointment of a Director to the OTML Board. Both OTML and the Company maintain close consultations at the Board and Development Program management levels.

OTML continued its improved performance during 2004, including a review of its mine plan. This has resulted in extension of the mine life a further two years to 2012.

Buoyed by favourable market conditions, OTML turned in a strong financial result for 2004, despite some operational difficulties related to the dry spell and

technical failure in its milling process. OTML declared a profit after tax of US\$ 134.7 million (K 506.1 million), resulting in gross dividend paid of US\$ 123.4 million (K395.1 million) for the year ended 31 December 2004. PNGSDP received US\$ 67.2 million (K 216.8 million) as its share of gross dividend.

PNGSDP paid US\$ 391,575 (approximately K 1.3 million) to OTML as a non-refundable subsidy towards the costs of borrowing (interest, and commitment fees and charges) relating to the credit facility of US\$ 75 million provided by WestLB.

In addition to dividends paid to the three shareholders, a total of US\$85 million (K279.9 million) was paid to the PNG and Western Province governments in taxes, mining levies and royalties. That means that a total of US\$191 million (K616 million) generated by OTML went to the benefit of the people of Papua New Guinea. In addition, almost 2000 people were employed directly by OTML, with around 1500 contractor employees. OTML spent a further US\$51 million (K164million) in Papua New Guinea on other goods and services.

OTML's relationship with mine landowner communities strengthened in 2004. The Special Mine Lease Landowners renewed their commitment to the project, signing a Memorandum of Agreement (MOA) with the Western Province and PNG governments to continue supporting mine operations. Mine Landowner communities also benefited from an increase in their



Ok Tedi Mining Limited Operations |

share of mine royalties from 30 to 50 per cent, and continued preferential treatment from OTML business activities and training.

In 2004, OTML paid about US\$8.8 million (K28.5 million) into the Ok Tedi Financial Assurance Fund. The Fund, which has an independent Trustee, is to be applied in assisting both OTML and the State to comply with their respective obligations in settlement of mine rehabilitation and restoration after closure of mining operations.

OTML continued to give significant attention to environmental investigations, monitoring and reporting including submission to the State of its Annual Environment Report. Recent investigations focused on the Fly River system to develop a better understanding of the sedimentation and geochemical processes occurring in the levee bank and floodplain environments; bi-annual surveys at Umuda at the mouth of the Fly River and Port Moresby Harbour to determine any potential effects of trans-shipping activities on the marine environment, predominantly with regard to spillage of copper concentrate whilst transferring product between vessels; and a Community Health Study, to examine the potential for human health impacts from the OTML operation.

PNG Sustainable Development Program Ltd continues to benefit from the experience and support of OTML in seeking out and delivering support to Western Province communities. The Lake Murray Village Rubber Project, Western Province and PNG Microfinance Project, Parama Village Barramundi Farming, as well as South Fly Capacity Building projects supported in 2004 by the Company are examples of projects founded on prior or current OTML community relations programs. Both OTML and the Company continue to consult and find ways of working together, including with the Western Provincial Government and other Western Province-based development partners.



Directors' Report on Company Statements

Financial Statements

The audited financial statements for the Company for the financial year ended 31 December 2004 were signed on 15 April 2005.

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 US dollars. The Company has adopted the US dollar as its functional currency, as this is the currency of the primary economic environment in which the Company operates and invests. Amounts have been converted to Kina for supplementary presentation purposes at the year-end exchange rate of 0.3100 (2003: 0.3045) for balance sheet items and the average exchange rate for 2004 of 0.3102 (2003: 0.2806) for income statement items. Reference should be made to the financial statements of the Company on pages 40 to 66 of the Annual Report for a true and fair view of the financial position of the Company as at 31 December 2004 and its performance for the financial year then ended, in accordance with generally accepted accounting practice and the Auditors Report thereon.

Summarised Income Statement

	Year ended		Supplementary Information	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	US\$'000	US\$'000	K'000	K'000
Dividend income from OTML	64,194	65,504	207,077	233,443
Other Investment Income	3,027	2,430	9,765	8,660
Total Revenue	67,221	67,934	216,842	242,103
Governance and administration	3,071	2,544	9,906	9,066
Development and investment programmes	1,915	292	6,177	1,041
Total Expenditure	4,986	2,836	16,083	10,107
Operating surplus	62,235	65,098	200,759	231,996
Papua New Guinea Withholding Tax	6,419	6,550	20,706	23,343
Net surplus after tax	55,816	58, 548	180,053	208,653

Summarised Balance Sheet

	Year ended		Supplementary Information	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	US\$'000	US\$'000	K'000	K'000
Current Assets				
Cash and cash equivalents	4,909	14,824	15,836	48,683
Available-for-sale investments	23,434	9,842	75,594	32,322
Debtors and prepayments	448	70	1,445	230
	28,791	24,736	92,875	81,235
Non-current assets				
Available-for-sale investments	86,961	40,438	280,519	132,801
Investment in OTML at cost	2,904	2,904	9,368	9,537
Investment in subsidiaries	1,949	-	6,287	-
Property, plant and equipment	208	218	671	716
	92,022	43,560	296,845	143,054
Total Assets	120,813	68,296	389,720	224,289
Current liabilities				
Loan from BHP Billiton Limited	-	3,500	-	11,494
Other liabilities	490	288	1,581	946
Total Liabilities	490	3,788	1,581	12,440
Net Assets	120,323	64,508	388,139	211,849
General Fund	2,903	1,431	9,365	4,700
Long Term Fund	79,397	42,114	256,119	138,305
Current purpose fund	38,023	20,963	122,655	68,844

Directors' Report on Company Statements |

Corporate Governance

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

Dr Ross Garnaut-Chairman [appointed 20 May 2002]
Hon. James Joseph Carlton [appointed 20 May 2002]
Ms Patricia Joy Caswell [appointed 20 May 2002]
Dr Jakob Weiss [appointed 13 November 2001]
Mr Donald Wabirao Manoa [appointed 10 October 2002]
Mr Lim How Teck [appointed 31 January 2003]
Sir Ebia Olewale [appointed 9 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 a 52 per cent interest in OTML for zero consideration. At the time of the acquisition, the Company's share of the net tangible assets of the subsidiary was US\$108.7 million.

