



ANNUAL REPORT

MISSION STATEMENT



***“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 will invest and manage wisely the income and resources of the Company
- Our investments and projects will provide significant short and long term benefits to the people, local communities, provinces and the nation
- Our activities will meet the best financial, physical, cultural, social and environmental standards
- We will work together with the people of PNG in partnership with the government, churches and other non- government development and business partners



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CHAIRMAN'S REVIEW



The year under review saw the maturation of PNG Sustainable Development Program Limited.

Revenues have been high, especially from the Ok Tedi mine but also from investments. The Long Term Fund has reached a level that it was once expected to have reached only at mine closure. The management structure has been reviewed and reorganised to support higher levels of development expenditure. Work to establish substantial and sustainable sources of incomes in Western Province after mine closure is showing promise. The first independent review of PNGSDP's performance has supported the Company's approach to its unique and challenging task. Cooperation with international development partners has expanded. The foundations have been laid for the Company to play a large role in the future development of Western Province and Papua New Guinea.

Good operating performance at the Ok Tedi mine combined with high metal prices to generate exceptional profits. The National Government's share of the benefits underwrote a period of exceptional economic growth and opportunity for the country. PNGSDP's dividends, after taxes paid to the Papua New Guinea Government, reached US\$280.8 million, of which US\$184.2 million went into the Long Term Fund.

During 2006, OTML designed and put aside US\$150 million to build a special facility to greatly reduce the environmental damage caused by the discharge of tailings into the Ok Tedi River. Installation will have been completed by mid-2008.

PNGSDP worked closely with OTML and the PNG Government in discussion of new Mine Continuation Agreements with

communities in the corridor affected by the mine. The mining company managed the process to ensure a high degree of informed consent to new arrangements.

PNGSDP places high importance on current engineering and related studies to test whether there is a commercially and environmentally sound basis for the life of the mine to be extended, perhaps on a smaller scale, beyond current expectations of mine closure in 2013. Success in this work would increase the prospects for smooth adjustment to alternative opportunities upon eventual mine closure.

Metal prices in May 2007 are above the average for 2006. In the absence of sharp correction, PNGSDP's 2007 income may be similar to that in the year under review.

The Long Term Fund received a return of 7.8% on weighted average funds in 2006. Average returns were raised by strong performance - 37.5% on a modest level of PNG investments. The Company continues to pursue a cautious, "low risk" approach to investment of the Long Term Fund. Within this approach, there are prospects for securing average returns over the years at or above last year's levels, partly through prudent expansion of investments in Papua New Guinea. The Long Term Fund stood at US\$376.6 million at the end of the year.

The Board judges that revenues are likely to support average annual development expenditures of around US\$50 million per annum, in the dollars of 2007, in the years to currently planned mine closure. It is likely that the Long Term Fund will support continued development expenditure at this rate for at least 40 years after mine closure.



CHAIRMAN'S REVIEW

The Board, working with Chief Executive Officer Robert Igara, focused strongly on the management requirements of this increased capacity for development expenditure. It commissioned a comprehensive management review by Boston Consulting Group. The principal conclusions of the review were accepted by the Board, and are being implemented by the Chief Executive Officer, as described in his review in this Annual Report.

It has been a central element of PNGSDP's development strategy for Western Province, to assist in the establishment of sustainable income-generating activities on a scale that could support essential economic and social infrastructure in the Province after mine closure. The Company's studies of the feasibility of a deepwater port at Daru and an industrial area for large-scale developments on the adjacent mainland have generated interest amongst potential users of the Province's natural gas resources and the southern coastal region's hydro-electric power potential. The Company is undertaking studies of the costs and benefits of an infrastructure corridor, covering road transport, a gas pipeline, power transmission and telecommunications, joining Kiunga through Nomad to the South Fly and Daru. The infrastructure corridor and port and industrial area would enhance the prospects of a wide range of substantial, new economic activities, including in agriculture, sustainable forestry and timber processing, aquaculture and eco-tourism, as well as minerals processing and gas-based industrial development. It is hoped that completion of environmental and community studies, commitments from co-

investors in infrastructure and decisions by major port users will allow a decision to commence construction in 2008.

The Company has expanded its productive cooperation with the World Bank over the past year, and is at an advanced stage in discussion of co-financing by several other international development agencies.

During the year, with the Papua New Guinea Government and a range of private national and Western Province institutions, the Company established a basis for development cooperation across the Southern border with Indonesian Papua. Exploration of these possibilities has been strongly encouraged by village communities in North, Middle and South Fly regions.

The Board commissioned an independent review of the Company by Professor Dwight Perkins of Harvard University. Professor Perkins' positive comments about the Company's approach to development, and his constructive suggestions for expansion of activities in some areas, are welcome. The independent review will be made available to interested parties at the Annual Report Meeting.

The Board of Directors is grateful for the hard work and the high professional performance of the management team under the leadership of Robert Igara. The Company looks forward to great progress in Western Province and Papua New Guinea development over the next few years, in close cooperation with the National and Provincial Governments elected in the middle months of this year.



CEO'S OVERVIEW



In 2006, PNGSDP further clarified its role and contribution to sustainable development. A management review conducted on our behalf by Boston Consulting Group has concluded that whilst PNGSDP participates in some of the most difficult development challenges in the region under extreme pressure and high expectations, PNGSDP's operating model is broadly accepted as appropriate.

As a first step towards proactively addressing the challenges which lie ahead, PNGSDP has established the positions of Chief Financial Officer and Chief Program Officer in order to support the CEO's role. Additional program management staff with industry-specific focus are being recruited, and we will continue to focus on process improvement and skills development during 2007.

As documented in this Annual Report, we have now built up a solid portfolio of investments and development projects in defined strategic development areas, with particular emphasis on Western Province. Our strategic approach and model continues to build constructive development partnerships.

PNGSDP recognises that the level of financial resources available to PNGSDP represent both an opportunity and a significant

organisational challenge. Over the year, investment and funds management operations of PNGSDP have successfully accommodated the significant increase in income due to Ok Tedi Mining Ltd's strong financial performance. We have taken particular advantage of opportunities for investment in PNG, including our own joint-venture and subsidiary companies.

In the context of future mine life planning at Ok Tedi, 2006 was a particularly important year for managing relationships with key stakeholders. Supporting the PNG Government to optimise the prospects for sustainable development to benefit the people of Western Province beyond Mine Closure continues to be a priority interest of PNGSDP.

Looking towards the future, progress on a number of major projects depends on success in public tender processes, and negotiations with potential commercial investment-manager partners. The 2007 General Elections will also inevitably impact our program activities and we look forward to strengthening our relationships with both the Western Province Government and the PNG Government as they will continue to be vital partners.



STRATEGIC OBJECTIVES AND FRAMEWORK

THE LONG TERM GOAL

To promote diversified and balanced economic development of the nation, especially Western Province, providing for improved well being and self determination of local communities beyond the life of the Ok Tedi mine

STRATEGIC OBJECTIVES

- To improve basic infrastructure and services that are critical for economic development in a sustainable way
- To invest in sustainable economic activities that will raise household incomes and empower local communities to participate in sustainable development

STRATEGIC DEVELOPMENT AREAS

Community and Social Investment: - Specific emphasis on community based initiatives advancing Health Services Improvement, Educational Opportunities and HIV/AIDS Prevention

Environment and Conservation: - Exploring opportunities associated with Climate Change, Conservation Management Areas, and mitigation of environmental impacts of Ok Tedi mine operations and other major projects

Investment in Renewable Resources: - Investment in sustainable development of PNG's phenomenal bio-diversity including commercial Agriculture, Forestry, Fisheries and Eco-Tourism

Financial Services and Business Promotion: - Microfinance (Savings and Credit) Services and Rural Production Credit Facilities as well as training in small business development

Energy and Electrification: - Investment in Major Electrification Projects and Small Urban Centre Electrification; development of Bio-Diesel and Alternative Energy sources as well as Village Community Electrification

Industrial, Urban and Rural Infrastructure: - Development of Daru port and industrial infrastructure; rehabilitation, maintenance and expansion of road, water and air transport infrastructure as well as water and sewerage infrastructure

Non-Renewable Resources Investment (Emerging area):- Playing catalytic role in developing investors' interest in development and industrial use of Western Province's gas and hydro-electric potential.

Communications and Information Services (Emerging area):- Communications Infrastructure Improvement as well as investment in Information Technology Services

STRATEGIC PARTNERSHIP APPROACH

PNGSDP works through credible project partners: -

- Community-based Organisations
- Government agencies and State-owned enterprises
- Business Enterprises
- International Development Institutions and NGOs

PNGSDP leverages its financial, management and technical resources: -

- Community resources of land, labour and skills
- NGO management and technical expertise and networks
- PNG Government institutional and development resources
- International development financing, expertise and networks
- Private sector management, technology, markets, networks, and commercial financing

PNGSDP works primarily through commercially oriented project partners applying resources efficiently to the delivery of services on a continuing basis: -

- Profitable core commercial business sustains the operations of the project partner
- Support from PNGSDP to expand core business or undertake new business in order to achieve specified development objectives through management contracts
- Except in special cases, PNGSDP must be assured that projects undertaken in this way will be sustained through internal revenue generation

PNGSDP is proactive where there is no established project partner: -

- Committed to working with others in order to create and foster the required capacity, experience and interest to undertake projects in strategic development areas
- Investor-management partners must be willing to invest equity and take the leading role in the management of new joint- ventures

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD



WHO ARE WE?

- PNGSDP is a unique organisation created as the result of agreement between the Independent State of Papua New Guinea (the State) and the world's largest mining company, BHP Billiton, with head- quarters in Australia.
- PNGSDP is a Papua New Guinean institution incorporated in Singapore as a "Not-for-Profit" limited liability company and registered and operates in PNG as an "Overseas Company".
- PNGSDP is governed by its Constitution, which is comprised of the Memorandum and Articles of Association and Program Rules.
- An independent Board consisting of seven international and Papua New Guinean directors control and manage the affairs of the Company and which reports to PNG Stakeholders annually.
- The Company commenced operations in Port Moresby Papua New Guinea in November 2002 with a Papua New Guinean Chief Executive Officer and professional team.

MISSION AND MANDATE

- The objective for which PNGSDP was created is to support sustainable development through projects and initiatives to benefit the people of Papua New Guinea, especially the people of Western Province during the period after closure of the Ok Tedi mine.
- In addition to being a development agency, PNGSDP is a substantial PNG financial institution as well as a joint-owner of the Ok Tedi Mine in Western Province.
- PNGSDP promotes sustainable development in three main ways: Firstly, through the delivery of the sustainable development program, the performance of which is reviewed in this Annual Report. Secondly, PNGSDP promotes responsible management of the Ok Tedi Mine and future mine life planning in consultation with mine affected communities and all other stakeholders. Thirdly, the Company ensures that resources will be available to provide ongoing support for sustainable development projects and initiatives especially in Western Province after Mine Closure.
- As shareholder of OTML, through its director to the Board of OTML, PNGSDP seeks to ensure sound commercial operations of OTML, responsible management of environmental and social issues, and seeks to sustain the excellent infrastructure established by OTML for broader social and economic development beyond mine closure.
- Under the agreements establishing PNGSDP, PNGSDP indemnifies the State and BHP Billiton against environmental claims related to activities of OTML; provides indemnity over the Independent Directors on the Board of OTML; and also subsidises OTML's Finance Facility.





OK TEDI MINING LTD OPERATIONS 2006

- Currently, Ok Tedi Mining Ltd is the single largest business contributor to the PNG economy.
- Increased metal prices coupled with strong mine performance saw significant distribution of dividends to shareholders in 2006. PNGSDP received US\$312m (K941.2m) over the year.
- OTML Board approved a US\$150m Mine Waste and Tailings project for immediate implementation and investigations began into the possibility of extending the life of the mine through transition from open pit to underground mining.

OK TEDI SUPPORT FOR DEVELOPMENT

- OTML through Ok Tedi Development Foundation (OTDF) delivers development projects and administers 14 Community Trusts. It is also responsible for development and implementation of a Community and Regional Development Strategy for Western Province, which places particular emphasis on the mine impacted communities. This represents an estimated 80,000 people.

FUTURE MINE LIFE PLANNING

- Based on current mine plan, Ok Tedi mine closure is scheduled for 2012. It is well recognized that cessation of production at Ok Tedi will have an enormous impact on the economy of PNG, Western Province and the livelihoods of many people including nearly 2000 OTML employees from all over PNG.
- In 2006, OTML presented an updated Mine Closure Plan to the State incorporating a Decommissioning and Infrastructure Plan, a Mine Area Rehabilitation Plan and a Social and Economic Report.

OTML AND MINE AFFECTED COMMUNITY CONSULTATIONS

- In 2001 communities affected by the mine provided their consent to the mine continuing on the basis of new Community Mine Continuation Agreements (CMCA). These Agreements involve a package of compensation and benefits administered through projects and the Community Trusts, which are currently valued at a total of K162 m. There are 14 agreements incorporating a total of 152 villages and approximately 50,000 people. These people are in an area stretching over approximately 400km from Telefomin, down the Fly River, to the coast.
- New information came to light in 2005 indicating that the activities of the mine over 25 years are associated with increased flooding and acid rock drainage in the Fly River system.
- In 2006 OTML and CMCA Communities undertook a formal review of the Community Mine Continuation Agreements in order to incorporate the new information. This process involves an independently-facilitated process of consultation with community leaders, with agreement expected to be reached during 2007. PNGSDP continues to foster a supportive but independent role in the CMCA process.



INCOME, FUNDS ALLOCATION AND EXPENDITURE



Vere Arava
Chief Financial Officer

- *Mr. Arava joined PNGSDP in April 2005. He was previously employed by Steamships Trading Ltd for 20 years, where he held the positions of Financial Controller and General Manager of Finance and Administration.*
- *Mr. Arava has served as a Director on several joint venture and associate companies of the Steamships Group, and he is currently a member of the Board of Directors of Air Niugini Ltd.*

FUNDS STATUS

- PNGSDP is a company registered in Singapore and “limited by guarantee,” which means that it has no share capital, debentures, share options or unissued shares. The Company’s operations are governed by a set of rules and agreements that pertain to its unique structure and circumstances.
- Under its Constitution, the Company may do all such things to achieve the objectives for which it was established. The Rules of PNGSDP specify procedures for the application of income received and the determination of contractual obligations, as well as investment policy and guidelines.
- The total net assets of PNGSDP in 2006 amounted to US\$542.3m (K1,639.3m). In accordance with the Rules of PNGSDP the assets of the Company are represented by the Members Subscription, the Long Term Fund, the Development Fund and the General Fund as documented in the table below.
- PNGSDP is party to a number of agreements, dated 11 December 2001, which confer both actual and contingent liabilities on the Company. Obligations arising under these agreements are secured by an equitable charge over the dividend stream attached to PNGSDP’s shares in OTML. This charge is held by a security trustee, Insinger Trust (Singapore) Ltd.
- The PNGSDP Group also includes subsidiaries and joint ventures of the Company, namely OTML, PNG Microfinance Ltd, PNG Sustainable Energy Ltd and PNG Sustainable Infrastructure Ltd. The contribution of OTML to the PNGSDP Group is accounted for as an investment in a jointly controlled entity by the Company. The assets of the PNGSDP Group do not appear on the balance sheet of the Company.

CONTRACTUAL OBLIGATIONS

- PNGSDP has contractual obligations arising out of a number of agreements dated 11 December, 2001 with implications for the balance sheet of the Company.
- Under the Deed of Indemnity with BHP Billiton, the Company has agreed to indemnify BHP Billiton against any liability under claims for both environmental damage arising out of the operation of the mine after 7 February 2002; and breach of environmental laws in relation to mine operations before 7 February 2002.
- Under the Deed of Indemnity with the State, PNGSDP has agreed to indemnify the State against all liability arising under a claim for environmental damage caused by the operation of the mine before 7 February 2002 resulting from an act or omission by BHP Billiton in breach of its obligations under its management agreement or in breach of environmental law.
- Under the Option Deed, the Company has agreed at the request of OTML to indemnify the independent directors of OTML in respects of claims against them arising out of their acting as such directors to the extent that appropriate insurance is not available on commercial terms.
- Under the Subsidy Deed, PNGSDP 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 BHP Billiton. The amount of this subsidy is restricted up to an average weighted increase of all rates, costs and charges of 2.5% and on a maximum loan commitment.