Directors' Interest in Shares or Debentures

There was 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. Consistent 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, OTML, and will be receiving remuneration in this capacity.

Tax Payments to Papua New Guinea

The Company paid US\$6.5 million (K21.0 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 2004.

Audit Committee

The audit committee appointed:

Mr Lim How Teck-Chairman
Dr Ross Garnaut
Dr 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 2004, the amount of US\$3.5 million [K11.3 million] was repaid in full by the Company under the loan facility with BHP Billiton.

Development Program Expenditures

By end of 2004, the Company approved funding for development projects totalling US\$10.0 million (K32 million) from the Development Fund, with US\$4.4 million (K14.1 million) for projects within Western Province, and US\$5.6 million (K18.1 million) for projects in other parts of Papua New Guinea.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

DIRECTORS' REPORT

The directors present their report to the members together with the audited financial statements of the Company and of the Group for the financial year ended 31 December 2004.

Directors

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

Jakob Weiss
James Joseph Carlton
Patricia Joy Caswell
Ross Gregory Garnaut
Donald Wabirao Manoa
Lim How Teck
Sir Ebia Olewale

Arrangements to enable directors to acquire benefits

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares, debentures and share options

The Company is limited by guarantee and has no share capital, debentures, share options or unissued shares. None of the directors holding office at the end of the financial year had any interest in the share capital or debentures of its subsidiaries.

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except that Mr Ross Gregory Garnaut is a nominee director of the Company's jointly controlled entity (OTML) and receives remuneration in this capacity, remuneration payable by the Company.

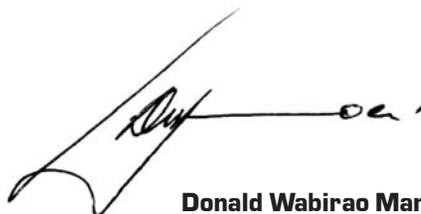
Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

On behalf of the directors



Ross Gregory Garnaut
Director
15 April 2005



Donald Wabirao Manoa
Director
15 April 2005

PNGSDP Ltd Financial Statements |

For the financial year ended 31 December 2004

STATEMENT BY DIRECTORS

In the opinion of the directors,

- (a) the income statement, balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages 43 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004, of the results of the business and changes in equity of the Company and of the Group for the financial year ended; and of the cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

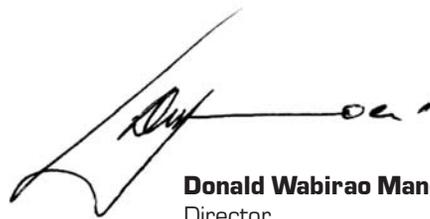
On behalf of the directors



Ross Gregory Garnaut

Director

15 April 2005



Donald Wabirao Manoa

Director

15 April 2005

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

AUDITORS' REPORT TO THE MEMBERS OF PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

We have audited the accompanying financial statements of PNG Sustainable Development Program Limited set out on pages 43 to 66 for the financial year ended 31 December 2004, comprising the income statement, balance sheet and statement of changes in equity of the Company, and the consolidated financial statements of the Group. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the accompanying financial statements of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004, the results and changes in equity of the Company and of the Group for the financial year ended on that date, and of the cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



PriceWaterhouseCoopers

Certified Public Accountants

Singapore, 15 April 2005

PNGSDP Ltd Financial Statements |

For the financial year ended 31 December 2004

INCOME STATEMENTS

	Notes	The Group		The Company	
		2004 US\$	2003 US\$	2004 US\$	2003 US\$
Revenue					
Dividends from investment in jointly controlled entity	3	-	-	64,194,000	65,504,400
Other investment income	3	3,030,022	2,429,962	3,027,496	2,429,962
Expenses					
Governance and Administrative	4	(3,453,359)	(2,543,763)	(3,070,927)	(2,543,763)
Development and Investment Programs	4	(1,915,444)	(292,038)	(1,915,444)	(292,038)
Other operating income					
Amortization of discount on acquisition of jointly controlled entity	11	9,314,464	11,975,739	-	-
Exchange differences on investment in jointly controlled entity	11	10,074,887	16,290,946	-	-
Operating surplus from operations					
	5	17,050,570	27,860,846	62,235,125	65,098,561
Share of profits of jointly controlled entity before tax	11	115,617,523	63,373,776	-	-
Operating surplus before tax					
		132,668,093	91,234,622	62,235,125	65,098,561
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	7	(6,419,400)	(6,550,440)	(6,419,400)	(6,550,440)
Share of Papua New Guinea tax of jointly controlled entity	7	(34,007,886)	(17,326,859)	-	-
Net surplus					
		92,240,807	67,357,323	55,815,725	58,548,121

The accompanying notes form an integral part of these financial statements.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

BALANCE SHEETS

	Notes	The Group		The Company	
		2004 US\$	2003 US\$	2004 US\$	2003 US\$
ASSETS					
Current assets					
Cash and cash equivalents	8	6,841,576	14,823,622	4,909,116	14,823,622
Available-for-sale investments	9	23,434,059	9,841,791	23,434,059	9,841,791
Other debtors and prepayments	10	73,126	70,531	448,428	70,531
		30,348,761	24,735,944	28,791,603	24,735,944
Non-current assets					
Available-for-sale investments	9	86,961,139	40,437,944	86,961,139	40,437,944
Investment in jointly controlled entity	11	50,140,376	14,110,690	2,903,581	2,903,581
Investments in subsidiaries	12	-	-	1,949,401	-
Property, plant and equipment	13	295,815	217,961	208,133	217,961
		137,397,330	54,766,595	92,022,254	43,559,486
Total assets		167,746,091	79,502,539	120,813,857	68,295,430
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	14	537,198	3,654,524	461,853	3,654,524
Provisions for employee benefit costs		28,464	133,091	28,464	133,091
Total liabilities		565,662	3,787,615	490,317	3,787,615
NET ASSETS		167,180,429	75,714,924	120,323,540	64,507,815
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	15	17	17	17	17
Funds, which comprise:		173,922,716	81,681,909	-	-
- General Fund	16	-	-	2,903,581	1,431,078
- Long Term Fund	16	-	-	79,396,706	42,113,990
- Development Fund	16	-	-	38,023,236	20,962,730
Share of hedge reserve of jointly controlled entity		(6,742,304)	(5,967,002)	-	-
		167,180,429	75,714,924	120,323,540	64,507,815

The accompanying notes form an integral part of these financial statements.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group	Members' Subscriptions US\$	Program Funds US\$	Hedge Reserve US\$	2003 Total US\$
Balance at 1 January 2004	17	81,681,909	(5,967,002)	75,714,924
Revenue:				
Other investment income	-	3,030,022	-	3,030,022
Share of profits from jointly controlled entity	-	115,617,523	-	115,617,523
Amortization of discount on acquisition of jointly controlled entity	-	9,314,464	-	9,314,464
Exchange differences on investment in jointly controlled entity	-	10,074,887	-	10,074,887
Expenses:	-	-	-	-
Governance and administrative	-	(3,453,359)	-	(3,453,359)
Development and investment programs	-	(1,915,444)	-	(1,915,444)
Income tax expenses from jointly controlled entity	-	(34,007,886)	-	(34,007,886)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(6,419,400)	-	(6,419,400)
Net surplus for the financial year	-	92,240,807	-	92,240,807
Share of hedge reserve of jointly controlled entity	-	-	(775,302)	(775,302)
Balance at 31 December 2004	17	173,922,716	(6,742,304)	167,180,429
Balance at 1 January 2003	17	14,324,586	-	14,324,603
Revenue:				
Other investment income	-	2,429,962	-	2,429,962
Share of profits from jointly controlled entity	-	63,373,776	-	63,373,776
Amortization of discount on acquisition of jointly controlled entity	-	11,975,739	-	11,975,739
Exchange differences on investment in jointly controlled entity	-	16,290,946	-	16,290,946
Expenses: -				
Governance and administrative	-	(2,543,763)	-	(2,543,763)
Development and investment programs	-	(292,038)	-	(292,038)
Income tax expenses from jointly controlled entity	-	(17,326,859)	-	(17,326,859)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(6,550,440)	-	(6,550,440)
Net surplus for the financial year	-	67,357,323	-	61,390,321
Share of hedge reserve of jointly controlled entity	-	-	(5,967,002)	(5,967,002)
Balance at 31 December 2003	17	81,681,909	(5,967,002)	75,714,924

The allocation of revenues and expenses and transfers from the General Fund to the Long Term Fund and the Development Fund are determined in accordance with the rules of the Company [refer note 2(n)]. No transfers are made on a Group level as dividend income is eliminated for consolidation purposes.

The accompanying notes form an integral part of these financial statements.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

COMPANY STATEMENT OF CHANGES IN EQUITY

The Company	Members' subscriptions US\$	General Fund US\$	Long Term Fund US\$	Development Fund US\$	Total US\$
Balance at 1 January 2004	17	1,431,078	42,113,990	20,962,730	64,507,815
Revenue:					
Dividends from OTML	-	64,194,000	-	-	64,194,000
Other investment income	-	1,090,430	1,117,266	819,800	3,027,496
Expenses:					
Governance and administrative	-	(3,070,927)	-	-	(3,070,927)
Development and investment programs	-	-	(154,307)	(1,761,137)	(1,915,444)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(6,419,400)	-	-	(6,419,400)
Net surplus for the financial year	-	55,794,103	962,959	(941,337)	55,815,725
Transfer from General Fund	-	(54,321,600)	36,319,757	18,001,843	-
Balance at 31 December 2004	17	2,903,581	79,396,706	38,023,236	120,323,540
Balance at 1 January 2003	17	662,752	3,531,283	1,765,642	5,959,694
Revenue:					
Dividends from OTML	-	65,504,400	-	-	65,504,400
Other investment income	-	-	1,550,451	879,511	2,429,962
Expenses:					
Governance and administrative	-	(2,543,763)	-	-	(2,543,763)
Development and investment programs	-	-	(62,325)	(229,713)	(292,038)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(6,550,440)	-	-	(6,550,440)
Net surplus for the financial year	-	56,410,197	1,488,126	649,798	58,548,121
Transfer from General Fund	-	(55,641,871)	37,094,581	18,547,290	-
Balance at 31 December 2003	17	1,431,078	42,113,990	20,962,730	64,507,815

The allocation of revenues and expenses and transfers from the General Fund to the Long Term Fund and the Development Fund are determined in accordance with the rules of the Company [refer note 2(n)].

The accompanying notes form an integral part of these financial statements.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

CONSOLIDATED CASH FLOW STATEMENT

	2004 US\$	2003 US\$
Cash flows from operating activities		
Operating surplus before taxation and after share of results of associated company	132,668,093	91,234,622
Adjustments for:		
Depreciation	80,717	72,844
Interest income	(1,822,526)	[1,436,497]
Share of results of a jointly controlled entity	(135,006,874)	[91,640,461]
Gain on disposal of property, plant and equipment	(836)	-
Dividend income	(134,920)	[3,163]
	(4,216,346)	[1,772,655]
Operating cash flow before working capital changes		
Change in operating assets and liabilities		
Other debtors and prepayments	(2,595)	[13,842]
Other creditors and accruals	(3,221,953)	137,033
Cash used in operations	(7,440,894)	[1,649,464]
Interest received	225,763	1,447,838
Dividends received (net of withholding tax)	57,909,520	58,957,123
	50,694,389	58,755,497
Cash flows from investing activities		
Payments for investment securities	(60,115,463)	[62,974,379]
Interest received	1,596,763	-
Proceeds from sales of investment securities	-	12,694,644
Payments for property, plant and equipment	(234,073)	[230,733]
Proceeds on disposal of property, plant and equipment	76,338	-
	(58,676,435)	[50,510,468]
Net cash used in investing activities		
	(7,982,046)	8,245,029
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the financial year	14,823,622	6,578,593
	6,841,576	14,823,622
Cash and cash equivalents at the end of the financial year		

The accompanying notes form an integral part of these financial statements.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

The Company is incorporated and domiciled in Singapore. The address of its principal place of business is as follows: Level 7, Pacific Place, Champion Parade, PO Box 1786, Port Moresby, Papua New Guinea.