TOTAL NET ASSETS OF PNGSDP IN 2006

	US\$	PNG Kina
Current Assets	363,961,557	1,100,246,545
Non Current Assets	179,912,376	543,870,544
Liabilities	1,585,896	4,794,123
Net Assets	542,288,037	1,639,322,966

REPRESENTATION OF PNGSDP ASSETS

	US\$	PNG Kina
Members Subscription	17	51
General Fund	2,903,581	8,777,452
Long Term Fund	376,655,983	1,138,621,472
Development Fund	162,728,456	491,923,990
Total Funds	542,288,037	1,639,322,966

INCOME AND EXPENDITURE



INCOME

- The Company is required by its rules to apply its income to a Long Term Fund and the Development Fund. The Long Term Fund represents 2/3 of net income received from OTML after deducting operating expenses and all other legal contractual obligations, and the Development Fund represents the remaining 1/3.
- The Company received gross dividend income of US\$312m (K945.4m) from OTML during 2006. This compares with dividend income of US\$156m from OTML during 2005.
- Total investment income from funds invested amounted to US\$22.7m (K71.1m). Return on investments represents an increasing source of income to the Company since 2002.
- PNGSDP pays the same taxes to GoPNG that would have been paid by BHP Billiton if the Ok Tedi mine had continued to operate under its previous ownership. A 10% dividend withholding tax of US\$31.2 m (K94.1m) was deducted in respect of dividend income from OTML and paid to the PNG Internal Revenue Commission during 2006. No Singapore income tax is payable on the basis that none of the Company's dividend or interest income is remitted to Singapore.

EXPENDITURE

- Expenditure on projects under the Sustainable Development Program accounted for over three quarters of the Company's expenditure in 2006, amounting to approx. US\$16,038,771 (K48,484,797).
- The Company spent US\$2,971,187 (K8,981,828) on administration during 2006, comprising staff costs, travel, insurance, financial expenses, professional services and information services amongst other costs.
- The Company spent US\$1,072,707 (K3,242,766) on Governance in 2006. This comprised of Director's fees, Board Administration, the Annual Report and Stakeholder meetings, the Company audit, the Advisory Council and the Company Secretary expenses.
- In accordance with its rules a yearly budget of administration costs is approved by the Board of Directors. Expenses attributable to the operation of the Company cannot exceed 15% of the average annual income of the Company during the immediate preceding 3 years.

INCOME IN 2006

	US\$	Kina
Dividend OTML	312,000,000	941,176,471
Investment Income	22,681,379	68,420,449
Total	334,681,379	1,009,596,920

EXPENDITURE IN 2006

	US\$	Kina
Governance	1,072,707	3,242,766
Administration	2,971,187	8,981,823
Contractual Obligation	465,646	1,407,636
Investment Program Cost	796,488	2,407,763
Development Program Cost	16,038,771	48,484,797
Total	21,344,799	64,524,785

FUNDS MANAGEMENT



INVESTMENT FUNDS OF THE COMPANY

- The Long Term Fund (LTF) represents 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. Under the Rules of the Company, Funds from the Long Term Fund must be invested in 'low risk' investments.
- The primary objective of the investment program of PNGSDP is to increase the size of the Long Term Fund through interest rate earnings, dividend income, capital gains and foreign exchange gains. As the size of the LTF builds up before Mine Closure, annual investment income will ideally increase to the point where investment earnings can meet the annual expenditure requirements of the Company without materially reducing real capital of the Fund.
- Whilst the Development Fund is primarily utilised by the Sustainable Development Program to make expenditures on projects, each year the balance of the Development Fund which has not been disbursed is invested through the Investment Program with the objective that it will be available with interest for expenditure on projects in later years.
- The Board of Directors has established an Investment and Finance Committee to oversee the Company's Investment Policy and Guidelines.
- In 2006, the Long Term Fund increased from US\$175.5 (K539m) to US\$376.6m (K1.1bn). Due to the strong performance of the Ok Tedi Mine in 2006, the value of the Long Term Fund more than doubled in one year.

VALUE OF THE LONG TERM FUND (US\$)

	2002	2003	2004	2005	2006
Value at the beginning of the year	0	3,531,283	42,113,990	79,396,706	175,528,655
Investment Income	5,928	1,550,451	1,117,266	5,498,502	17,617,601
Investment Expenses	0	-62,325	-154,307	-426,701	-683,980
Dividend Income	3,525,355	37,094,581	36,319,757	91,060,148	184,193,707
End of financial year	3,531,283	42,113,990	79,396,706	175,528,655	376,655,983

INVESTMENT PERFORMANCE



- Most of the balance of the Long Term Fund and a proportion of the balance of the Development Fund are invested on behalf of the Company by two London-based professional International Fund Management companies; Schroder and Newton.
- During 2006, the majority of the Long Term Fund was held in investments outside of PNG, however a small percentage was held in investments in PNG companies.
- The Company has continued to increase its investments in PNG companies in a way that satisfies the requirement for 'low risk' investment whilst also maximizing the contribution that PNGSDP can make to sustainable development of PNG. At the end of 2006, Long Term Fund investments included shares in Bank of South Pacific valuing over K31.5 m.
- The Investment and Finance Committee of the Board monitors the performance of the International Fund Management companies. The amount of funds allocated to each company in future will depend upon the Committee's assessment of their performance in each financial year.
- During 2006, the weighted average return on investment of the Long Term Fund was 7.8%, which improved significantly from 4.44% in 2005.
- In 2006, the Company's PNG investments performed strongly. Over time, the Company expects that low risk PNG investments will continue to increase the investment earnings of the Fund.



THE SUSTAINABLE DEVELOPMENT PROGRAM



Camillus Midire
Program Manager
Resigned October 2006

- *Mr. Midire resigned in order to take up his new position as CEO of PNG Sustainable Infrastructure Ltd.*
- *The Program Manager position has subsequently been replaced by the new position of Chief Program Officer.*



David Sode
Chief Program Officer
Appointed January 2007

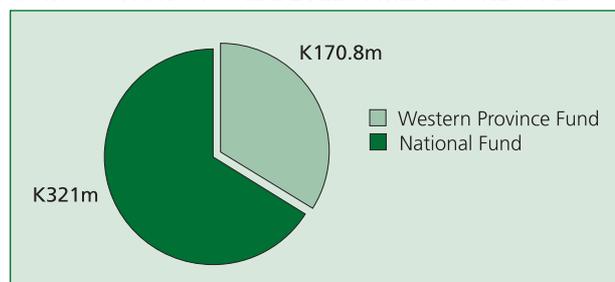
THE DEVELOPMENT FUND AND THE SUSTAINABLE DEVELOPMENT PROGRAM

- The Development Fund is used to support development projects under the Sustainable Development Program. PNGSDP works together with project partners in order to identify, develop and finance projects which meet our sustainable development criteria. Four sets of criteria for Sustainability apply: Economic Sustainability, Environmental Sustainability, Social Sustainability (consistency with the well-being and culture of Papua New Guineans) and Institutional Sustainability (relating to management capacity and good governance of project implementation).
- The Development Fund receives one third of dividend income from OTML after deducting operating expenses, contractual and other legal obligations. Whilst the Ok Tedi Mine is operating, one third of income to the Development Fund is allocated to the Western Province Fund, and two thirds is allocated to the National Fund.
- After Mine Closure, income from Ok Tedi Mining Ltd to the Development Fund will cease and the Long Term Fund will be utilized to support ongoing activities of the Sustainable Development Program. The Rules of the Company does not specify fixed proportions of expenditure after Mine Closure however sustainable development of Western Province will continue to be the priority of PNGSDP.

THE DEVELOPMENT FUND AND THE SUSTAINABLE DEVELOPMENT PROGRAM ALLOCATIONS IN 2006

- In 2006, the Development Fund increased to K491.8m (US\$162.7m). The value of the Western Province Fund is K170.8m (US\$56.5m) and the value of the National Fund is K321.0m (US\$106.2m).
- Following approval by the PNGSDP Board, funding for projects is allocated from the National Fund or the Western Province Fund in accordance with the determination of a project as falling under either the National Program or Western Province Program.
- Following Board approval, PNGSDP management must conclude a Project Funding Agreement with project partners in order for financial resources to be allocated for implementation of the project. Only funding which has been approved through this process can be disbursed from the Development Fund.

COMPOSITION OF THE DEVELOPMENT FUND IN 2006



SUSTAINABLE DEVELOPMENT PROGRAM PERFORMANCE THE DEVELOPMENT FUND



PROJECT FUNDING APPROVALS AND DISBURSEMENTS 2005 & 2006

	K	US\$
2005		
New Approved Project Funding	67.6m	21.5m
Disbursements	11.3m	3.7m
Balance remaining against Approved Project Funding	79.5m	25.6m
2006		
New Approved Project Funding	62.2m	20.5m
Disbursements	49.1m	16.2m
Balance remaining against Approved Funding	90.8m	30.0m

DEVELOPMENT FUND PROJECT ALLOCATIONS AND EXPENDITURE IN 2006

- New projects approved in 2006 amounted to K62.2m. This is slightly less than the K67.6m of new projects approved during 2005.
- The rate of disbursement of the Development Fund increased three fold in 2006 over 2005. K49.1m was disbursed during 2006 compared to K11.3m in 2005.
- The balance remaining against Approved Project Funding of K90.8m at the end of 2006 represents a number of sizeable projects that have been approved but which are still at an early stage in the project cycle.
- Over time, the Company aims to build its capacity to expend up to K150m per year on projects under the Sustainable Development Program. For purposes of comparison, the expenditure of GoPNG through the Development Budget in 2006 was approximately K700 m.
- Expenditure of the Development Fund at a rate of K150m per year is an approximate figure which represents the size of Sustainable Development Program that PNGSDP should be able to sustain for 40 years or more after Mine Closure. This assessment is made using reasonable assumptions about the growth of the assets of the Company before Mine Closure and return on investment of its assets thereafter.

PROJECT FUNDING APPROVALS AND DISBURSEMENTS SINCE 2002

	K	US\$
Cumulative Approved Project Funding 2002- 2006	162.1m	52.5m
National Fund	58.0m	18.70m
Western Province Fund	104.0m	33.8m
Total Cumulative Disbursements 2002- 2006	66.5m	22.5m
National Fund	53.6m	17.6m
Western Province Fund	15.2m	4.9m

EVALUATION OF DEVELOPMENT FUND EXPENDITURE

- Since 2002, Cumulative Approved Project Funding from the Development Fund amounts to over K160m. Over the same period, Cumulative Disbursements of Approved Funds on projects has amounted to just under K70m.
- Since 2002 cumulative disbursements on National and Western Province projects have been roughly consistent with the 2/3, 1/3 split that determines the size of the respective funds. Cumulative Approved Project Funding from the Western Province Fund on the other hand is considerably greater than one third of the value of the Cumulative Approved Project Funding from the National Fund. This reflects the priority that the Company continues to place on supporting sustainable development in Western Province.
- It is significant that the disbursement of Development Funds in 2006 approaches the level of disbursement achieved cumulatively over the period 2002- 2005. This reflects the growing capacity of the Sustainable Development Program team.
- Looking to the future, the performance of the Sustainable Development Program should be assessed in terms of Project Fund Approval and Disbursements against relevant sustainable development criteria and outcomes. On the following pages of this report the Sustainable Program is reviewed both by region and by sector in order to provide more information about the projects that are currently being supported.

SUSTAINABLE DEVELOPMENT - WESTERN PROVINCE



ABOUT WESTERN PROVINCE

- Western Province is PNG's largest province covering 97,300 km², or approximately 1/5 of PNG's land mass. The Province borders Indonesia in the west and Australia in the south, and also Sundaun (West Sepik) Province, Southern Highlands Province and Gulf Province.
- The mountains of North Fly reach up to 3000m and receive over 8m of rain per year. The Strickland River joins the Fly River to form the largest river in PNG. This is the main means of transport in the province and provides livelihood for tens of thousand of people. The South Fly district is low, flat and prone to both dry seasons and flooding.
- The official population of Western Province is 153,304 persons according to the 2000 census. This accounts for only 3% of the total official PNG Population. Population density in the Western Province is considered very low at less than 2 person/sq km, reflecting limited availability of arable land.
- There are three administrative districts and fourteen defined lower level government areas in the Province. The four urban centres are Kiunga, Tabubil, Balimo and Daru but it is estimated that over 70% of people live in rural areas. The Provincial capital is officially Daru in South Fly District however the Western Province Provincial Government is based at Kiunga in North Fly District.
- Western Province has considerable untapped economic potential based on sustainable development of its sizeable resource base. Production of smallholder rubber is increasing after many years of decline and other commercial agricultural crops have proven potential. Forestry is already an established industry with a total of 2 million hectares of production forest available for commercial development. PNGSDP is strongly focussed on the potential for sustainable development and reforestation in this sector. Fishing and aqua-culture industries could grow sustainably and there is potential for eco-tourism, bird-watching and sport fishing.
- Western Province has sizeable energy sources especially hydro and natural gas reserves.



SUSTAINABLE DEVELOPMENT - WESTERN PROVINCE



STAKEHOLDERS IN SUSTAINABLE DEVELOPMENT

- PNGSDP acknowledges the many development partners who share with us a commitment to Western Province. All people of the Province have a stake in the success of the Company to succeed in its work to promote sustainable development.
- Through the Community Development and Social Investment Program, we partner directly with organized groups such as Churches, women's, youth and other community organizations. Church groups have been prominent providers of health and education services in Western Province for many decades including by providing assistance to the several thousand West Papuan refugees who reside in Western Province. In 2006, PNGSDP also partnered with Mission Aviation Fellowship in order to enhance the services provided to remote rural communities.
- Landowners and communities are becoming increasingly empowered through better organization, improved access to financial resources and support from outside parties. This applies particularly to the roughly 55,000 people who are represented by the Lamin, Alice River and 14 CMCA Trusts.
- OTML currently has over 700 workers from Western Province and Telefomin. Many of these employees have received world class training that involves transferable skills. After Mine Closure, it is important to ensure that many of these people will be able to continue to make a valuable contribution to development of their communities.
- The Fly River Provincial Government (FRPG), including the three districts and all 14 lower level governments, is another important partner for PNGSDP. In 2006, the Company and its subsidiary companies worked closely with representatives of the Western Province Government to cooperate on implementation of infrastructure projects.
- Companies and small- holders are currently engaged in expanding sustainable business areas of rubber, fisheries, forestry, transportation and tourism.
- Many national and international Non- Government Organizations work in Western Province, and are particularly involved in protecting its unique environment and bio-diversity.

UNPRECEDENTED DEVELOPMENT OPPORTUNITY

- Whilst the mine continues to operate, OTML makes a major financial contribution to PNG and the Western Province.
- Western Province benefits from a portion of the financial resources generated at Ok Tedi. This proportion has been rising from a low base in the 1980s and 1990s and increased markedly in recent years. OTML reported in the Social Economic Report of the Mine Closure Plan presented to GoPNG in December 2006 that more than K1 billion is expected to be available for development purposes between 2006 and 2012.
- By these estimates, more than half of the accumulated financial benefits that have been made available to Western Province stakeholders over 25 years of production at Ok Tedi will be made available to support sustainable development in Western Province in the next five years. This represents an enormous and sudden increase in the financial resources that are available. Cooperation between all Western Province stakeholders to practice good governance, invest sustainably, improve service delivery and stimulate economic growth is crucial to making the most of this unprecedented opportunity for sustainable development.
- GoPNG plays a crucial role in ensuring that the unprecedented opportunity for sustainable development can be realized. The National Government can make a major contribution to sustainable public infrastructure and services in Western Province. With support of the Department of Planning and Monitoring, entitlements of the Special Support Grant for Western Province could amount to K150m before Mine Closure. The Tax Credit Scheme is also available and historically under- utilized as a mechanism for facilitating investment in infrastructure development and rehabilitation. The Department of Mines can also assist Western Province to oversee implementation of projects utilizing the 10% of OTML equity which is transferred to the Western Province Trust each year.