The principal activity of the Company is to promote sustainable development within, and advance the general welfare of the people of Papua New Guinea, particularly those of the Western Province of Papua New Guinea, through supporting programs and projects in the areas of capacity building, health, education, economic development, infrastructure, community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of those people.

2. Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, as modified by the remeasurement of available-for-sale investments at fair value.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current developments and actions, actual results may ultimately differ from those estimates.

(b) Revenue recognition

Dividends are recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period of maturity, when it is determined that such income will accrue to the Company. The difference between the market value of investment in securities [note 2(f)] and cost, as well as gains made on disposal of investments, are included in revenue as other income from investments.

(c) Group accounting

(1) Subsidiaries

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest.

2. Significant accounting policies (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Refer to note 2 (f) for the Company's accounting policy on investments in

(2) Joint ventures

Joint ventures are entities over which the Group has contractual arrangements to jointly share the control with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements by using the equity method of accounting.

Equity accounting involves recording investments in jointly controlled joint ventures (joint ventures) initially at cost, and recognising the Group's share of its joint ventures' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Refer to note 2(f) for the Company's accounting policy on investments in joint ventures.

(3) Transaction costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of property, plant and equipment over the expected useful lives of the assets concerned. The annual rates used for this purpose are:

	%
Computers and computer software	$33\frac{1}{3}$ - 100
Motor vehicles	20
Office furniture and equipment	$33\frac{1}{3}$
Leasehold improvements	20

Repairs and maintenance are taken to the income statement during the financial period in which they are incurred.

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating surplus.

(e) Dividends

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders.

(f) Investments

(1) Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less accumulated impairment losses in the Company's balance sheet. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. On disposal of an investment in subsidiaries and joint ventures the difference between net disposal proceeds and its carrying amount is taken to the income statement.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

2. Significant accounting policies (continued)

(2) Investments in debt and equity securities

Investments in debt and equity securities are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates and are classified as available-for-sale. They are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will mature within that period, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset. They are subsequently carried at fair value, with independent revaluations performed by the Company's appointed investment manager on a monthly basis. Unrealised gain and losses arising from changes in the fair value of securities are recognised in the income statement in the period in which they arise.

Securities listed on an exchange are valued at the latest traded price reported by the principal securities exchange on which the issue is traded or, lacking any sales, at the closing bid prices.

Securities which are dealt on the alternative investment market of the London Stock Exchange ('AIM') are valued by reference to the closing middle market price based on the stock exchange daily official list on the relevant date.

Securities which are not listed on a stock exchange are valued as at the relevant date using the most recent and reliable valuations available.

Units in collective investment schemes are valued at the mid market price.

(g) Impairment of long lived assets

Property, plant and equipment and other non-current assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) Leases

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(i) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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

2. Significant accounting policies (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Provisions for other liabilities and charges

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) Employee benefits

(1) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as Nafund and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised in the financial year to which they relate.

(2) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(l) Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements of the Group are presented in United State dollars ("US\$"), which is the measurement currency of the Company.

(2) Transactions and balances

Foreign currency transactions are translated into US\$ using the exchange rates prevailing at the date of transactions. Foreign currency monetary assets and liabilities are translated into US\$ at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at financial year-end rates of monetary assets and liabilities denominated in foreign currencies are taken to the income statement.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than ninety days to maturity from the date of acquisition including: cash and bank balances, treasury bills, commercial papers, certificates of deposit and other eligible bills.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

2. Significant accounting policies (continued)

(n) Long Term Fund, Development Fund and General Fund

The Company is required by its rules to apply its income from Ok Tedi Mining Limited ("OTML") and other sources to a Long Term Fund, the Development Fund and General Fund attributable to the operations of the Company.

In pursuing its object, the Company is able to invest and utilise its available resources from the Long Term Fund, the Development Fund and General Fund in accordance with the Rules of the Company.

Long Term Fund

The Long Term Fund represents $\frac{2}{3}$ of net income received from OTML after deducting operating expenses and all other legal contractual obligations as specified in the rules of the program relating to the application of the income received.

Funds from the Long Term Fund must be invested in low risk investments.

Before mine closure date, the funds will be used in the following order of priority:

- (a) To the extent the amounts under Rules clauses 9.2 (b) and 9.3 (b) and that part of the commitment which is undrawn are insufficient, to meet contractual obligations.
- (b) To the extent the amount under clause 9.2 (c) is insufficient, if determined by the Board, to meet a call by OTML in accordance with clause 12 (further capital requirements by OTML).

After mine closure the funds will be applied in the following order of priority:

- (a) Operating expenses for next 6 months in accordance with the budget approved by the Board from time to time.
- (b) To the extent that distributions and investment income received after the mine closure date are insufficient to meet contractual obligations as they fall due for payment.
- (c) Calls from OTML (on Shareholders).
- (d) To fund Sustainable Development Purposes in proportions to be determined by the Board of Directors in accordance with Rules clause 10.4.

Development Fund

The fund is to be used to support and fund programs and projects which promote sustainable development in accordance with the "Rules for the PNG Sustainable Development Program" scheduled to and forming part of the Articles of Association of the Company.

The Development Fund represents $\frac{1}{3}$ of income received from OTML after deducting operating expenses and all other contractual obligations as specified in the rules relating to the application of income received.