WESTERN PROVINCE



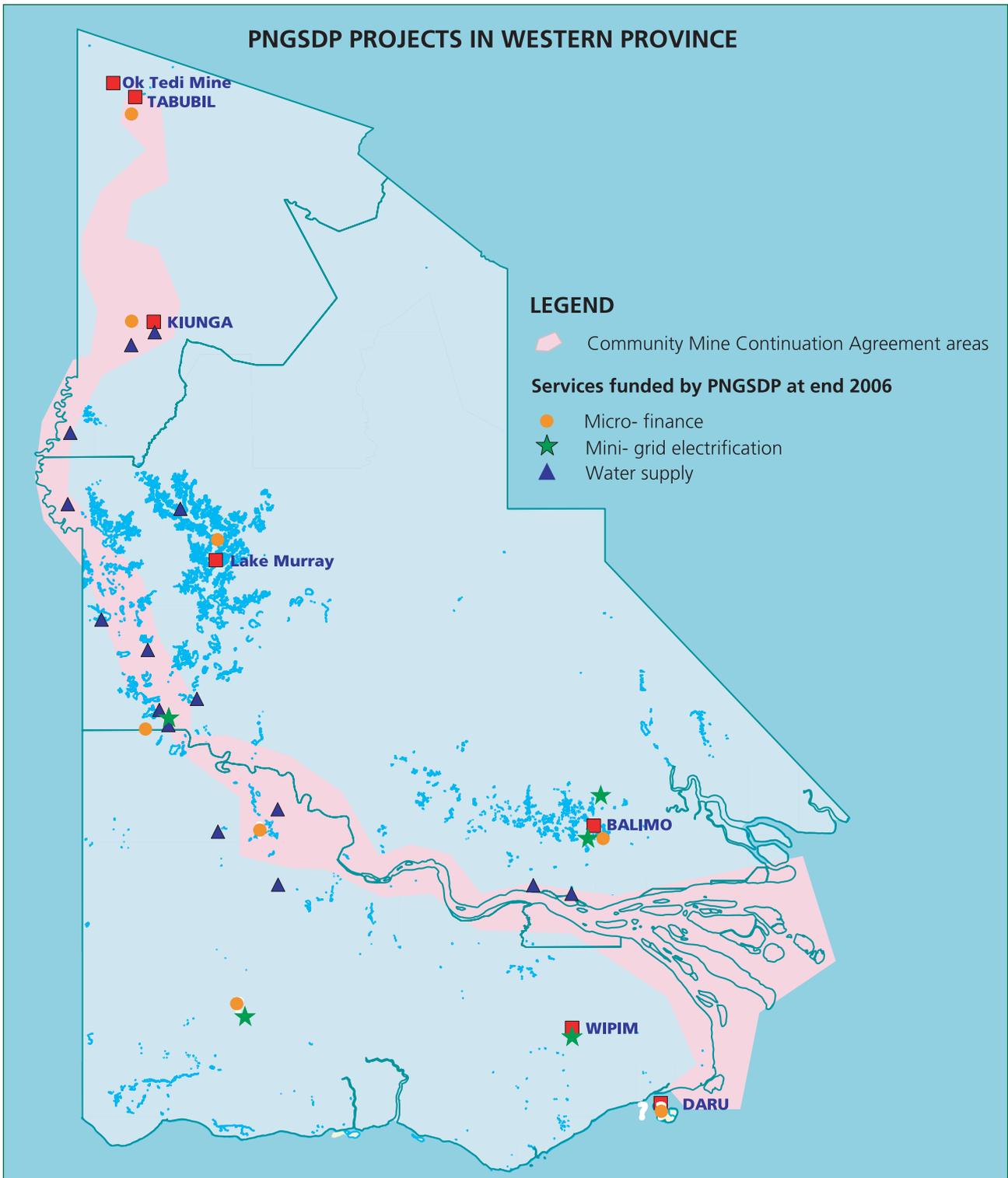
Ati Wobiro
Development Specialist
Resigned January 2007

- Mr. Wobiro resigned in order to contest the 2007 General Elections



Henry Ivarature
Program Manager - Western Province
Resigned June 2006

- Mr. Ivarature resigned in order to join the Pacific Islands Forum Secretariat in Fiji



WESTERN PROVINCE

NEW DEVELOPMENTS IN THE WESTERN PROVINCE PROGRAM DURING 2006

- 2006 was an important year for the Western Province Program as projects located in Western Province continue to advance from design and preparation phases to approval by the Board and implementation by project partners. During 2006 the Company disbursed K10.9m under the Western Province Program. This is a substantial increase on earlier years, representing two and a half times the value that was disbursed cumulatively between 2002 and 2005.
- In the course of 2006, K14.5m of new project funding was approved for the Western Province Program. At the end of the year, K87.5m remains to be dispersed on implementation of approved projects.
- The Company views its key role in Western Province to support sustainable investment in economic infrastructure that will stimulate growth of an alternative economy to the Ok Tedi Mine and thereby contribute to improved livelihoods and living standards. In 2006, further progress was made on sizeable projects in the rubber and aquaculture sectors which have the potential to make a significant contribution to increasing village household sustainable income earning opportunities.
- A proposal has been developed and submitted to the National Forest Board as part of the Wipim Tapila Forestry Concession bid for a sawmilling operation from 90,000 hectares of natural forest as well as wood chips from 40,000 hectares of plantation forest.
- Soil survey work with the assistance of NBPOL and Oil Palm Industry Corporation was completed on a 20,000 hectare oil palm project site which confirms suitability of the Kamusi location for oil palm and also suitability of adjacent areas.
- Progress was made towards completion of technical studies into a deep water international port and industrial facility project on Daru Island and on the mainland adjacent to Daru. A positive conclusion on this project study would open up opportunities for new investments and improved transport and service delivery throughout the Western Province.
- Through its subsidiary PNG Sustainable Infrastructure Ltd, an important start has been made in cooperation with the Western Province Government and local contractors to undertake feasibility studies and design a new network of priority roads within the province.
- Towards the end of 2006, PNGSDP assisted Missionary Aviation Fellowship to improve and expand its aviation services to remote areas by purchasing a Gippsland Aeronautics G8 Cessna Airvan Aircraft for K2m.
- Through its subsidiary PNG Sustainable Energy Ltd, PNGSDP has supported the creation of Western Province Sustainable Power Ltd which will operate mini- grid systems throughout the province. A solar power option is also available for remote consumers who are not serviced by mini grid systems.
- Through its subsidiary PNG Microfinance Ltd, PNGSDP continues to transform the financial services on offer to the people of Western Province with 5 micro- bank branches now serving roughly 32,000 depositors and 1,800 borrowers.
- PNGSDP also provides assistance in social areas where development partners such as the National and Provincial

Government should continue to take the lead. Support was provided to the Western Province Government for Emergency King Tide Relief in South and Middle Fly Districts. In 2006, PNGSDP also partnered with churches, schools, community organizations and other NGOs. PNGSDP has made a new commitment to support a health sector program for Western Province, which will place emphasis on the urgent need for community level response to the immediate threat of HIV/AIDS.

MAIN HIGHLIGHTS OF THE WESTERN PROVINCE PROGRAM

- PNGSDP places priority on projects that directly benefit the CMCA areas as part of its ongoing commitment to support the sustainable development of these communities before and after closure of the Ok Tedi Mine. PNGSDP is committed to working closely with the proposed new CMCA entity that is likely to be created upon conclusion of the review of the CMCA's in 2007, in order to cooperate on projects that contribute to sustainable development of Western Province.
- Despite emphasis on meeting the immediate needs of communities in the CMCA areas, the Company is pursuing an integrated approach to sustainable development across the whole province. This reflects PNGSDP's experience in planning and designing sustainable projects in forestry, aquaculture, tourism, agriculture, micro- finance, electrification and infrastructure sectors. To ensure long term sustainability of investments, North, Middle and South Fly districts are necessarily viewed both as highly interconnected eco-systems and economies.
- A key component of the integrated approach is the upgrading of basic infrastructure on Daru Island and surrounding areas in South Fly District. The Company has made a strategic decision to focus on development of Daru as this is expected to improve the economic viability of income generating activities all the way up the Fly River system. PNGSDP is undertaking work on water & sewerage services and planning the development of port, storage and other industrial park facilities.
- Education and conservation are the other major themes which run throughout the sector programs in Western Province that are reviewed in details on subsequent pages of this report. PNGSDP's approach to all its projects in Western Province is to involve and employ local people wherever possible and to take all appropriate measures to assess and mitigate environmental impacts. The Company plans to make targeted interventions to provide education and skills training as well as undertake conservation projects to actively protect the natural environment in Western Province.

APPROVED PROJECTS AND DISBURSEMENTS ON THE WESTERN PROVINCE PROGRAM

	K	US\$
Project funding approved 2002- 2005	59.9m	19.3m
New project funding approved in 2006	44.1m	14.5m
Disbursement on projects 2002- 2005	4.3m	1.3m
Disbursements in 2006	10.9m	3.6m
Balance remaining against approved project funding at end of 2006	87.5m	28.9m

NATIONAL PROGRAM



NATIONAL PROGRAM

NEW DEVELOPMENTS IN THE NATIONAL PROGRAM DURING 2006

- In 2006, K37.6m was disbursed from the National Fund on projects for the National Program. This is over twice the value of funds disbursed cumulatively between 2002 and 2005. In the course of 2006, K18 m of new projects was approved and significant work undertaken to finalise several major projects.
- With significant progress in the delivery of the National Roads Maintenance and Rehabilitation Project in Central, Oro, Morobe, West New Britain, East New Britain and Manus provinces during 2006, the Company agreed to commit to additional financing for an extension of the program. Total commitment by PNGSDP over the two phases is now valued at approximately K40m.
- The PNGSDP Board approved funding of K13.2 million to complement the GoPNG's K6m towards upgrading and sealing of roads in Kokopo as part of the rehabilitation and upgrading of infrastructure to establish Kokopo as the new capital of East New Britain province and hub for the New Guinea Island regional economy. PNG Sustainable Infrastructure Ltd will be PNGSDP's agent to supervise, monitor and report on implementation of the project. Works are expected to commence in August of 2007.
- PNG Microfinance Ltd opened new branches outside of Western Province in Popondetta, Alotau and Kimbe during 2006 as part of its national expansion and outreach program.
- A pre-feasibility study was completed for the potential upgrading of Ok Tedi Mine's training facility into an international standard technical and vocational training centre. Further progress depends upon agreement being reached with OTML and other potential project partners, as well as co-financing under the Australian Government's Asia Pacific Training Centre initiative.
- PNGSDP continues to support communities through small scale interventions of under K 250,000 with projects that involve community participation and benefits in several provinces of Papua New Guinea.

MAIN HIGHLIGHTS OF THE NATIONAL PROGRAM

- The National Program supports projects that are financed under the National Fund. National Program projects are located wholly in or in part outside of Western Province and may also be projects which are physically located within Western Province but which will have significant development impact that are national in scope.
- A major function of the National Program is to provide funding support for development partners for major economic sector investment initiatives that will have important sustainable development impacts in PNG. In this way, PNGSDP is able to leverage the impact of its own National Fund by combining with the resources of the Government of PNG and other major donors and development financiers.
- The Company has established and engaged its subsidiaries, PNG Sustainable Energy Ltd and PNG Sustainable Infrastructure Ltd, to devise, develop and implement projects in rural electrification and infrastructure outside of Western Province. As they become more established, the capacity of the subsidiary companies to identify and implement more projects in these sectors will continue to improve.
- PNG Sustainable Energy Ltd continues to implement the Teachers Solar Lighting Project, providing solar panels for teachers, health workers and their families in Milne Bay, East Sepik, New Ireland, Western Highlands and Western Provinces. In 2005, PNGSDP provided a grant of over K300,000 to this project which is also co-financed by the Global Energy Fund, GoPNG and other donors.
- The Company is considering participation in a forestry down-stream processing project at Cloudy Bay in Central Province which also allows for significant community participation through village-operated forestry and social development projects. Due diligence work will be completed during 2007.
- PNGSDP recognises the importance of strategic interventions in the health and education sectors around the country. A major program is support of HIV/AIDS prevention in partnership with major business enterprises, church agencies and NGOs, as well as communities, and was approved for implementation during 2007.

APPROVED FUNDING AND DISBURSEMENTS FOR THE NATIONAL PROGRAM

	K	US\$
Project funding approved 2002- 2005	40.0m	12.7m
New project funding approved in 2006	18.0m	6.0m
Disbursement on projects 2002- 2005	16.0m	5.1m
Disbursement during 2006	37.6m	12.5m
Balance remaining against approved project funding at end of 2006	3.3m	1.1m

COMMUNITY SUSTAINABLE DEVELOPMENT AND SOCIAL INVESTMENT



Lawrence Stephens
Manager (Community Sustainable Development and Social Investment Program)

- *Mr. Stephens has 31 years of work experience with Government, private business and the Catholic Church in PNG. He is a director of Transparency International PNG and has represented the PNG Council of Churches on the PNG Skills Development Trust Board and the Nupmo (Ok Tedi CMCA) Trust.*

PROGRAM DEVELOPMENTS IN 2006

- In 2006, the Community Sustainable Development and Social Investment Program Manager assumed additional responsibilities to include broader community health, HIV/AIDS and other social programs. The Community Sustainable Development Program has an annual budget from PNGSDP of K3m each year which complemented resources including funding and non-cash contributions provided by project partners and communities. With expansion of the program, the Company has allocated additional resources to support projects in health and education.
- During 2006, a total of 11 Community Sustainable Development Program projects were completed and at year end a further 24 projects are in the pipeline. In 2006, a pre- Program Assessment was also undertaken to develop a coordinated community health program in Western Province that will be rolled out in 2007.

COMMUNITY SUSTAINABLE DEVELOPMENT PROGRAM

- The Community Sustainable Development Program (CSDP) supports projects valuing between K50,000 and K250,000, which help communities to meet their own sustainable development goals. The CSDP portfolio now contains over 40 projects and continues to grow. Since 2002, over K4m has been disbursed in support of development partners and at the end of 2006, an additional K4m was committed to approved projects.
- The majority of CSDP projects are involved with provision of health and basic needs or provide support for education and skills training, however requests for assistance to income generating activities, particularly in agriculture, are also supported.
- Even though the CSDP budget is allocated 1/3 to projects located in Western Province and 2/3 to projects located elsewhere in PNG, to date nearly half of all Community Sustainable Development Projects supported by the Company are located in Western Province.



PROJECT PROFILE- Improving girls access to education Montfort High School Girls Dormitory in partnership with the Catholic Church

In 2006 PNGSDP provided K 250,000 to complement the support from the Catholic Church in Kiunga to construct a girl's dormitory at the Montfort High School, providing safety and comfort for up to 40 female students from remote communities. Lack of boarding facilities has been a major constraint on the Montfort High School to offer expanded educational opportunities to girls in Western Province.

The project was implemented during 2006 in time for the 2007 school year in- take. A number of measures were taken to promote sustainable benefits of the project. Building materials were purchased through local hardware companies and the construction team was comprised mostly of Montfort High School students and staff under the guidance of an experienced volunteer. Technical skills training for the students and team building were important objectives of the project.

COMMUNITY SUSTAINABLE DEVELOPMENT AND SOCIAL INVESTMENT



John Kassman
Senior Projects Officer
National



Sam Tupou
Senior Projects Officer
Western Province

SUPPORT FOR COMMUNITIES IN WESTERN PROVINCE AND AROUND PNG IN 2006

- In 2006, CSDP supported community health projects included provision of bed nets to fight malaria in North Fly, improvement of rural health services in Middle and South Fly districts of Western Province, upgrading of basic health services in Wewak and Port Moresby as well as improvement of eye care and maternity care services in Port Moresby.
- Also in 2006, upgrading of school facilities benefited students in Kiunga, Port Moresby and Kebeguili communities and support for church and women's groups provided skills training in North, Middle and South Fly districts and Port Moresby.
- Community based activities were also undertaken to complement larger projects under other Programs such as a barramundi-farming project in South Fly which formed basis for a major new barramundi fishery breeding and restocking program in Western Province approved by the Company in 2006. Community water projects were undertaken in Western Province and Milne Bay that were then transferred for implementation by PNGSDP's new Subsidiary company, PNG Sustainable Infrastructure Ltd.

OUR COMMUNITY PROJECT PARTNERS

- A key strategy under the CSDP is the identification of project partners and each year we receive hundreds of expressions of interest and applications for support. Since 2002 approximately 800 project proposals have been processed resulting in partnerships to implement over 40 projects.
- CSDP partners include Churches, NGOs, hospitals, schools, institutes, Lower-level Governments, associations and potentially also small community-based businesses. We spend time and energy getting to know and supporting our partners to ensure that the projects we finance are well implemented and sustainable. The CSDP team thoroughly reviews the performance of our partners through regular site visits. We consider it a measure of success that many CSDP partnerships are ongoing, and sometimes result in additional projects with new financing.
- The CSDP model requires partners to bring their own material and financial resources to the project. On average the Company will contribute approx. K200,000 per project whilst project partners and communities contribute in cash and material support which significantly increase each project value and impact on communities, especially on future operations and maintenance costs.

PROJECT PROFILE- Generating income from agriculture NARI Kairuku Hiri Agriculture Project in partnership with NARI

The National Community Sustainable Development Program is providing K75, 000 to assist village communities in the Kairuku Hiri area of Central Province to address their food security concerns. Our project partner, the National Agriculture Research Institute (NARI), is working with 15 farmers from 15 villages communities to introduce improved crops that have been selected for tolerance to drought and resistance to pests.

Village community farmers are being assisted by NARI officers to become resource centers for their communities. The farmers receive training in techniques to multiply the new crop varieties and training in how to teach others to do the same. To date the project is progressing well in 10 villages. A review of the project will be carried out in 2007 to determine the next phase of our partnership with NARI.



COMMUNITY SUSTAINABLE DEVELOPMENT AND SOCIAL INVESTMENT



Aloysius Aihi
Program Manager (CSDP)
Resigned October 2006

- *Mr. Aihi resigned in order to take up the position of General Manager of PNG Sustainable Infrastructure Ltd*

SOCIAL INVESTMENT PROGRAM HIGHLIGHTS

- PNGSDP recognizes HIV/AIDS as a rapidly expanding, generalized epidemic and that transmission of this disease can only be slowed by new social norms and practices at the community level. For this reason, PNGSDP will engage in structured discussion with community based organizations around the country and internationally with the aim of developing and supporting viable community-based initiatives.
- In 2006 the Company approved a grant of K200,000 to support the Business Coalition on HIV/AIDS. K400,000 was also pledged to extend support in 2007 and 2008. PNGSDP recognises HIV/AIDS is a major risk for the social sustainability of our own programs and projects so new policies are being developed on a Company wide level in order to mitigate this threat.

PROGRAM OUTLOOK

- The CSDP intends to build upon successful projects in Middle Fly, Kairuku Hiri, Kiriwina and Erap Valley which lay a foundation for more activities to improve productivity in agriculture and animal husbandry using appropriate technologies. In response to high demand the CSDP team is also working to improve the support available to budding social business activities which benefit the broader community. In particular, potential exists to compliment savings and loan services already available from PNGSDP's subsidiary company, PNG Microfinance Limited.
- Over the next year, additional recruitment is expected to increase the capacity of the CSDP team to handle project inquiries, develop viable projects, and continue to learn from the experience of implementing and evaluating community projects.



PROJECT PROFILE- Revitalizing rural community health in Simbu Gumine health centre project in partnership with Hope Worldwide

In 2006, the PNGSDP board approved K250, 000 for this project which aims to provide better health services to communities living in the Gumine district of the Simbu Province. Our project partner is Hope Worldwide, an international NGO group with expertise in the health sector and a track record of experience in PNG.

Under the first phase of the project which started during 2006, the Gumine Health Centre will receive the basic equipment that is necessary to get it operational again after many years of neglect and decline. The second phase of the project will then be to provide training at the Health Centre for health workers in the area. With this assistance Gumine Health Centre aspires to be able to provide the necessary personnel and equipment to support all aid posts in the Gumine district. At the end of 2006, this project is progressing well and is expected to be completed in late 2007.

SUSTAINABLE ENVIRONMENT, AQUACULTURE AND ECO-TOURISM



Jaru Bisa
Program Manager

- *Mr. Bisa has extensive experience in environmental consultancy work for GoPNG and international development assistance projects in PNG. He was formerly the Environment Program Manager for the UN Development Program in PNG and Director of Water Resources with the Department of Environment & Conservation.*



SUSTAINABLE ENVIRONMENT PROGRAM DEVELOPMENTS IN 2006

- In 2006, PNGSDP approved K13m towards the Sustainable Aquaculture Project. A full time Project Manager has been recruited and is located on Daru in Western Province in order to co- ordinate all aspects of the project on the ground. Following completion of the purchase of land in 2007, the hatchery facility will be ready to be established and brood-stocks acquired. Up to 500,000 fingerlings will be produced at the hatchery. Some of the fingerlings will be farmed in cages to support the commercial arm of the project and others will be supplied to natural spawning and breeding sites to be managed by communities.
- In conjunction with the Aquaculture project, the Company is committed to a Barramundi Conservation and Restocking Project as part of the overall Western Province Barramundi Program. The conservation project foresees an integrated watershed management approach that will be used to conserve and protect the traditional natural habitats that sustain barramundi nursery grounds for spawning and breeding.
- In 2006, a Watershed Assessment Study of the relevant wetland systems and coastline was conducted by independent consultants. The study has assessed the habitats and identified restocking sites for fingerlings which will be used as the basis of further development of the project during 2007.
- PNGSDP also continues to investigate an Eco- tourism project in Western Province. In 2006, a pre-feasibility study was conducted in cooperation with the UNDP.

SUSTAINABLE ENVIRONMENT PROGRAM HIGHLIGHTS

- Concern for environmental impacts and environmental sustainability of PNGSDP's projects is not restricted to Sustainable Environment sector projects. The Environment Development Program Manager provides expert assistance to appraise environmental aspects of all projects which are approved and undertaken by the Company. PNGSDP also carefully selects project partners on the basis of their capacity to implement projects sustainably, including their commitment to environmental sustainability.
- The Sustainable Environment sector program itself focuses on Western Province, reflecting both its natural potential for sustainable environment program activities and also the need to address potential impacts especially those arising as a result of mining activities at Ok Tedi.
- Under the Sustainable Aquaculture Project the Company aims to investigate the full potential of the Fly River system for sustainable aquaculture. An R&D program is being developed to research commercial potential of other species that are indigenous to the Fly River, as well as the commercial viability of locally manufactured pellet feed stock using Fly River Herring fish meal.
- Local communities will be encouraged to participate in all Sustainable Environment sector activities. For example, under the Barramundi Conservation and Restocking Project it is planned that identified spawning and breeding sites will be gazetted as a Conservation Area. Communities will be assisted by the Company to actively participate in the conservation and resource management programs.

SUSTAINABLE FORESTRY



Kanawi Pouru
Sustainable Forestry Development Program Manager

- *Mr. Pouru served for 26 years with the PNG Forest Service and has extensive forestry sector program management experience within PNG and the Pacific region. He is President of the Association of Foresters, a director of the National Forest Board and a director of Open Bay Timbers Ltd.*

NEW DEVELOPMENTS IN 2006

- PNGSDP established PNG Sustainable Forestry Ltd in April 2006. The company has been registered with the PNG Forestry Authority as a PNG Forest Industry Participant in order to facilitate its potential participation in large investment projects. The first such project will potentially be in the Wipim Tapila Forest Management Area in South Fly District of Western Province, pending a decision on award of the concession by the PNG Forest Authority during 2007. In order to prepare a winning bid, PNGSDP forged a strategic partnership with an international partner offering solid credentials in sustainable Plantation Forestry development.
- During 2006, PNGSDP was invited to participate with equity partnership in Cloudy Bay Timbers Products Ltd. The Company is performing due diligence on the proposed development of Cloudy Bay Timber Concession in Abau District of Central Province. The concession comprises of 149,000 hectares and an estimated 2.1 million cubic metres of standing sawlog volume. PNGSDP will make a decision in 2007 regarding its participation in what is commonly regarded as PNG's largest natural forest wood processing operation. The project offers significant opportunities for involvement of communities in village-based forestry projects as well as in expansion of community education, health and economic activity and services.
- PNGSDP began a community based training and awareness program in the Kiunga region of North Fly District to improve sustainable income earning opportunities in North and Middle Fly Districts. A survey conducted in early 2006 has confirmed the availability of high value Eaglewood that can be sustainably harvested, marketed and propagated by rural communities.
- Also in 2006, PNGSDP worked with national and international experts in order to ensure that the highest standards of sustainable good practice were achieved in all its forestry projects. The Company looks forward to closer collaboration with NGOs such as the World Wildlife Fund in order to closely monitor and assess the impact of its own forestry sector activities as well as to promote good practice in all commercial and community-based forestry projects, particularly in Western Province.

SUSTAINABLE FORESTRY PROGRAM HIGHLIGHTS

- At Wipim Tapila, PNGSDP plans to supply foreign and domestic markets with sawn timber products from 90,000 hectares of natural forest as well as wood chips from 40,000 hectare of plantation forest. The business plan ensures equity participation by local communities, meaningful opportunities for employment and career advancement for local people within the project and an income stream to landowners from harvesting of plantation as well as natural forests. The Company is deeply committed to mitigating the costs associated with economic and social changes arising from the project, including increased risk of the spread of HIV/ AIDS.
- PNGSDP is also investigating the potential for between 20-25,000 ha of indigenous high value species forest plantation. During 2006, preliminary investigations were encouraging in the Aramia area of Middle Fly District. The Company will therefore proceed with scientific and environmental assessments in partnership with PNG Forest Research Institute and the Department of Environment & Conservation during 2007.
- PNGSDP believes that education to improve local people's appreciation for the true value of their forests is an effective way to foster sustainable development of the resource and improve people's livelihoods. In conjunction with the other work taking place in the Aramia area, an Agro- forestry and Shelter Project has also been planned to assist communities in the Makapa area with training to improve food security and the quality of shelter.
- The Company also intends to continue to offer Eaglewood resource development and management training to more communities in the Nomad, Lake Murray and Suki regions during 2007. Whilst access to remote areas continues to be a major impediment on the implementation of community- based forestry education programs, PNGSDP is committed to supporting project partners who have the skills and determination to provide these services.

SUSTAINABLE AGRICULTURE



WESTERN PROVINCE RUBBER

- PNGSDP is committed to the phased establishment of a sustainable rubber industry in Western Province over 10 to 15 years, through a vision for increased cup lump collection, replanting, new plantings, improved marketing and a rubber processing industry. PNGSDP is initially supporting initiatives in the Lake Murray area, elsewhere in Middle Fly District, and South Fly District.
- Under the first Project Funding Agreement with Ok Tedi Development Foundation and North Fly Rubber Ltd for K7m, signed in November 2005, North Fly Rubber Ltd is implementing the Lake Murray Village Rubber Project. This project supports over 840 households from 19 villages in the Upper Middle Fly area with planting, extension and marketing services. By the end of 2006, K1.95m had been spent by North Fly Rubber Ltd. An important feature for sustainability of the project is that smallholders are supplied with budwood from two local field nurseries.
- In order to provide sustenance support for Lake Murray smallholders during the land clearing and planting period, PNGSDP also provided a soft loan of K4.8 m through PNGSDP's subsidiary, PNG Microfinance Ltd. North Fly Rubber Ltd helps to identify suitable candidates for the scheme and provides extension services to PNG Microfinance Ltd customers.
- During 2006, the Company investigated rubber marketing and development potential in Lower Middle Fly and South Fly Districts. Existing rubber trees are in good condition, but there has been limited tapping in recent years due to the inability of smallholders to access the market. PNGSDP therefore expects to conclude a second Project Funding Agreement during 2007 in order to facilitate marketing and extension services around Balimo, Oriomo and Suki.
- In light of achievements during 2006, PNGSDP is fully supportive of the Western Province Administration's ambition to pursue new plantings of up to 5,000 ha and establish further rubber processing facilities in accordance with the Western Province Rubber Development Plan. PNGSDP is convinced of the sustainable benefits of investment in this industry.

OIL PALM AND OTHER GROWING AREAS OF SUPPORT TO THE SECTOR

- PNGSDP recognizes that the nucleus estate model for the Oil Palm industry in PNG is both internationally competitive and highly conducive to sustainable development. During 2006, PNGSDP therefore pursued options for a major investment project to establish a nucleus palm oil estate in Western Province under a joint-venture arrangement with a management partner. A pre-feasibility study had identified an existing Timber Rights Purchase site operated by an international logging company in the Kamusie area as a promising location. Further work has revealed that the soils are suitable for oil palm.
- During 2006, PNGSDP also committed co-financing support to a project which will assist the established oil palm sector in Oro and East New Britain Provinces. PNGSDP was invited to participate by the Government of PNG in a proposed Smallholder Agriculture Development Project which is being developed in partnership with the PNG Oil Palm Industry Corporation (OPIC) and the World Bank. PNGSDP expects to engage the services of its subsidiary companies, PNG Microfinance Ltd and PNG Sustainable Infrastructure Ltd, in order to deliver microfinance services for oil palm block holders as well as grant financing for priority road construction and maintenance work in Oro and East New Britain Provinces.
- In a separate agreement with PNG Microfinance Ltd during 2006, PNGSDP approved co-finance for a smallholder oil palm replanting facility. PNG Microfinance will offer microfinance services to oil palm smallholders. Through its national network of microfinance branches, the project is investigating cooperation with milling companies and OPIC, to establish relationships with potential customers and provide supplementary support services.
- PNGSDP recognizes the potential of agriculture other than rubber and oil palm and continues to investigate possibilities for different types of support to a range of agricultural activities. Under the Community Sustainable Development Program, PNGSDP was pleased to make a strategic partnership with the National Agriculture Research Institute (NARI) during 2006. CSDP looks forward to expanding its support for productivity improvements to community-based agriculture including animal husbandry. In the event that suitable management and implementing partners can be identified, PNGSDP will continue to investigate the potential for sustainable, commercial development of other crops such as cashew nut and fresh produce.

SUSTAINABLE MICROFINANCE



SUSTAINABLE MICROFINANCE PROGRAM HIGHLIGHTS

- PNGSDP has prioritised the roll-out of microfinance services in Western Province. During 2005, PNG Microfinance Ltd began operations in all three districts from branch locations at Daru, Balimo, Tabubil and Kiunga. A mobile agency has also been serving customers in more remote areas of Middle Fly District since 2005. There are now 32,000 depositors and 1,781 borrowers utilizing the services of PNG Microfinance in Western Province.
- During 2006, PNGSDP decided to finance the establishment of additional PNG Microfinance branches in three locations at Morehead, Suki and Obo. These branches will be opened during 2007.
- PNG Microfinance also acts as an agent of PNGSDP to manage the Lake Murray Village Rubber Growers loan of K4.8m. Under this project fixed rate loans of 2% are provided to villagers who are participating in the Lake Murray Village Rubber Growers project. 359 loans totaling K720,405 were approved under this scheme during 2006.
- In 2006, PNG Microfinance established three new branches in Popondetta, Alotau and Kimbe. In order to support the Company's strategic push to provide financial services to people in rural areas and rural industries throughout PNG, PNG Microfinance became a member of the Rural Industries Council.
- PNGSDP is exploring a number of other ways in which microfinance services can support and complement the implementation of its projects. The Community Sustainable Development Program in particular is developing a new model for support of income-generating activities that will incorporate a loan component in order to streamline the incentives for economic and institutional sustainability of its projects.

PNG MICROFINANCE LTD

- PNGSDP has been offering micro-finance services to the people of PNG through its subsidiary company PNG Microfinance Ltd, since January 2005. It is currently the only licensed commercial microfinance institution in PNG which is operating without exemptions.
- The services on offer include savings accounts, small loans for income generating ventures and services for rural-based employees such as public servants, teachers and health workers who need to convert salary-cheque payments for immediate cash needs. PNG Microfinance also offers customer training and support through the Ginigoada Business Development Foundation, World Vision and EDTC.
- The assets of PNG Microfinance have grown from K15.4m in 2005 to K30.4 m at the end of 2006. Over that period, depositors' balances increased by 114% from K8.2m to K17.6m. Since 2005, PNG Microfinance has approved a total of 9,221 loans amounting to K14m.
- In May 2006, the International Finance Corporation signed a shareholders agreement with existing shareholders, PNGSDP and the Bank of South Pacific, in order to pave the way for IFC to take equity in PNG Microfinance. This will be the first direct equity investment by IFC in PNG.
- The Company places a strong emphasis on its human resource development. Staff numbers have increased from 47 to 90 during 2006 and 31 staff completed their Certificate in Microfinance offered by the Institute of Banking and Business Management (IBBM). The utilisation of 830 days at the IBBM makes PNG Microfinance one of the largest users of training facilities in PNG and accordingly, the Company became a corporate member of IBBM during 2006.