In accordance with Rules clause 9.2 (e), the funds are to be applied as follows:

- (a) $\frac{1}{3}$ of these funds to be used in accordance with the Objects of the Articles of Association of the Company and at the discretion of the Board for the benefit of the people of Western Province;
- (b) $\frac{2}{3}$ of these funds to be used in accordance with the Objects of the Articles of Association of the Company and at the discretion of the Board for the benefit of the people of Papua New Guinea.

2. Significant accounting policies (continued)

These funds will be used mainly to fund projects covering core areas in health, education, capacity building, economic development, infrastructure community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of the people of Papua New Guinea, in particular, the people of the Western Province.

General Fund

In accordance with clause 14 of the "Rules for the PNG Sustainable Development Program", a yearly budget of administration costs must be prepared and approved by the Board of Directors.

The company budget prepared for each year after the third year of the Program must reflect that the portion of the operating expenses attributable to the operation of the Company (but not to the running of the Program) should not exceed 15% of the average annual income of the Program during the immediate preceding 3 accounting years.

Also included in the general fund, is an amount of US\$2,903,581 attributable to the Company's initial investment in the jointly controlled entity, OTML.

The administration costs cover the normal operating expenses of the Company and of the Program including (without limitation) establishment costs, directors' fees, the cost of directors' and officers' liability insurance, expenditure of the program manager and the program manager's remuneration, and any tax payable by the Company.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

3. Revenue

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Dividends from investment in jointly controlled entity	-	-	64,194,000	65,504,400
Other dividends	134,920	3,163	134,920	3,163
Foreign exchange gains - net	1,090,430	1,140,532	1,090,430	1,140,532
Profit on disposal of fixed assets	836	-	836	-
Losses from changes in the market value of securities - net	(18,690)	(150,230)	(18,690)	(150,230)
	1,207,496	993,465	65,401,496	66,497,865
Interest income on investments and cash balances	1,822,526	1,436,497	1,820,000	1,436,497
Total revenue	3,030,022	2,429,962	67,221,496	67,934,362

The Company received gross dividend income of \$64,194,000 (2003:\$65,504,400) from its investment in a jointly controlled entity, OK Tedi Mining Limited, during the financial year. A 10% dividend withholding tax of \$6,419,400 (2003: \$6,550,440) was deducted in respect of this dividend income and paid to the PNG Internal Revenue Commission during the financial year (see note 7).

4. Expenses

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Constitutional & establishment	19,656	19,872	19,656	19,872
OTML Loan Facility Subsidy paid to OTML (note 20)	391,575	796,667	391,575	796,667
Board of Directors	489,794	374,552	489,794	374,552
Board administration expenses	234,778	114,502	234,778	114,502
Company Secretary	19,842	21,824	19,842	21,824
Advisory Council	55,646	15,244	55,646	15,244
Annual report meeting	68,655	44,319	68,655	44,319
Shareholders' costs	32,573	17,970	32,573	17,970
Administration	2,140,840	1,138,813	1,758,408	1,138,813
Total governance and administrative expenses	3,453,359	2,543,763	3,070,927	2,543,763
Development program costs	1,734,690	223,003	1,734,690	223,003
Investment program costs	180,754	69,035	180,754	69,035
Total development and investment program costs	1,915,444	292,038	1,915,444	292,038

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

5. Operating surplus from operations

The following items have been included in arriving at the operating surplus from operations:

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Charging:				
Depreciation of property, plant and equipment	80,716	72,844	80,716	72,844
Rental expenses - operating lease	65,005	46,138	49,544	46,138

6. Staff costs

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Wages and salaries	352,664	308,973	303,633	308,973
Employee benefits and on-costs	48,650	61,935	48,650	61,935
Superannuation contributions	22,489	22,393	22,489	22,393
	423,803	393,301	374,772	393,301

Key management remuneration is disclosed in note 20(b). The number of persons employed at the end of the financial year by the group was 13 (2003:11).

7. Income tax

Income tax expense

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Tax expense attributable to the operating surplus				
is made up of:				
Current income tax - Foreign	6,419,400	6,550,440	6,419,400	6,550,440
Share of tax of jointly controlled entity (note 11)	34,007,886	17,326,859	-	-
	40,427,286	23,877,299	6,419,400	6,550,440

The foreign tax is comprised of US\$ 6,419,400 dividend withholding tax deducted from the dividend income that the Company received from its jointly controlled entity, Ok Tedi Mining Limited.

The 10% dividend withholding tax has been paid to the Papua New Guinea Internal Revenue Commission during the financial year.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

7. Income tax (continued)

No Singapore income tax is payable on the basis that the dividend and interest income is not remitted to Singapore.

The tax expense on results differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Operating surplus before tax	132,668,093	91,234,622	62,235,125	65,098,561
Tax calculated at Singapore rates applicable to profits in Papua New Guinea at 20% (2003: 22%)	26,533,618	20,071,617	12,447,025	14,321,683
Effect of different tax rates in other countries	17,303,781	9,935,067	(6,419,400)	(7,860,528)
Income not subject to tax	(4,483,874)	(6,753,262)	(605,500)	(534,592)
Tax benefits of deductible expenses not recognized	1,073,761	623,877	997,275	623,877
Tax charge	40,427,286	23,877,299	6,419,400	6,550,440
Comprising:				
10% Dividend withholding tax paid to the Internal Revenue Commission (Papua New Guinea)	6,419,400	6,550,440	6,419,400	6,550,440
Share of Papua New Guinea tax of jointly controlled entity	34,007,886	17,326,859	-	-
	40,427,286	23,877,299	6,419,400	6,550,440

8. Cash and cash equivalents

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Cash and bank balances	1,237,199	874,103	929,739	874,103
Cash held in treasury bills	2,782,871	-	1,157,871	-
Cash held in investment funds	2,821,506	4,960,628	2,821,506	4,960,628
Commercial papers and certificates of deposit	-	8,988,891	-	8,988,891
	6,841,576	14,823,622	4,909,116	14,823,622

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

8. Cash and cash equivalents (continued)

Cash and cash equivalents are denominated in the following currencies:

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Current profile				
US Dollar	3,409,916	14,507,783	3,409,916	14,507,783
PNG Kina	3,431,660	315,839	1,499,200	315,839
	6,841,576	14,823,622	4,909,116	14,823,622

9. Available-for-sale investments

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Current				
Corporate bonds (quoted)	19,439,493	9,479,702	19,439,493	9,479,702
Accrued interest	33,630	362,089	33,630	362,089
Government bonds (unquoted)	3,960,936	-	3,960,936	-
	23,434,059	9,841,791	23,434,059	9,841,791
Long term				
Government bonds (quoted)	61,911,642	34,693,667	61,911,642	34,693,667
Corporate bonds (quoted)	16,986,793	1,067,387	16,986,793	1,067,387
Equity securities (quoted)	7,574,141	4,220,922	7,574,141	4,220,922
Accrued interest	488,563	455,968	488,563	455,968
	86,961,139	40,437,944	86,961,139	40,437,944
Total	110,395,198	50,279,735	110,395,198	50,279,735

Available-for-sale investments are accounted for in accordance with the accounting policy set out in note 2(f). The weighted average effective interest rate on corporate and government bonds at 31 December 2004 was 1.4% (2003: 3.75%).

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
US Dollar	101,728,284	35,602,971	101,728,284	35,602,971
Euro	2,060,894	10,525,476	2,060,894	10,525,476
Canadian Dollar	-	2,742,909	-	2,742,909
Sterling	1,056,217	649,874	1,056,217	649,874
Yen	917,967	292,909	917,967	292,909
Others	4,631,836	465,596	4,631,836	465,596
	110,395,198	50,279,735	110,395,198	50,279,735

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

10. Other debtors and prepayments

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Prepayments	19,118	62,844	19,118	62,844
Interest receivable	42,392	3,216	42,392	3,216
Deposits	1,672	4,471	1,672	4,471
Advance to subsidiaries	-	-	382,940	-
Other advances	9,944	-	2,306	-
	73,126	70,531	448,428	70,531

Other debtors (excluding prepayments and interest receivable) are denominated in PNG Kina. Interest receivable is denominated in US dollars.

11. Investment in jointly controlled entity

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Investment at cost			2,903,581	2,903,581
At the beginning of the financial year	14,110,690	11,268,490		
Share of results before tax	115,617,523	63,373,776		
Share of tax paid to the PNG tax authorities	(34,007,886)	(17,326,859)		
Share of results after tax	81,609,637	46,046,917		
Share of hedge reserve	(775,302)	(5,967,002)		
Amortization of discount on acquisition	9,314,464	11,975,739		
Dividends received	(64,194,000)	(65,504,400)		
Exchange differences	10,074,887	16,290,946		
At the end of the financial year	50,140,376	14,110,690		

The investment in a jointly controlled entity is accounted for at cost in the Company's financial statements. The cost of US\$2,903,581 represents stamp duty paid to the Papua New Guinea Government and legal fees incurred relating to the transfer of shares in the jointly controlled entity to the Company. Under the Companies Act, a company is a legal subsidiary of another company if the latter owns more than 50% of the equity interest of the former. However, this legal subsidiary is not consolidated because it does not meet the definition of subsidiaries under FRS 27: "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" as the Company does not have control in this legal subsidiary independent from other shareholders.

PNGSDP Ltd Financial Statements |

For the financial year ended 31 December 2004

11. Investment in jointly controlled entity (continued)

Accordingly, this legal subsidiary has been accounted for as an investment in a jointly controlled entity by the Company in accordance with FRS 31: "Financial Reporting of Interests in Joint Ventures" as this joint venture entity is jointly controlled by its shareholders.

Details of the jointly controlled entity are as follows:

Name of jointly controlled entity	Principal activities	Country of business and incorporation	Equity holding
Ok Tedi Mining Limited	Mining and processing of copper ore	Papua New Guinea	52%

In accordance with the Funding Facility Deed dated 22 November 2001 and the Equitable Mortgage of Shares dated 7 February 2002 between the Company and Insinger Trust (Singapore) Limited, there is an equitable charge over the OTML shares which creates an interest in the dividend stream from the shares held in OTML (but not the shares themselves).

The jointly controlled entity was transferred by BHP Minerals Holdings Proprietary Limited to the Company for nil consideration on 7 February 2002 and this gave rise to a discount on acquisition of \$105,785,694.

Contingent liabilities

The Company has incurred the following contingent liabilities in relation to its interests in the jointly controlled entity:

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Bank guarantees	15,712	-	15,712	14,426

Capital commitments

The Company has incurred the following capital commitments in relation to its interests in the joint venture:

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Capital expenditure	-	818,237	-	818,237

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

12. Investment in subsidiaries

	The Company	
	2004	2003
	US\$	US\$
Investments (unquoted at cost)		
PNG Microfinance Limited	1,949,400	-
PNG Sustainable Energy Limited	1	-
Total	1,949,401	-

During the year, the Company incorporated two subsidiaries, PNG Microfinance Limited and PNG Sustainable Energy Limited. Both subsidiaries are 100% owned by the Company.

PNG Microfinance Limited contributed revenue of US\$2,526 and a loss from operations of US\$289,906 to the Group for the year ended 31 December 2004. The subsidiary's assets and liabilities at 31 December 2004 were US\$4,909,116 and US\$368,253 respectively. The principal activity of PNG Microfinance Limited is to provide financial services designed to meet the needs of low income earning households and small business operators across Papua New Guinea.

Pursuant to a shareholders agreement, PNG Sustainable Energy Limited is to be equally owned by PNG Sustainable Development Program Limited and SMEC Developments Power Pty Ltd, following a subscription of shares. At 31 December 2004, there was only one share held in the name of PNG Sustainable Development Program Limited. Subsequent to balance date, PNG Sustainable Energy Limited began the process of executing share issue documents to effect the shareholders agreement. Once this process is complete, PNG Sustainable Energy Limited will become a jointly controlled entity. For the period between date of incorporation and 31 December 2004, PNG Sustainable Energy Limited had made a loss of US\$90,000 representing establishment costs. This has resulted in a net deficiency of US\$90,000 in shareholder's fund, represented by amounts owing to PNG Sustainable Development Program Limited. The principal activity of PNG Sustainable Energy Limited is to establish, develop & manage energy products in Papua New Guinea.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

13. Property, plant and equipment

The Group

	Computers and computer software US\$	Motor vehicles US\$	Office furniture and equipment US\$	Leasehold Improvements US\$	Total US\$
Cost					
At 1 January 2004	32,949	116,320	146,622	-	295,891
Additions	140,714	29,025	48,501	15,833	234,073
Write-offs/Disposals	-	(116,311)	-	-	(116,311)
At 31 December 2004	173,663	29,034	195,123	15,833	413,653
Accumulated depreciation					
At 1 January 2004	26,580	22,355	28,995	-	77,930
Write-offs/Disposals	(1,834)	(38,608)	(367)	-	(40,809)
Depreciation charge	13,608	16,253	50,856	-	80,717
At 31 December 2004	38,354	-	79,484	-	117,838
Net book value					
At 31 December 2004	135,309	29,034	115,639	15,833	295,815
Net book value					
At 31 December 2003	6,369	93,965	117,627	-	217,961

The Company

	Computers and computer software US\$	Motor vehicles US\$	Office furniture and equipment US\$	Leasehold Improvements US\$	Total US\$
Cost					
At 1 January 2004	32,949	116,320	146,622	-	295,891
Additions	135,685	29,025	20,492	15,833	201,035
Write-offs/Disposals	(17,318)	(145,345)	(8,292)	-	(170,955)
At 31 December 2004	151,316	-	158,822	15,833	325,971
Accumulated depreciation					
At 1 January 2004	26,580	22,355	28,995	-	77,930
Write-offs/Disposals	(1,834)	(38,608)	(367)	-	(40,809)
Depreciation charge	13,608	16,253	50,856	-	80,717
At 31 December 2004	38,354	-	79,484	-	117,838
Net book value					
At 31 December 2004	112,962	-	79,338	15,833	208,133
Net book value					
At 31 December 2003	6,369	93,965	117,627	-	217,961

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

14. Sundry creditors and accruals

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
Amount due to BHP Billiton Limited	-	3,500,000	-	3,500,000
Other creditors and accruals	537,198	154,524	461,853	154,524
	537,198	3,654,524	461,853	3,654,524

The amount of \$3,500,000 due to BHP Billiton Limited ("BHP") was drawn from the funding facility per the Funding Facility Deed signed between the Company and BHP on 22 November 2001, and is secured by a charge over the dividend income stream from the shares held in OTML. Interest is not payable on the amount owing to BHP. This loan was repaid to BHP Billiton Ltd on 22nd March 2004.

Currency profile

	The Group		The Company	
	2004	2003	2004	2003
	US\$	US\$	US\$	US\$
US Dollar	149,915	-	149,914	-
PNG Kina	387,283	3,654,524	311,939	3,654,524
	537,198	3,654,524	461,853	3,654,524

15. Members' subscriptions

As a Company "limited by guarantee", the Company does not have any issued shares or shareholders. At 31 December 2004, there were 3 members of the Company (2003: 3).

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

16. General, Long Term and Development Funds

General fund

The general fund is accounted for in accordance with the policy set out in note 2(n).

	The Company	
	2004	2003
	US\$	US\$
At the beginning of the financial year	1,431,078	662,752
Dividends from OTML	64,194,000	65,504,400
Investment income for the year	1,090,430	-
Governance and administrative expenses	(3,070,927)	(2,543,763)
10% Withholding tax paid to Internal Revenue Commission (Papua New Guinea)	(6,419,400)	(6,550,440)
Transfer from General Fund	(54,321,600)	55,641,871
At the end of the financial year	2,903,581	1,431,078

Currency profile

	The Company	
	2004	2003
	US\$	US\$
PNG Kina	2,903,581	1,431,078
	2,903,581	1,431,078

Long term fund

The Long Term Fund is accounted for in accordance with the policy set out in note 2(n).

	The Company	
	2004	2003
	US\$	US\$
At the beginning of the financial year	42,113,990	3,531,283
Investment income for the year	1,117,266	1,550,451
Investment expenses	(154,307)	(62,325)
Transfer from General Fund	36,319,757	37,094,581
At the end of the financial year	79,396,706	42,113,990

The weighted average rate of return on investment for the long term fund for the year was 2.14% (2003: 8.06%).

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

16. General, Long Term and Development Funds (continued)

Currency profile

	The Company	
	2004	2003
	US\$	US\$
US Dollar	79,353,872	42,113,990
PNG Kina	42,834	-
	<u>79,396,706</u>	<u>42,113,990</u>

Development Fund

The Development Fund is accounted for in accordance with the policy set out in note 2(n), and is allocated between the Western Province Program Fund and the National Program Fund as follows:

	Western Province Program Fund 2004 US\$	National Program Fund 2004 US\$	Total 2004 US\$	Total 2004 US\$
At the beginning of the financial year	6,936,672	14,026,058	20,962,730	1,765,642
Investment income for the year	271,276	548,524	819,800	879,511
Investment expenses	(666,452)	(1,094,685)	(1,761,137)	(229,713)
Transfer from General Fund	6,000,614	12,001,229	18,001,843	18,547,290
At the end of the financial year	<u>12,542,110</u>	<u>25,481,126</u>	<u>38,023,236</u>	<u>20,962,730</u>

The weighted average rate of return on short term investments for the Development Fund for the year was 1.32% (2003: 9.15%).

Currency profile

	The Company	
	2004	2003
	US\$	US\$
US Dollar	30,455,048	20,962,730
PNG Kina	7,568,188	-
	<u>38,023,236</u>	<u>20,962,730</u>

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

17. Commitments

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Not later than 1 year	112,775	32,468	112,775	32,468
Later than 1 year but not later than 5 years	315,250	60,224	315,250	60,224
	<u>428,025</u>	<u>92,692</u>	<u>428,025</u>	<u>92,692</u>

18. Financial Risk Management

The Company's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company by maintaining an appropriately diversified investment portfolio across asset classes and currencies.