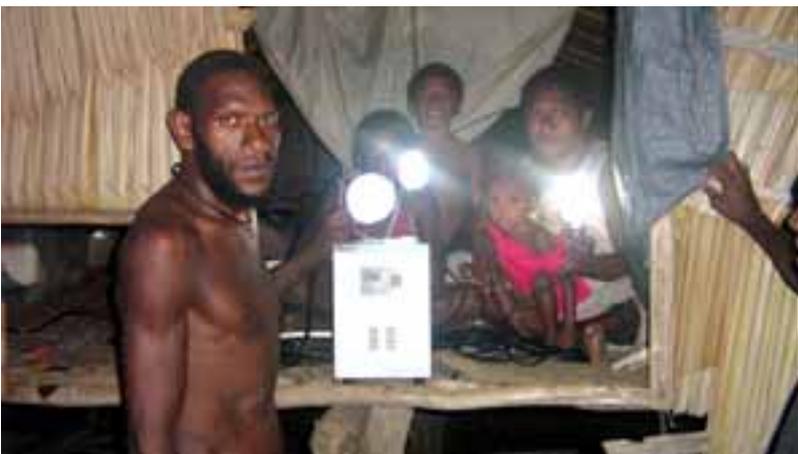
SUMMARY OF SAVINGS SERVICES

	Deposits			
	2005		2006	
	No. Depositors	Value of Deposits	No. Depositors	Value of Deposits
Western Province	22,861	K3,754,908	34,575	K7,770,480
Total PNG	41,885	K8,214,720	85,259	K17,607,851

SUMMARY OF LENDING SERVICES

	Lending			
	2005		2006	
	No. Approvals	Value of Approvals	No. Approvals	Value of Approvals
Western Province	480	K450,397	2,064	K2,513,183
Total PNG	2,550	K2,546,831	6,671	K11,442,586

SUSTAINABLE ENERGY AND RURAL ELECTRIFICATION



PROGRAM HIGHLIGHTS

- PNG Sustainable Energy Ltd is the implementing partner for PNGSDP's Western Province Rural & Community Power Program. Some delays were experienced in the implementation of stage 1 during 2006 due to the many logistical difficulties faced by contractors in undertaking field work in Western Province. However, PNGSEL successfully launched its power metering and prepayment system under the brand 'Raitpower' in late 2006. PNGSEL will operate this system over a new satellite communication network that has been installed under arrangement with PNG Telikom.
- When stage 1 is completed in early 2007, mini-grid systems to distribute diesel-generated power for Raitpower customers at Wipim, Balimo, Awaba, Morehead, Lake Murray and Obo/ Kaviananga will be fully operational. PNGSEL has also conducted awareness for the installation of home solar lighting sets in 10 remote areas of the South Fly. 1000 solar lighting sets are available and ready for installation during 2007.
- Stage 2 of the Western Province Rural & Community Power program will consist of mini grids to service communities at approximately 40 sites along the Tabubil to Kiunga Road corridor. This stage will also involve rehabilitation of existing hydroelectric power generating infrastructure, in particular at Nomad and Telefomin. In October 2006, PNGSEL commenced surveys into rural power options for all the 9 remaining CMCA areas. Stage 3 will therefore extend the provision of rural power and electrification services to these communities.
- PNGSDP has supported PNGSEL to undertake a number of studies for delivery of sustainable power to small urban centres and rural communities elsewhere in PNG. The assessment of the PNGSDP Board is that a number of development projects are feasible and can get underway without delay.
- In 2004, PNGSDP provided US\$100,000 of grant funding for the Teachers Solar Lighting Project. This project is managed by PNGSEL and aims to improve the standard of living for teachers in rural communities of Milne Bay, East Sepik, New Ireland, Western Highlands and Western Province. Teachers are able to purchase solar home kits, inclusive of lights and power outlets. A 5 year loan is provided by the Teachers Savings and Loans Society for this purpose on concessional terms with the support of the Global Environment Fund (a facility of the World Bank Group.) PNGSEL has appointed two PNG companies to supply the solar systems and has also conducted awareness meetings for teachers in the provinces. The National Institute of Standards and Industrial Technology (NISIT) is assisting to introduce a national certification system for this technology.

PNG SUSTAINABLE ENERGY LTD

- PNGSEL is a joint venture between PNGSDP and Snowy Mountain Engineering Company (SMEC) Development Power Pty Ltd of Australia. It was established in 2005 in order to assist PNGSDP to deliver its energy and electrification program throughout PNG.
- PNGSDP established its Rural Power and Electrification Program during 2005 in recognition that access to affordable and sustainable energy for villages, small urban communities and district urban centres will have a directly positive impact on quality of life and prospects for economic development. Under the terms of the management contract with PNGSEL, PNGSDP provides grant funding to PNGSEL for 2 full time permanent staff and will provide financing for projects that satisfy sustainable development criteria.
- PNGSEL incorporated Western Province Sustainable Power Ltd in May 2006 to own and operate the power systems established under the Rural Power and Electrification Program in Western Province. WPSPL will operate under generation, distribution and retailing licenses supplied by the regulator, ICCC. It is currently a 100% subsidiary of PNGSEL however preparatory work is underway to allow the Fly River Provincial Government to assume up to 30% equity.
- Since its establishment in 2005, PNGSEL has been committed to working together with GoPNG to rehabilitate and expand the existing power assets of the country. A critical challenge for PNGSEL remains to define and establish a partnership with PNG Power Ltd, which would enable both companies to work together to improve electricity generation and supply in the country, with each expanding and improving its own capacity. PNGSEL continues to pursue a number of commercial projects around the country on this basis.
- PNGSEL is committed to assuming responsibility for all non-mine electrification services currently operated by OTML, particularly pre-paid metering services in Kiunga and Tabubil. This constitutes one component of a long term plan to play a driving role in improving the sustainability of power supply to the whole of Western Province.
- In 2006 PNGSEL agreed to continue to act as project manager for an extension of the Teachers Solar Lighting Project which will now offer loans to the general public to invest in both solar and pico-hydro electrification systems. The three participating financial institutions are ANZ Bank, Bank of South Pacific and PNG Microfinance Ltd.

SUSTAINABLE INFRASTRUCTURE



SUSTAINABLE INFRASTRUCTURE PROGRAM - NATIONAL HIGHLIGHTS

- PNGSDP's infrastructure program is currently undertaking projects to improve transport infrastructure such as ports and roads, basic services infrastructure such as water supply and sewerage, as well as economic infrastructure. The program is active in Western Province and elsewhere around the country.
- A major feature of PNGSDP's approach to this sector is a strategic partnership with GoPNG and the World Bank for road rehabilitation and maintenance. The Company has already committed K26.7m in grant support to the National Roads Maintenance and Rehabilitation Program. In 2005 PNGSDP agreed to provide counterpart funding for Phase I of the program and by the end of 2006, total expenditure against PNGSDP's commitment amounted to over K13m. The Program has completed major civil works in six provinces including Central Province, East New Britain, Manus, Morobe, Oro and West New Britain. An important initiative to promote sustainability has been the creation of Road Maintenance Trusts which will be managed on a user pays basis.
- During 2006, GoPNG negotiated a supplementary World Bank loan to extend the program. PNGSDP has therefore agreed to contribute further grant finance of K20m for Phase II, which will benefit Gulf Province and Western Province in addition to the six provinces included in Phase 1. PNGSDP is particularly supportive of the initiative to build capacity of the Western Province Government to implement sustainable infrastructure projects.
- In 2006, the PNGSDP Board approved funding of K13.2 million to assist GoPNG and the Gazelle Restoration Authority to undertake upgrading and sealing of roads in Kokopo. PNGSDP has appointed PNG Sustainable Infrastructure Ltd to implement the project and works are expected to commence in August 2007.
- In consideration of the very positive track record to date, PNGSDP will continue to engage with the National Government, major donors and financial institutions in order to leverage the investment of the Company's funds into sustainable development of roads and other vital infrastructure in PNG.

DARU PORT AND INDUSTRIAL FACILITY - DEVELOPMENTS IN 2006

- PNGSDP is committed to making a major investment in the development of a deep water port in Western Province. Following extensive investigations, the Company has concluded that new port facilities would significantly reduce transport costs and thereby greatly improve the prospect of potential investments in mining, petroleum, fisheries, agriculture, forestry and other value-adding or down-stream processing industries. PNGSDP believes that the sustainable economic and social benefits arising from development of these industries to Western Province and to PNG justifies substantial investment in the development of a deep water port as well as associated industrial and other infrastructure facilities.
- The Company's analysis of development options at various potential sites along the coast of Western Province supports the Company's decision to construct port and industrial park facilities on and near Daru Island. Ok Tedi Mining Ltd and several existing forestry operations provide the most immediate business opportunities for the project. Major companies with interests in large-scale aluminium smelting, timber processing and natural gas-based industrial development are showing strong interest in the proposed port and industrial area.
- During 2006, technical feasibility and geotechnical studies were completed by Snowy Mountain Engineering Company (SMEC) Development Power Pty Ltd, indicating that this project will require a larger investment by the Company than originally foreseen. Negotiations are therefore taking place with international construction companies in order to agree on commercial terms for construction and civil works that are acceptable to PNGSDP. Discussions have also been initiated with potential co-financiers of the project.
- Steady progress is also being made on other preparatory work. Notice of the proposal for acquisition of the required land by PNGSDP was published in the National Gazette in December 2006. The Company therefore expects land title will be issued during 2007. There has been full and constructive collaboration with the Department of Environment and Conservation in order to undertake assessment of potential environmental impacts and also to secure GoPNG approval and support for this project.

SUSTAINABLE INFRASTRUCTURE



OTHER SUSTAINABLE INFRASTRUCTURE DEVELOPMENT IN WESTERN PROVINCE

- Despite major expenditure on national infrastructure projects in recent years, PNGSDP's focus also remains on delivering infrastructure development in Western Province. This was the primary rationale behind establishment of a new subsidiary company, PNG Sustainable Infrastructure Ltd, and conclusion of a Management Services Agreement with the new company during 2006. The management agreement provides funding support for infrastructure development of Western Province, and allows PNGSIL to design and manage projects to improve roads, wharfs, jetties, airstrips, water supply and sanitation under a management fee arrangement.
- Under its management agreement with PNGSDP, PNGSIL commenced work in October 2006 to install community water supply for 14,000 people in 27 River Corridor Villages. This project is being implemented in partnership with the CMCA Trusts and the Living Waters Ministry.
- Under PNGSDP's Western Province Road Program, PNGSIL also completed survey and design work on over 100 km of road in North Fly district. Civil works will be undertaken on roads between Kiunga and Kokonda and between Gre and Dringgas during 2007. PNGSIL has also put out to tender the feasibility and design work on 285 km of road, which constitute sections of the Transfly Highway in South Fly district.
- During 2006, PNGSDP also allocated K 20.4 million for the Western Province Water and Sanitation Program. Upgrading of water and sewerage systems on Daru Island and surrounding areas will be given priority as part of the comprehensive package of measures that the Company is undertaking to improve investment prospects in that part of Western Province.

PNG SUSTAINABLE INFRASTRUCTURE LTD

- PNG Sustainable Infrastructure Ltd was registered with the Investment Promotion Authority in January 2006. It was established with K5 million equity contribution from PNGSDP.
- PNGSIL's business strategy is to source project financing from all available sources for sustainable infrastructure development. In addition to PNGSDP, other major sources include the Tax Credit Scheme that is administered by the Department of National Planning, international development funding and commercial funding sources. The Business Plan also specifically adopts a "whole-of-life asset" management approach to roads, water supply, sewerage and other basic infrastructure such as wharfs and jetties to incorporate maintenance of infrastructure facilities in the planning and financing strategy.
- PNGSIL recognizes the vital need for partnerships to improve the contracting capacity for infrastructure development and maintenance in Western Province. During 2006, SIL therefore assisted to bring about a new strategic joint-venture between the Lower Ok Tedi Investment Company (LOTIC), a Western Province Landowner company, and Niugini Civil & Petroleum Ltd.
- During 2006, PNGSIL continued to build a constructive relationship with the Western Province Government in order to cooperate on a network of priority roads in Western Province. PNGSIL is also negotiating a Memorandum of Understanding with the PNG Water Board to upgrade the existing water supply and construct a new sewerage system on Daru Island and the surrounding area. In advance of the conclusion of this agreement, PNGSIL has commissioned detailed designs and plans so that construction work is ready to begin in 2007.

CORPORATE GOVERNANCE - THE BOARD OF DIRECTORS



- Appointed on 20 May 2002

Ross Garnaut AO, BA, PhD **CHAIRMAN**

Dr Garnaut is Professor of Economics at the Research School of Pacific and Asian Studies, Australian National University, where he has also previously held the positions of Head of the Department of Economics and Director of the Asia Pacific School of Economics and Management.

In the course of his academic career Dr Garnaut has researched and published extensively on East Asia and the Southwest Pacific economies. He has also served on university and research institution boards in Australia, the United States, China and Indonesia. He is currently Chairman of the International Food Policy Research Institute in Washington DC, USA.

Dr Garnaut was Senior Economic Advisor to the Australian Prime Minister, Robert Hawke, and also served as the Australian Ambassador to China. He has wide-ranging experience in industry including as former Chairman of the Bank of Western Australia Ltd, and as a Board Member of the Primary Industry Bank of Australia Ltd and Chairman of Lonely Planet Publications.

Dr Garnaut has a long and deep connection with PNG since serving as First Assistant Secretary responsible for financial and economic policy in the Department of Finance at the time of Independence. In addition to his Directorship of Ok Tedi Mining Ltd as the nominee of PNGSDP, Dr Garnaut is also the Chairman of Lihir Gold Ltd.



- Appointed on 9 April 2003

Honourable Sir Ebia Olewale Kt • **Western Province Committee** **Chairman**

Sir Ebia is Chancellor of the University of Goroka. Originally from the Western Province of PNG, he served his people as Member of the House of Assembly for 14 years between 1968 and 1982. Prior to his appointment on the PNGSDP Board, he was a consultant to Ok Tedi Mining Ltd.

During the course of his political career Sir Ebia was responsible as the Minister for Justice in 1975 for the adoption of Papua New Guinea's Independence Constitution. He played a major role in the Nation's preparation for Independence as a member of the special Select Committee and also in the capacities of Minister for Education and Commerce during the self-government period.

Following the 1977 elections, Sir Ebia served as Deputy Prime Minister, as well as Minister for Justice and Minister for Foreign Affairs and Trade.

Sir Ebia's skills as a Parliamentarian and representative of his people have received international recognition. In 1994 he supported the first multi-racial election in post-apartheid South Africa as a member of the Commonwealth Observer Mission.



- Appointed on 20 May 2002

Honourable Jim Carlton AO, BSc • **Member of the Company**

Mr. Carlton is Chairman of the Australian Innovation Association, Council Member of the Australian Strategic Policy Institute, Board Member of the Australia New Zealand School of Government and Senior Advisor to the Boston Consulting Group.

Between 1977 and 1994, Mr. Carlton was a Federal Member of Parliament in Australia, serving as Minister for Health, and Minister Assisting the Minister for National Development & Energy. He also held a number of positions in Opposition, including Shadow Minister for Sustainable Development & Environment.

Mr. Carlton has had extensive experience in international development, serving as a Commonwealth observer at the return of Zambia to democracy, on the Australian Foreign Minister's Aid Advisory Council, and on the Australian National Advisory Council on Peace and Disarmament.

Mr. Carlton has also had experience of the non-profit sector including 7 years as Secretary General of the Australian Red Cross. He has served on the Australian National Commission for UNESCO, and as Chairman of the Advisory Council of the National Archives of Australia.

CORPORATE GOVERNANCE - THE BOARD OF DIRECTORS



- Appointed on 10 October 2002

- Appointed on 20 May 2002

- Appointed on 13 November 2001

- Appointed on 31 January 2003

Mr. Donald Manoa

- Member of the Company
- National Program Committee Chairman

Mr. Manoa is Chairman of the Gazelle Restoration Authority and the New Guinea Islands Produce and Agmark Group of Companies. He is also a member of the Board of Directors of Barclay Bros (PNG) Ltd and First Investment Finance Ltd.

Mr. Manoa has many years of experience of the business sector in Papua New Guinea. He was General Manager of Shell Papua New Guinea Limited between 1991 and 1999 following 2 years of service as General Manager of the Papua New Guinea Electricity Commission. He has been Chairman of Shell (PNG) Ltd, and also a member of the Board of Directors of ANZ Banking Group (PNG) Ltd, Air Niugini and Shorncliffe PNG Ltd.

Mr. Manoa has contributed in a number of community services roles, including as a prominent member of the National Volunteer Service. In recent years he served as Commissioner in the National Provident Fund Commission of Enquiry.

Ms. Patricia Caswell, BA (Hon), BEd

Ms. Caswell is Chief Executive Officer of the Victorian Association of Forest Industries in Melbourne, Australia.

Coming from a background as a secondary school and TAFE teacher and trade union leader Ms. Caswell has developed her career into the area of sustainable resource management.

Ms. Caswell has extensive experience with various private and public bodies in Australia including as Executive Director of the Global Sustainability Institute at the Royal Melbourne Institute of Technology University in Melbourne. She has also served as Executive Director of the Australian Conservation Foundation and PLAN International Australia.

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

- Investment Committee Chairman

Dr Weiss is Dean Emeritus of the Department of Economics at the College of Management in Tel Aviv Israel. He is also Adjunct Professor of Economics at Ben Gurion University in Israel, Georgetown University, USA and the State University of New York, USA.

Dr Weiss was a long-serving official with the Bank of Israel and the US Federal Reserve Bank. He 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 also has many years of experience working in PNG. Between 1988 and 1994, and again between 1998 and 2002 he was seconded from the IMF to the Bank of Papua New Guinea, where he has continued to act as an advisor. He has also worked as an advisor in several former Soviet Republics.

Mr. Lim How Teck, PBM, B.ACC, FCPA(S'pore)/(Aust), FCMA(UK), FSID, AIBA

- Member of the Company
- Audit Committee Chairman

Following an extensive independent search by the international executive search firm Egon Zehnder International, Mr. Lim was appointed to the Board as a Singapore resident director by the Board of PNG Sustainable Development Program Limited.

Mr. Lim is a certified public accountant and serves on several statutory boards in Singapore and corporations around the world.

Until his retirement in 2005, Mr. Lim was a Board member, Executive Director and Group Chief Financial Officer of Neptune Orient Lines Ltd of Singapore.

Mr. Lim has been honoured with a PBM by the Singapore Government for his contribution to Singapore.

CORPORATE GOVERNANCE - ADMINISTRATION



Susil Nelson
(Newly Appointed)
Manager Corporate Governance
and Special Projects

- Ms. Nelson is an Accountant and has worked as an external auditor with PricewaterhouseCoopers, Port Moresby. In her former role, Ms. Nelson was responsible for several large client portfolios including Steamships Trading Company, Kenmore Group, Kina Group, New Britain Palm Oil and PNG Water Ltd.



Madelyn Kwang
Company Secretary

- Ms. Kwang is a practicing chartered secretary and member of the Singapore Institute of Chartered Secretaries and Administrators. Under an arrangement with DrewCorp Services Ltd of Singapore, Ms. Kwang was appointed as Company Secretary on 6 December 2002.

CORPORATE GOVERNANCE FEATURES OF PNGSDP

- As a Company "limited by guarantee", PNG Sustainable Development Program Limited does not have shareholders. The objectives and operations of the Company are governed solely by the Memorandum and Articles of Association of the Company and by the Program Rules, which together comprise the Constitution of the Company. The Company is registered at 20 Raffles Place #09-01, Ocean Towers, Singapore and has a Company Secretary operating at that address. The Company's management office is located in Port Moresby.
- The Board of Directors consists of seven members. Three directors including the Chairman are appointed by BHP Billiton. The Minister for Treasury, the PNG Chamber of Commerce and Industry and the Bank of PNG have each appointed one director. There is also one independent Singapore-resident director. The Board of Directors is responsible for the strategic direction and management of the Company, including monitoring its performance to ensure consistency with the Constitution of the Company.
- In order to assist it with its work, the Board has created four Committees from amongst its members. These are the Investment and Finance Committee, the Audit Committee, the National Program Committee and the Western Province Program Committee.
- The Board of Directors must also approve a minimum of two persons as Members of the Company. The Members are responsible for adopting the Annual Accounts and Audit Report, appointing the Auditors, and approving other business that may be referred by the Board of Directors from time to time, including amendments to the Memorandum and Articles of Association and Program Rules. The Members of the Company are Hon. Jim Carlton, Mr. Donald Manoa and Mr. Lim How Teck.
- The Board is not subject to the direction or control of the Independent State of Papua New Guinea or BHP Billiton; however changes to the Program Rules can only be made with the consent of those parties. The Board of Directors reports regularly to the Members, the Government of Papua New Guinea, BHP Billiton, Ok Tedi Mining Limited, and to other Papua New Guinea stakeholders.

CORPORATE GOVERNANCE HIGHLIGHTS OF 2006

- During 2006, the Board continued its policy to visit Papua New Guinea every three months prior to its scheduled meetings for extensive discussions about the program with interested parties in Port Moresby, Western Province and elsewhere in the country. Five Board meetings were held as follows: 5 March (Singapore), 7 April (Singapore), 23 May (Port Moresby), 15 September (Singapore), and 22 December (Singapore). All Board members were in attendance for each meeting and, in addition, regular informal teleconferences were held to discuss progress with the Sustainable Development Program.
- During 2006, the Members of the Company did not have any extraordinary meetings. The Annual General Meeting of Members was convened on 23 May 2006 in order to adopt the 2005 Directors' Report and Accounts. The Company maintained PriceWaterhouseCoopers of Singapore as its auditors for 2006.
- In 2006, the Directors received remuneration of A\$ 88,120 and the Chairman received A\$ 132,176. Base fee levels for Director's remuneration were established by the Company prior to the appointment of the current Board on the recommendation of BHP Billiton as being appropriate for the Company. The fee levels are raised annually on 1 July in line with the increase in the Australian Consumer Price Index.
- The 2005 Annual Report was presented at the fourth PNGSDP Annual Report Meeting convened at the Holiday Inn Conference Room in Port Moresby on 23 May 2006. The Meeting was officially opened by Hon. Arthur Somare MP, Minister for National Planning and Rural Development and was attended by representatives of key stakeholders.
- Ms. Susil Nelson was appointed Manager for Corporate Governance in August 2006 to assist the CEO in providing corporate support functions to the Board and its Committees, Advisory Council and the Executive Management Committee, including monitoring and reporting on the implementation of Board decisions.
- To facilitate greater awareness and consultations with Western Province communities and stakeholders, the Board and management travelled to meet with stakeholders in Daru, Balimo and Kiunga, immediately after the Annual Report Meeting. The Company was privileged to be accompanied by the Acting Prime Minister Hon Sir Moi Avei and National MPs for Middle and North Fly.

CORPORATE GOVERNANCE - ORGANISATION CHART

INVESTMENT AND FINANCE COMMITTEE MEMBERS

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

AUDIT COMMITTEE MEMBERS

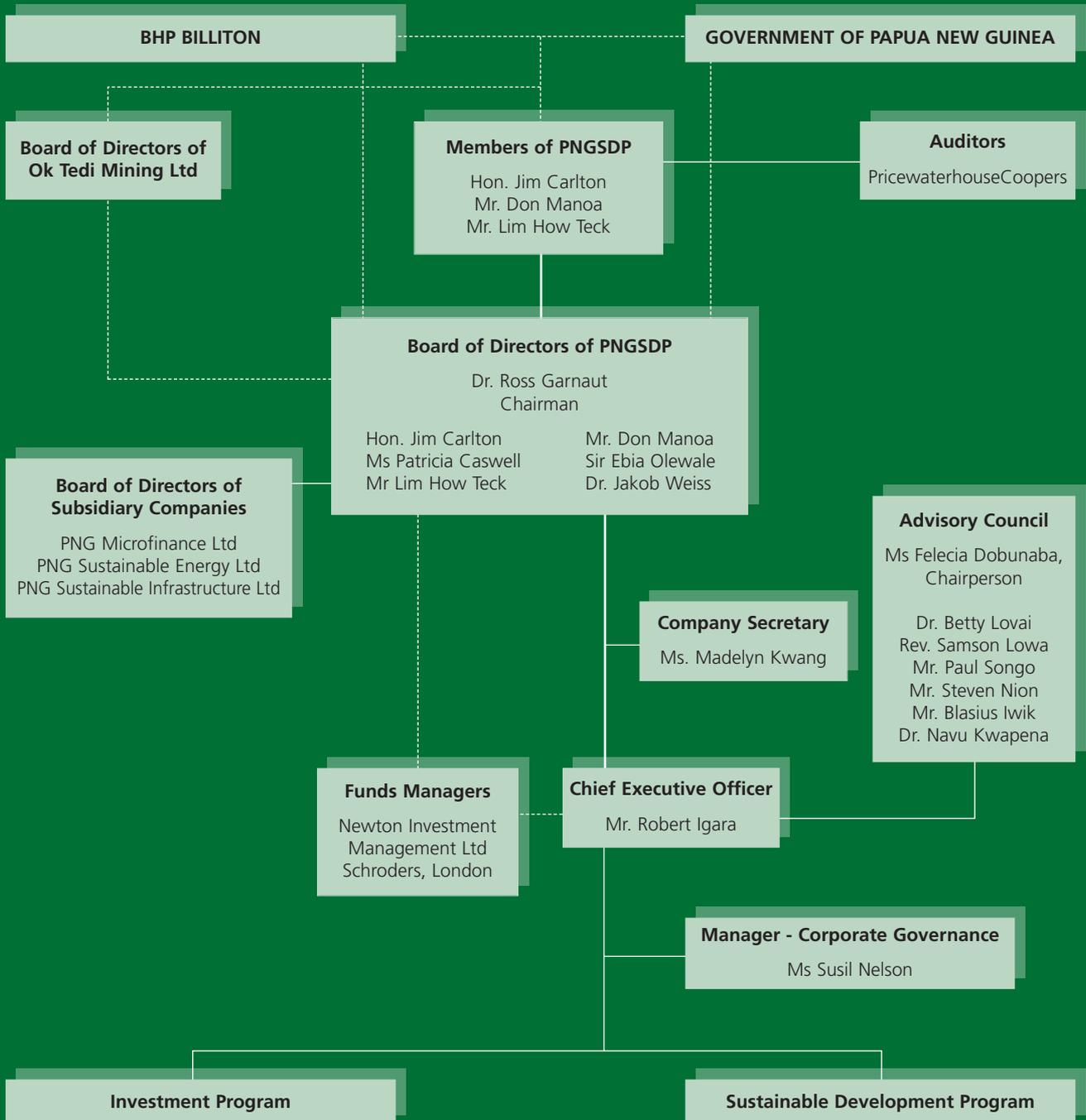
- Mr. Lim How Teck (Chairman)
- Dr Ross Garnaut
- Dr Jakob Weiss

NATIONAL PROGRAM COMMITTEE MEMBERS

- Mr. Donald Manoa (Chairman)
- Dr Ross Garnaut (Ex-Officio)
- Hon. Jim Carlton
- Ms Patricia Caswell
- Sir Ebia Olewale

WESTERN PROVINCE PROGRAM COMMITTEE

- Sir Ebia Olewale (Chairman)
- Dr Ross Garnaut (Ex-Officio)
- Mr. Donald Manoa
- Hon. Jim Carlton
- Ms Patricia Caswell



THE ADVISORY COUNCIL



Ms Felecia Dobunaba, OBE, BA

CHAIRPERSON

- Reappointed on 2 December 2005

Ms. Dobunaba has extensive knowledge 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.

Currently, Ms. Dobunaba also serves as the Director-General (Central Agencies Co-ordination Committee Secretariat) for the Department of Prime Minister and National Executive Council.



Dr. Betty Lovai, BASW, BASW(Hon), MA, PhD

- Reappointed to the Council on 2 December 2005

Dr. Lovai has worked extensively amongst the poor in urban and rural areas. Her research and teaching has focused on situation studies of communities and villages.

Dr. Lovai brings to the Advisory Council her experience as a consultant to many esteemed organisations including the United Nations Development Programme (UNDP), the Asian Development Bank (ADB), AusAID, JICA (Japanese International Cooperation Agency) and World Vision.

Currently, Dr. Lovai is also Lecturer in Social Work at the University of Papua New Guinea.



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

- Reappointed to the Council on 2 December 2005

Rev. Lowa was a secondary school teacher before entering the Church. He brings to the Advisory Council his knowledge and skills as Moderator of the United Church of Papua New Guinea and the Solomon Islands as well as president of the Papua New Guinea Council of Churches.

Currently, Rev. Samson also serves as a Director on the Board of a number of organizations including Evangelism Exposition Ministry International (based in Fort Lauderdale, Florida), the Bank of Papua New Guinea and Post PNG.



Mr. Steve Nion, BSc, MSc

- Reappointed to the Council on 2 December 2005

Mr. Nion brings to the Advisory Council many years of experience in the mining sector of PNG including responsibility for managing Papua New Guinea's Geological Survey as the country's Chief Geologist.

Mr. Nion is the alternative PNG Representative on the Coordinating Committee of the Coastal and Offshore Geosciences Program in East and South East Asia.

Currently Mr. Nion also serves as the Deputy Secretary of the Department of Mining.

NEW DEVELOPMENTS 2006

- Under the Program Rules, the Board appoints up to seven members of the Advisory Council to serve for a two year term. Of the 7 current members of the Advisory Council, 6 members were re-appointed in December 2005 following the successful completion of one full two year term.
- Mr. Paul Songo is a new appointment to the Advisory Council and has been serving since November 2006. Mr. Songo replaces Mr. Brown Bai who resigned to take up

the position of Chairman on the Board of PNG Microfinance Limited.

- Another important development of 2006 was the appointment of Ms. Susil Nelson, Manager Corporate Governance, as Secretary to the Advisory Council in August 2006. Ms. Nelson is responsible for assisting the Chairperson to coordinate the activities of the Advisory Council and to assist its members to fulfill their function of support to the CEO as specified in the Program Rules.

THE ADVISORY COUNCIL



Dr. Navu Kwapena BSc, MSc, PhD

- Reappointed to the Council on 2 December 2005

Dr. Kwapena is an Environmental Ecologist and Botanist dedicated to the protection of native Papua New Guinean fauna and flora, and the sustainable use of natural resources including equitable distribution of the benefits of resource exploitation.

Dr Kwapena brings to the Advisory Council many years of experience in the Department of Environment and Conservation, including service as Acting Deputy Secretary and First Assistant Secretary for Wildlife Research, Management and Conservation.

Dr. Kwapena is currently a Technical Advisor to the Department of Environment and Conservation.



Mr. Blasius Iwik, Dip. Rel. Studies

- Reappointed to the Council on 2 December 2005

Mr. Iwik represents the interests and perspective of landowners of Western Province on the Advisory Council.

He has served with the Roman Catholic Church in Kiunga, Western Province for many years including as a pastoral worker with St. Brigit's Parish and later as Diocesan Development Secretary.

Currently Mr. Iwik is Communications and Public Relations Officer with added responsibilities for Catholic Education with the Roman Catholic Church, Kiunga.



Mr. Paul Songo

- Appointed to the Council on 13 November 2006

Mr. Songo is the Consultant Advisor on Provinces & LLG in the Public Sector Reform Management Unit of the Department of Prime Minister and National Executive Council.

He has held the position of the PNG High Commissioner to Australia and served as Secretary of the Department of Personnel Management and Secretary of the Department of Health.

Mr. Songo brings to the Advisory Council many years of public sector experience, particularly in the area of capacity building.

ADVISORY COUNCIL RESPONSIBILITIES

- The Advisory Council meets regularly to consider papers presented by Management. In 2006, Advisory Council Meetings were held in February, May, August and November.
- The Advisory Council provides the CEO with strategic advice on the development and implementation of the Sustainable Development Program, including advice on the integration of the Company's initiatives with overall development objectives of PNG.
- The Advisory Council also provides assistance with sharing and disseminating information about the Sustainable Development Program to Project Partners and Stakeholders.
- Two additional functions of the Advisory Council are to provide feedback on particular project proposals and to assist in monitoring and reviewing projects that are supported by the Company.

HIGHLIGHTS OF ADVISORY COUNCIL WORK 2006

- At the end of May 2006, Advisory Council members accompanied Acting Prime Minister and Minister for Petroleum and Energy, Hon. Moi Avei MP, Member for Middle Fly and Minister for Labour and Employment Hon. Roy Biyama and the PNGSDP Board on a visit to Balimo, Daru and Kiunga for consultations with stakeholders.
- In 2006, Council members visited Ok Tedi Mine and provided support for the Company's participation in the Community Mine Continuation Agreement process.
- The Advisory Council participated in the seminars on Cross Border Co-operation for Sustainable Development held in Daru and Merauke between 28 February and 5 March 2006.
- During 2006, the Advisory Council also provided advice on design and implementation of PNGSDP's new initiative on HIV/AIDS under the Community Sustainable Development and Social Investment Program.