The Company has appointed a professional investment manager to carry out the investment activities in accordance with the investment strategy and policies approved by the Board of Directors. An Investment and Risk Management Committee of the Board has been established to monitor investment and risk management performance and the performance of the investment manager.

The Company does not have any significant concentrations of credit risk, and policies are in place that limits the amount of credit exposure to any one financial institution.

19. Fair values of financial assets and financial liabilities

The carrying amounts of the following financial assets and liabilities approximate their fair values: cash and cash equivalents, other debtors and prepayments, available-for-sale investments and other creditors and accruals.

PNGSDP Ltd Financial Statements

For the financial year ended 31 December 2004

20. Related party transactions

Other than disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties during the financial year:

(a) Ok Tedi Mining Limited Loan Facility Subsidy

The Company paid US\$391,575 (2003: US\$796,667) as a non-refundable subsidy towards the borrowing costs and charges (interest, guarantee and commitment fees) incurred by OTML in accordance with Clause 2.2 of the Subsidy Deed between the Company and Ok Tedi Mining Limited signed on 11 December 2001.

(b) Key management's remuneration

The key management's remuneration included fees, salary and other emoluments computed based on the cost incurred by the Company, and where the Company did not incur any costs, the value of the benefit is included.

	The Group		The Company	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
Directors	489,794	374,552	489,794	374,552
Others	225,853	154,880	225,853	154,880
	<u>715,647</u>	<u>529,432</u>	<u>715,647</u>	<u>529,432</u>

A director received US\$35,000 from the Company in respect of his services as a director of the jointly controlled entity (OTML).

21. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of PNG Sustainable Development Program Limited on

ANNEX A: 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 directors 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.

Annex A: Agreements entered into by the Company in relation to BHP Billiton's exit from OTML and transfer of its shares to PNGSDP Ltd

- **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
 - 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.

Annex B: Basic Statistics on Western Province and Papua New Guinea

Details	Western Province	PNG
Population	153,304	5,190,786
Number of Districts	3	87
1. Middle Fly District	55,853 persons	
2. North Fly District	50,914 persons	
3. South Fly District	46,537 persons	
Number of Local Level Government areas	14	297
Proportion of PNG population	3.0%	
Average annual growth rate 1990-2000	3.3%	3.2%
Sex Ratio	107 males p/100 females	108 males p/100 females
Population Density	2 persons per km ²	11.2 persons per km ²
Average household size	6.0 persons	5.1 persons
Land mass	97,300 km ²	462,840 km ²
Arable Land Area	2,757 km ²	60,235 km ²
Crude birth rate	46.7%	36.1%
Crude death rate	10.8%	11.8%
Infant mortality rate (per 1,000 live births)	54	73
Child mortality rate per 1,000 live births)	19	31
Population with no education (1990)	52.7%	-
Population with Grade 6 + education (1990)	25.7%	16.5%
Literacy rate (1990)	67%	45%
% of persons in formal employment (1990)	21%	18%
% of persons in subsistence & semi-subsistence employment 1990	69%	74%

PAPUA NEW GUINEA

50 0 50 100 150 200
KILOMETRES SCALE 1:2,600,000 MERCATOR PROJECTION KILOMETRES

Ocean Depths MSL Land Elevations
metres 6000 4000 2000 200 0 600 1200 1800 2400 metres

- Major Road (sealed ; unsealed)
- Minor Road (surface unspecified)
- International Boundary
- Provincial Boundary



Board of Directors

Dr Ross Garnaut AO BA PhD (Chairman)
 Sir Ebia Olewale Kt
 Honorable Jim Carlton AO BSc
 Mr Donald Manoa
 Ms Patricia Caswell BA (Hon) Dip Ed BEd
 Dr Jakob Weiss BA Econ MA Econ MBA PhD
 Mr Lim How Teck B Acc CPA FCMA AIBA PBM

Registered Office

DrewCorp Services Pte Ltd, 20 Raffles Place #09-01,
 Ocean Towers, Singapore 048620

Company Secretary

Ms Madelyn Kwang
 Tel. (65) 6531 4187
 (65) 6531 2266
 Fax (65) 6533 1542
 (65) 6533 7649

Head Office

PNG Sustainable Development Program Ltd
 7th Floor, Pacific Place,
 PO Box 1876, Port Moresby 121
 Papua New Guinea

Chief Executive Officer

Mr Robert Igara CMG BEcon Grad Dipl in Intl Law MBA
 Tel. (675) 320 3844
 (675) 320 3845
 (675) 320 3846
 Fax. (675) 320 3855

Bankers

Bank of South Pacific Commercial Centre
 PO Box 1710, Boroko, Papua New Guinea

 ANZ Banking Group Limited, 31/F,
 One Exchange Square
 8 Connaught Place
 Central Hong Kong

 ANZ Banking Group
 10 Collyer Quay
 #17-01/07 Ocean Building
 Singapore 049315

Funds Manager

Newton Investment Management Limited,
 71 Queen Victoria Street,
 London EC4V 4DR,
 United Kingdom

 Schroders Private Bank,
 Schroders & Co. Limited,
 100 Wood Street,
 London EC2V 7ER,
 United Kingdom

Accountants

Deloitte Touche Tohmatsu,
 Level 12, Deloitte Tower
 Douglas Street,
 P.O. Box 1275
 Port Moresby 121,
 Papua New Guinea.

Auditors

PriceWaterhouseCoopers
 8 Cross Street
 #17-00 PWC Building,
 Singapore 048424

 PriceWaterhouseCoopers
 Credit House, Cuthbertson Street
 PO Box 484
 Port Moresby 121
 Papua New Guinea

Lawyers

Gadens Lawyers
 PO Box 1042
 12th Floor, Pacific Place
 Port Moresby 121
 Papua New Guinea