JOINT VENTURES AND SUBSIDIARY COMPANIES



- PNGSDP has a 52% share-holding in Ok Tedi Mining Ltd. However it does not have absolute control over the investment in OTML but shares control with the two other shareholders - The State and INMET. PNGSDP's relationship with OTML is unique in many respects given the responsibilities vested in PNGSDP by the State and BHP Billiton as disclosed more fully in the introductory section of this Annual report.
- Since 2002, PNGSDP has established three companies to undertake investments and provide services which improve the quality of life of communities, especially in rural areas. Through this strategy significant resources and expertise can be brought to specific investments including infrastructure and social services above the funding support available from PNGSDP. These companies are PNG Microfinance Ltd, PNG Sustainable Energy Ltd and PNG Sustainable Infrastructure Ltd. Each company is an independently run, registered business with share-holders, a Board of Directors and a professional management team.
- PNG Sustainable Energy Ltd is a PNGSDP joint venture with a 50/50 ownership split between PNGSDP and the joint venture partner.
- PNG Microfinance Ltd and PNG Sustainable Infrastructure Ltd are subsidiaries of PNGSDP because they are entities over which PNGSDP has power to govern financial and operating policies accompanying a shareholding of more than half of the voting rights.
- The relationship between PNGSDP and all three of the companies it has established is on two levels; both on the basis of an owner/ investor or shareholder relationship, as well as a client/ project partner or development agency relationship.
- As an owner/ investor PNGSDP nominates one director to each subsidiary Board. These directors can be sourced internally from the PNGSDP Management team or externally. The PNGSDP-nominee directors report to the CEO of PNGSDP on all matters discussed at Board level. The CEO of PNGSDP is responsible for reporting to the Board of PNGSDP on the activities of all three companies at each Board meeting.
- As documented in the Sustainable Development Program section of this Annual Report all three companies are implementing Sustainable Development Projects on behalf of PNGSDP under management services arrangements. The client/ project partner relationship with subsidiary companies is managed in the same way as all other relationships with project partners. Project proposals are appraised with the same criteria for economic, environmental, social and institutional sustainability as any other project. Each project must be presented individually to the PNGSDP Board by PNGSDP management for endorsement.



JOINT VENTURES AND SUBSIDIARY COMPANIES



PNG MICROFINANCE LIMITED

- PNGMFL is a 60% owned subsidiary of PNGSDP. It was established in 2003 as a vehicle to provide financial services to low-income households and village communities throughout Papua New Guinea. PNGMFL was one of the Company's first major investment initiatives that pioneered PNGSDP's sustainable development business model.
- During 2005, Bank of South Pacific Ltd became a 40% owner of PNGMFL when it issued additional shares of 4,000,000 fully paid at an issue price of K1.00 per share.
- PNGMFL has an independent Board of Directors under the chairmanship of Mr. Brown Bai, a former senior civil servant and former Managing Director of PNG Banking Corporation. The Deputy Chairman is Dr. Brian Scott, a recently retired director of the ANZ Banking Group.
- The Board has appointed Mr. Paul Thornton as the Managing Director, who brings significant expertise and international experience.
- PNGSDP's nominee director on the Board of PNG Microfinance is the Manager for Corporate Governance, Ms. Susil Nelson.

PNG SUSTAINABLE INFRASTRUCTURE LIMITED

- PNGSIL is a wholly owned subsidiary of the Company incorporated on 3 January 2006. The main purpose of the subsidiary is to address the development of infrastructure especially in Western Province. It will target in particular projects that involve development and maintenance of road, airstrip, jetty, and water and sewerage infrastructure.
- The Board of Directors is chaired by Mr. Ken Baxter who is an independent consultant. With the exception of one PNGSDP shareholder representative, the Board is composed entirely of independent directors. Two directors have commercial interests in the construction industry in Western Province. One director is also a member of PNGSDP's Advisory Council.
- The Board has appointed as Chief Executive Officer Mr. Camillus Midire. Mr. Midire was formerly the General Manager of PNGSDP and before that held many distinguished positions in the public sector over a 25 year career as a public servant.
- PNGSDP's nominee director on the Board of PNGSIL is the Chief Program Officer, Mr. David Sode.

PNG SUSTAINABLE ENERGY LIMITED

- PNGSEL is a 50/50 joint venture between PNGSDP and Snowy Mountain Engineering Company (SMEC) Development Power Pty Ltd following completion of the process of its share issue during 2006. SMEC is an Australian company that undertakes major electrical and civil works projects all over the world and has a long track record of major projects in Papua New Guinea.
- PNGSEL has been operating from its head office in Port Moresby since 2005. SMEC provides management services to PNGSEL until such time as PNGSEL has established its own management capability.
- PNGSEL's Board of Directors is chaired by Mr. Rod Sims who is an independent consultant. The two shareholding companies are equally represented by one nominee director. According to the shareholder agreement, all significant and key management decisions require the unanimous agreement of PNGSDP and SMEC.
- The Board has appointed Mr. Peter Martin as the Chief Executive Officer, who brings significant expertise and international experience.
- PNGSDP's nominee director on the Board of PNGSEL is the Chief Executive Officer, Mr. Robert Igara.



MANAGEMENT OF THE COMPANY



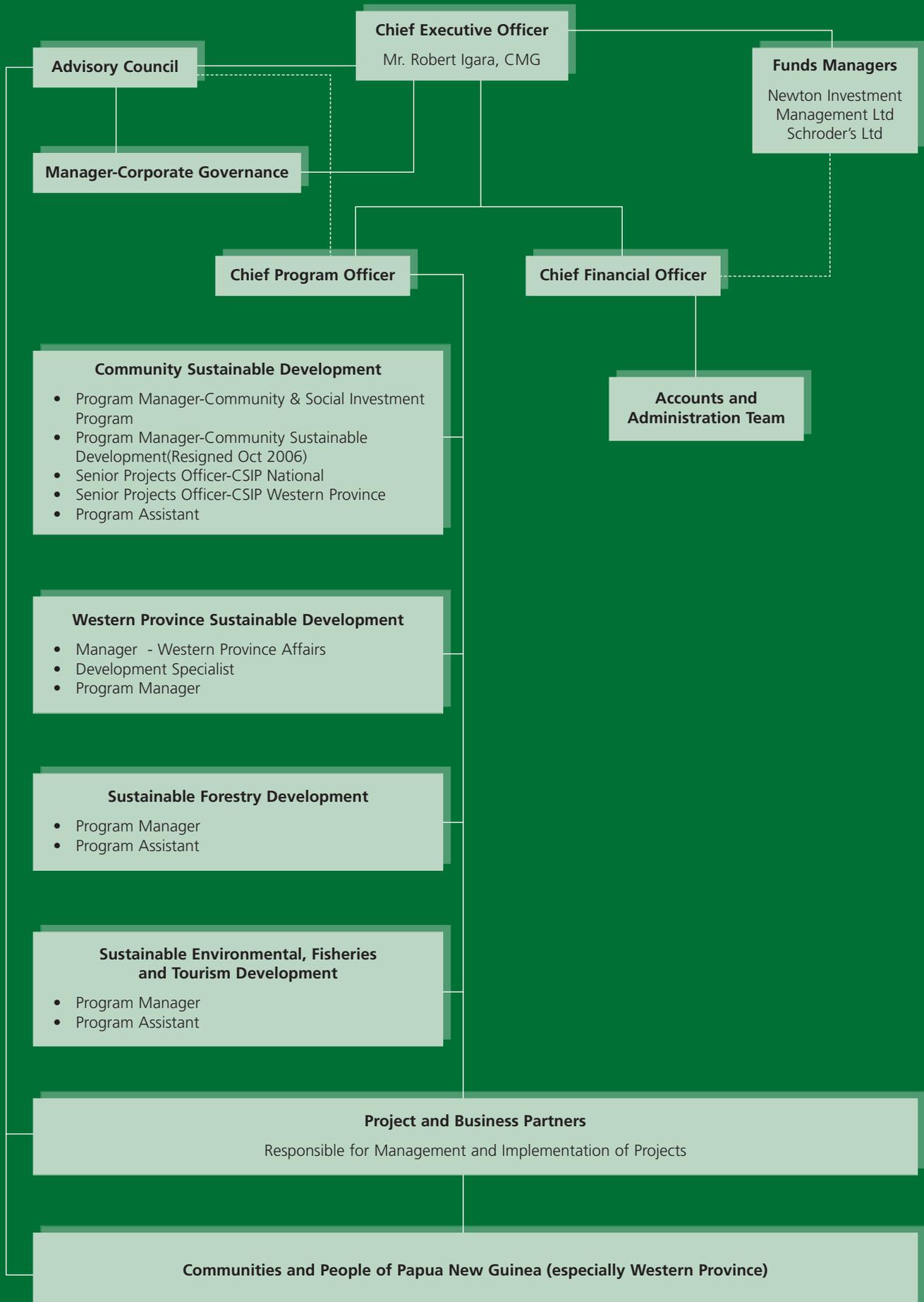
MANAGEMENT REVIEW 2006

- With the benefit of 4 years after its establishment and several years of operational experience, the Board and CEO of the Company agreed to undertake a management review to learn from this establishment phase and to determine the way forward for managing the challenges ahead.
- During October/ November 2006, the Boston Consulting Group (BCG) was engaged to conduct a review of the Company. The purpose of the review was to examine PNGSDP's organisation and recommend changes to help it meet its current and emerging challenges and deliver results at international standards. The review was tasked to look specifically at PNGSDP's reporting and management relationships, organization structure, capabilities and processes. Over the course of the review, BCG worked with PNGSDP executive management and staff, members of the Board as well as other major stakeholders.
- Recommendations arising out of the BCG Report were presented to the Board in December 2006. The Board endorsed the recommendations to take action in a number of areas including clearer communication of strategy and targets; streamlining of core processes such as evaluating and monitoring of projects; and developing human resources and deepening the skills set of the Sustainable Development Program team. The report also recommended measures to address the relationship between PNGSDP and its subsidiary companies, including PNG Microfinance Ltd, PNG Sustainable Energy Ltd and PNG Sustainable Infrastructure Ltd.

INDEPENDENT PROGRAM REVIEW

- The Program Rules of the Company requires that a formal, independent review of the Program is conducted regularly, every three years. The purpose of this Review is to ensure that the Company's operations continue to conform to the Constitution of the Company; the Program is managed efficiently and effectively; and the impact of the Program is documented and taken into account in its future development strategy. This Review should therefore have a broad perspective on the work of the Company, within the context of the complex environment of sustainable development in Papua New Guinea.
- Following advertisement of the invitation for expressions of interest to conduct the Independent Program Review in the international media during 2006, the Board selected Professor Dwight H. Perkins of the Department of Economics at Harvard University in December 2006. Professor Perkins is a highly distinguished academic who has researched, taught and written extensively on the Political Economy of Development, particularly development of China and the Asian region. He has also had extensive experience in business consulting and public service roles in both the United States and Asia.
- The Independent Program Review necessarily requires extensive consultation with PNGSDP Board, executive management and staff, and all major stakeholders. The results will be presented to the PNGSDP Board in 2007 .

MANAGEMENT CHART OF PNGSDP



STAFF OF PNGSDP



STAFF OF THE COMPANY

As at 31 December 2006, the Company had 22 Program Management and Administration staff operating from the Company's Head Office in Port Moresby.

The Company is also supported by a team of national and international advisors.

Executive Management Team

Chief Executive Officer
Personal Assistant to Chief Executive Officer
General Manager
Executive Assistant to General Manager
Chief Financial Officer
Chief Program Officer
Manager- Corporate Governance (CG) & Special Projects
Research & Executive Assistant
Manager-Western Province Affairs

Mr. Robert Igara
Ms. Fae Maso
Mr. Camillus Midire*
Ms. Dorothy Pomat*
Mr. Vere Arava
Mr. David Sode**
Ms. Susil Nelson
Miss. Iabomai Ataia
Mr. Colin Travertz

Program Management Team

Program Manager A - Western Province Program
Program Manager B - Western Province
Program Manager- Community Sustainable Development
Program Manager- Community Sustainable Development
& Social Investment Program (CSDIP)
Senior Project Officer- CSIP National
Senior Project Officer- CSIP Western Province
Environment & Sustainable Fisheries and
Tourism Development Program Manager
Sustainable Forestry Development Program Manager
Executive Assistant- Program Managers
Program Assistant- CSIP
Program Assistant- Forestry & Environment

Dr. Henry Ivarature+
Mr. Ati Wobiro
Mr. Aloysius Aihij*

Mr. Lawrence Stephens
Mr. John Kassman
Mr. Sam Tupou

Mr. Jaru Bisa
Mr. Kanawi Pouru
Ms. Legu Lee
Ms. Ginia Siaguru
Ms. Carolyn Murray

Accounts and Administration Team

Accountant
Accounts Clerk
Accounts Clerk
Receptionist
Company Driver
Office Assistant

Mr. Fred Uraru
Mr. Nathan Lowa
Mr. Wesley Mondo
Ms. Julie Malan
Mr. Joe Ikau
Mr. Paddy Boe

* Resigned August 2006

** Joined in January 2007

+ Resigned July 2006



PNG SUSTAINABLE DEVELOPMENT PROGRAM

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006



PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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 2006.

Directors

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

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

Arrangements to enable directors to acquire shares and debentures

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.

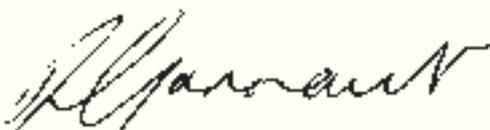
Directors' contractual benefits

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 as disclosed in the financial statements, and except that Dr. Ross Gregory Garnaut is a nominee director of the Company's jointly controlled entity and receives remuneration in this capacity, which is payable by the Company.

Independent Auditors

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

On behalf of the directors



ROSS GREGORY GARNAUT
Director



DONALD WABIRAO MANOA
Director



LIM HOW TECK
Director (Audit Committee Chairman)

13 April 2007

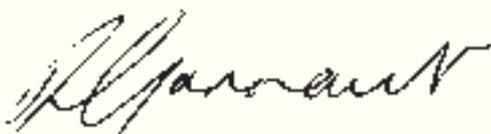
PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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 48 to 77 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 2006, 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



DONALD WABIRAO MANOA
Director



LIM HOW TECK
Director (Audit Committee Chairman)

13 April 2007

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

We have audited the accompanying financial statements of PNG Sustainable Development Program Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 77 for the financial year ended 31 December 2006, comprising the income statement, balance sheet and statement of changes in equity of the Company, and the consolidated financial statements of the Group and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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

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 Singapore 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 2006, and the results, changes in equity of the Company and of the Group, for the financial year ended on that date, and 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, 13 April 2007

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

INCOME STATEMENTS

	Notes	The Group		The Company	
		2006	Revised 2005	2006	2005
		US\$	US\$	US\$	US\$
Revenue					
Dividends from investment in a jointly controlled entity	4	-	-	312,000,000	156,000,000
Other investment income	4	23,278,221	8,409,187	22,681,379	8,232,650
Expenses					
Governance	5	(1,093,401)	(945,761)	(1,072,707)	(945,761)
Administration	5	(5,620,932)	(3,803,044)	(2,971,187)	(2,583,158)
Contractual obligation	5	(465,546)	(377,904)	(465,546)	(280,859)
Investment program costs	5	(796,488)	(426,701)	(796,488)	(426,701)
Development program costs	5	(12,323,750)	(4,503,479)	(16,038,771)	(4,503,479)
Operating surplus/(deficit) from operations		2,978,104	(1,647,702)	313,336,680	155,492,692
Share of results of jointly controlled entities	11	318,499,016	174,759,307	-	-
Surplus before tax		321,477,120	173,111,605	313,336,680	155,492,692
Income tax	7	(31,099,315)	(15,272,980)	(31,264,874)	(15,600,000)
Net surplus		290,377,805	157,838,625	282,071,806	139,892,692
Attributable to:					
The Company		290,566,720	158,143,843	282,071,806	139,892,692
Minority interest		(188,915)	(305,218)	-	-
		290,377,805	157,838,625	282,071,806	139,892,692

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

BALANCE SHEETS

	Notes	The Group		The Company	
		2006 US\$	2005 US\$	2006 US\$	2005 US\$
ASSETS					
Current assets					
Cash and cash equivalents	8	358,483,563	95,783,667	351,314,382	91,934,544
Financial assets at fair value through profit or loss	9	12,634,705	17,904,990	12,634,705	17,904,990
Other debtors and prepayments	10	2,183,444	1,641,764	12,470	756,707
		373,301,712	115,330,421	363,961,557	110,596,241
Non-current assets					
Financial assets at fair value through profit or loss	9	172,978,899	144,462,591	172,978,899	144,462,591
Investment in jointly controlled entities	11	150,601,892	141,642,279	4,933,494	3,483,494
Investments in subsidiaries	12	-	-	1,981,202	1,949,401
Property, plant and equipment	13	425,222	427,274	95,095	263,963
Deferred income tax assets	14	537,494	362,880	-	-
		324,543,507	286,895,024	179,912,376	150,159,449
Total assets		697,845,219	402,225,445	543,873,933	260,755,690
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	15	7,500,153	3,266,879	1,481,035	463,689
Provisions for employee benefit costs		196,280	75,770	104,861	75,770
Total Liabilities		7,696,433	3,342,649	1,585,896	539,459
NET ASSETS		690,148,786	398,882,796	542,288,037	260,216,231
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	16	17	17	17	17
Funds, which are comprised of:		676,812,811	385,746,091	-	-
- General Fund	17	-	-	2,903,581	2,903,581
- Long Term Fund	17	-	-	376,655,983	175,528,655
- Development Fund	17	-	-	162,728,456	81,783,978
Share of hedge reserve of a jointly controlled entity - Ok Tedi Mining Limited		(12,527,925)	(10,944,521)	-	-
Foreign currency translation reserve		25,638,709	23,117,897	-	-
		689,923,612	397,919,484	542,288,037	260,216,231
Minority interest		725,174	963,312	-	-
TOTAL EQUITY		690,148,786	398,882,796	542,288,037	260,216,231

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group	← Attributable to the Company →				Minority interest	Total Equity
	Members Subscriptions US\$	Total Funds US\$	Share of hedge reserve of jointly controlled entity - Ok Tedi Mining Limited US\$	Foreign Currency Translation Reserve US\$		
Balance at 1 January 2006	17	385,746,091	(10,944,521)	23,117,897	963,312	398,882,796
Other investment income	-	23,278,221	-	-	-	23,278,221
Share of results from jointly controlled entities	-	318,499,016	-	-	-	318,499,016
Governance and administrative	-	(7,179,879)	-	-	-	(7,179,879)
Development and investment programs	-	(13,120,238)	-	-	-	(13,120,238)
Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(31,264,874)	-	-	-	(31,264,874)
Deferred tax asset on tax losses of a subsidiary	-	165,559	-	-	-	165,559
Minority interest in net results of a subsidiary	-	188,915	-	-	(188,915)	-
Net surplus	-	290,566,720	-	-	(188,915)	290,377,805
Currency translation differences on investment in jointly controlled entities	-	-	-	2,594,001	-	2,594,001
Currency translation differences on investment in a subsidiary	-	-	-	(61,250)	-	(61,250)
Minority interest	-	-	-	(11,939)	(49,223)	(61,162)
Share of hedge reserve of a jointly controlled entity	-	-	(1,583,404)	-	-	(1,583,404)
Net gains recognised directly in equity	-	-	(1,583,404)	2,520,812	(49,223)	888,185
Total recognised gains	-	290,566,720	(1,583,404)	2,520,812	(238,138)	291,265,990
Balance at 31 December 2006	17	676,812,811	(12,527,925)	25,638,709	725,174	690,148,786

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group	← Attributable to the Company →				Minority interest	Total Equity
	Members Subscriptions US\$	Total Funds US\$	Share of hedge reserve of jointly controlled entity - Ok Tedi Mining Limited US\$	Foreign Currency Translation Reserve US\$		
Balance at 1 January 2005	17	173,922,716	(6,742,304)	-	-	167,180,429
Effect of change in FRS 21 adjusted retrospectively	-	(20,949,268)	(532,090)	22,437,529	-	956,171
Effect of change in FRS 103 adjusted prospectively	-	74,515,709	-	-	-	74,515,709
As restated	17	227,489,157	(7,274,394)	22,437,529	-	242,652,309
Other investment income	-	8,409,187	-	-	-	8,409,187
Share of results from jointly controlled entities	-	174,759,307	-	-	-	174,759,307
Governance and administrative	-	(5,126,709)	-	-	-	(5,126,709)
Development and investment programs	-	(4,930,180)	-	-	-	(4,930,180)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(15,600,000)	-	-	-	(15,600,000)
Deferred tax asset on tax losses of a subsidiary	-	327,020	-	-	-	327,020
Minority interest in net results of a subsidiary	-	305,218	-	-	(305,218)	-
Net surplus	-	158,143,843	-	-	(305,218)	157,838,625
Deemed disposal of interest in a subsidiary	-	113,091	-	-	1,153,976	1,267,067
Currency translation differences on investment in jointly controlled entities	-	-	-	442,435	-	442,435
Currency translation differences on investment in a subsidiary	-	-	-	215,097	-	215,097
Minority Interest	-	-	-	22,836	114,554	137,390
Share of hedge reserve of a jointly controlled entity	-	-	(3,670,127)	-	-	(3,670,127)
Net gains recognised directly in equity	-	113,091	(3,670,127)	680,368	1,268,530	(1,608,138)
Total recognised gains	-	158,256,934	(3,670,127)	680,368	963,312	156,230,487
Balance at 31 December 2005	17	385,746,091	(10,944,521)	23,117,897	963,312	398,882,796

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.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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 2006	17	2,903,581	175,528,655	81,783,978	260,216,231
Dividends from OTML	-	312,000,000	-	-	312,000,000
Other investment income	-	-	17,617,601	5,063,778	22,681,379
Governance and administrative	-	(4,509,440)	-	-	(4,509,440)
Development and investment programs	-	-	-	(16,216,153)	(16,216,153)
Investment Manager cost	-	-	(619,106)	-	(619,106)
Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(31,200,000)	(64,874)	-	(31,264,874)
Net surplus - total recognised gains		276,290,560	16,933,621	(11,152,375)	282,071,806
Transfer from General Fund	-	(276,290,560)	184,193,707	92,096,853	-
Balance at 31 December 2006	17	2,903,581	376,655,983	162,728,456	542,288,037
Balance at 1 January 2005	17	2,903,581	79,396,706	38,023,236	120,323,540
Dividends from OTML	-	156,000,000	-	-	156,000,000
Other investment income	-	-	5,498,502	2,734,148	8,232,650
Governance and administrative	-	(3,809,778)	-	-	(3,809,778)
Development and investment programs	-	-	-	(4,503,480)	(4,503,480)
Investment Manager cost	-	-	(426,701)	-	(426,701)
10% Dividend withholding tax paid to Internal Revenue Commission (Papua New Guinea)	-	(15,600,000)	-	-	(15,600,000)
Net surplus - total recognised gains	-	136,590,222	5,071,801	(1,769,332)	139,567,191
Transfer from General Fund	-	(136,590,222)	91,060,148	45,530,074	-
Balance at 31 December 2005	17	2,903,581	175,528,655	81,783,978	260,216,231

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)].

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED CASH FLOW STATEMENT

	Note	2006 US\$	2005 US\$
Cash flows from operating activities			
Operating surplus before taxation and after share of results of jointly controlled entities		321,477,120	173,111,605
Adjustments for:			
Depreciation		338,792	244,733
Bad debts		115,896	50,334
Surplus on disposal of financial assets at fair value through profit and loss		(10,758,579)	(4,767,458)
Interest income		(12,054,842)	(3,641,729)
Share of results of jointly controlled entities		(318,499,016)	(174,759,307)
Dividend income		(464,800)	-
Operating cash flow before working capital changes		(19,845,429)	(9,761,822)
Change in operating assets and liabilities			
Other debtors and prepayments		(1,306,276)	(804,017)
Sundry creditors and accruals		4,353,784	2,777,099
Cash used in operations		(16,797,921)	(7,788,740)
Interest received		3,758,680	736,784
Dividends received		312,000,000	156,000,000
Withholding tax paid on dividends received		(31,200,000)	(15,600,000)
Net cash from operating activities		267,760,759	133,348,044
Cash flows from investing activities			
Purchases of financial asset at fair value through profit and loss		(115,452,053)	(69,617,219)
Interest received		8,602,898	2,430,001
Dividends received		464,800	-
Withholding tax paid on dividends received		(64,874)	-
Proceeds from sale of financial asset at fair value through profit and loss		101,725,106	23,157,477
Payments for property, plant and equipment		(336,740)	(375,619)
Net cash used in investing activities		(5,060,863)	(44,405,360)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial year	8	95,783,667	6,840,983
Cash and cash equivalents at the end of the financial year	8	358,483,563	95,783,667

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

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 address of its registered office is 20 Raffles Place, #09-01 Ocean Towers, Singapore 048620.

The principal activity of the Company is to promote sustainable development within Papua New Guinea, 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.

The principal activities of the subsidiaries are stated in Note 12.

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, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting 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 events and actions, actual results may ultimately differ from those estimates.

In 2006, the Group and the Company adopted the new and revised FRS that are applicable in the current financial year. The following are the FRS that are relevant to the Group:

FRS 19 (Amendment) Employee Benefits
FRS 21 (Amendment) The Effects of Changes in Foreign Exchange Rates
FRS 32 (Amendment) Financial Instruments : Disclosures and Presentation
FRS 39 (Amendment) Financial Guarantee Contracts

The adoption of the above FRS has not resulted in substantial changes to the Group's accounting policies.

(b) Revenue recognition

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

Interest income is recognised on a time proportion basis using the effective interest method.

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the income statement. Gains or losses arising from changes in fair value of investment in securities [note 2(f)] that have been designated as "Financial assets are fair value through profit and loss" are included in revenue as other income from investments in the financial year in which the changes in fair value arises.

(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.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Group accounting (continued)

(1) Subsidiaries (continued)

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority interests in a subsidiary exceed the minority interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority interests are attributed to the equity holders of the Company, unless the minority interests have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minority interests' share of losses previously absorbed by the equity holders of the Company have been recovered.

(2) Jointly controlled entities

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

Equity accounting involves recording investments in jointly controlled entities initially at cost, and recognising the Group's share of its jointly controlled entities' 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 controlled entity equals or exceeds its investment in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

In applying the equity method of accounting, unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of jointly controlled entities 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 jointly controlled entities.

(3) Transaction costs

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

(d) Property, plant and equipment

(1) Measurement

Plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses [Note 2(g)].

(2) Depreciation

Depreciation on plant and equipment is calculated using a straight line method to allocate their depreciable amounts of plant and equipment over their estimated useful lives. The annual rates used for this purpose are as follows:

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

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement for the financial year in which the changes arise.

(3) Subsequent expenditure

Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits associated with the item, will flow to the Group and the cost of the item can be reliably measured. Other subsequent expenditure is recognised as a repair and maintenance expense during the financial year in which it is incurred.

(4) Disposal

On disposal of a plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(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 jointly controlled entities

Investments in subsidiaries and jointly controlled entities 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 jointly controlled entities the difference between net disposal proceeds and its carrying amount is taken to the income statement.

(2) Investments in debt and equity securities

Investments in debt and equity securities are designated by management as 'financial assets at fair value through profit or loss' upon initial recognition. They are included in non-current assets unless management has the expressed 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. Investments are recognised at fair value and transaction costs are recognised in the income statement. 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.

Interest on investment, calculated using the effective interest method, is recognised in the income statement.

On sale of an investment in debt and equity securities, the difference between the net sale proceeds and its carrying amount is taken to the income statement.

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 non-financial assets

Plant and equipment

Investments in subsidiaries and jointly controlled entities

Plant and equipment and investments in subsidiaries and jointly controlled entities are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the Cash Generating Unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognised in the income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment is also recognized in profit or loss.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(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) Income taxes

Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets/liabilities are recognised for all deductible/taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiary and jointly controlled entities, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred income tax assets and liabilities are measured at:

- (i) the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and
- (ii) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from business combination is adjusted against goodwill on acquisition.

(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. Provisions are not recognised on future operating losses.

(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 Nasfund 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 as employee benefit expense when they are due.

(2) Employee leave entitlements

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

(l) Foreign currency translation

(1) Functional currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United State Dollars ("US\$"), which is the Company's functional currency and presentation currency.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(l) Foreign currency translation (continued)

(2) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Currency translation differences on non-monetary items when the gain or loss is recognised in the profit or loss, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(3) Translation of Group entities financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition were used.

(4) Consolidation adjustments

On consolidation, currency translation differences arising from the translation of the net investments in foreign operations are taken to the foreign currency translation reserve in equity. When a foreign operation is disposed off, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

(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.

(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 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 the 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.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(n) Long term fund, development fund and general fund (continued)

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 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) 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; and
- (b) 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.

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.

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.

(o) Grants

Grants provided to subsidiaries, jointly controlled entities and third parties are expensed in the period in which the grants are released.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

3. Effects on financial statements on adoption of new or revised FRS

The effects on adoption of the following FRS in 2005 are set out below:

FRS 21 (revised 2004) The Effects of Changes in Foreign Exchange Rates:

(i) Translation differences on foreign operations

Previously, translation differences on foreign operations denominated in foreign currency were recorded in the income statement. FRS 21 (revised 2004) requires these exchange differences of the foreign operations to be recognised in the foreign currency translation reserve (Note 2 (l) (3)).

This change was effected retrospectively and consequently affected the following previously reported balances as at 31 December 2004:

	Group 2005 US\$
Increase/(decrease) in:	
Income statement	(10,037,408)
Currency translation reserve	22,437,529
Retained earnings	(20,949,268)

FRS 103 Business Combinations:

(ii) Discount on acquisition (negative goodwill)

Previously discount on acquisition or negative goodwill was recognised and amortised over the period reflecting future benefits to be derived from the acquisition of an enterprise. In 2005, FRS 103 requires immediate de-recognition of a carried forward negative goodwill with a corresponding adjustment to retained earnings at 1 January 2005.

The unamortized amount of negative goodwill of US\$74,515,709 at 31 December 2004 relates to the Company's acquisition of its 52% ownership interest in Ok Tedi Mining Limited.

	Group US\$
Increase/(decrease) in:	
Investment in jointly controlled entity	74,515,709
Retained earnings	74,515,709

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

4. Revenue

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Dividends from investment in a jointly controlled entity	-	-	312,000,000	156,000,000
Other investment income:				
Other dividends	464,800	-	464,800	-
Fair value gains on financial assets through profit and loss	10,758,579	4,767,458	10,731,166	4,767,458
Interest income from commercial papers, certificates of deposits, bonds and cash balances	12,054,842	3,641,729	11,485,413	3,465,192
	23,278,221	8,409,187	22,681,379	8,232,650
Total revenue	23,278,221	8,409,187	334,681,379	164,232,650

The Company received gross dividend income of US\$312,000,000 (2005: \$156,000,000) from its investment in a jointly controlled entity, OK Tedi Mining Limited, during the financial year. A 10% dividend withholding tax of US\$31,200,000 (2005: \$15,600,000) was deducted in respect of this dividend income and paid to the PNG Internal Revenue Commission during the financial year (see note 7).

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

5. Expenses

	The Group		The Company	
	2006 US\$	2005 US\$	2006 US\$	2005 US\$
Governance				
Board of Director Fees	518,262	525,596	502,133	525,596
Board Administration	168,326	198,921	163,761	198,921
Advisory Council	37,264	16,493	37,264	16,493
Annual Report	61,213	88,090	61,213	88,090
Annual Report Meeting expenses	152,093	13,145	152,093	13,145
Audit	116,966	89,522	116,966	89,522
Company Secretary	39,277	13,994	39,277	13,994
	1,093,401	945,761	1,072,707	945,761
Administration				
Professional Services	459,805	657,565	314,978	543,308
Staff Costs	2,041,853	1,020,070	808,214	772,972
Depreciation	338,792	245,879	246,343	192,673
Information Services	201,543	146,477	140,187	92,800
Office Rent	76,727	121,838	64,387	77,190
Insurance	163,306	177,970	163,306	176,107
Travel	547,342	204,370	528,956	129,478
Financial expenses	553,979	323,839	522,178	236,845
Amortisation - Premium on Inscribe Stock	-	83,267	-	83,267
Grants	4,371	30,689	3,684	30,689
Motor Vehicle Expenses	87,632	145,005	83,495	108,479
Advertising & Promotion	52,307	85,929	46,095	64,266
Bad debts	84,095	50,448	-	-
Others	1,009,180	509,698	49,364	75,084
	5,620,932	3,803,044	2,971,187	2,583,158
Contractual Obligation	465,546	377,904	465,546	280,859
Investment Program Costs	796,488	426,701	796,488	426,701
Development Program Costs*				
Western Province	3,080,937	1,057,663	3,679,701	1,057,663
National	9,242,813	3,445,816	12,359,070	3,445,816
	12,323,750	4,503,479	16,038,771	4,503,479
Total Expenses	20,268,316	10,056,889	21,344,699	8,739,958

* Expenses at consolidated level is lower than at company level as grants provided to subsidiaries has not been utilised by subsidiaries

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

6. Staff costs

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Wages and salaries	1,663,702	760,198	657,682	576,533
Other employee benefits and costs	277,284	212,012	115,892	160,655
Employer's contribution to defined contribution plans	100,867	47,860	34,640	35,784
	2,041,853	1,020,070	808,214	772,972

Key management remuneration is disclosed in note 20(b).

7. Income taxes

Income tax expense

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Tax expense attributable to the operating surplus is made up of:				
Current income tax - Foreign	31,099,315	15,272,980	31,264,874	15,600,000

The foreign tax is comprised of US\$31,200,000 (2005: US\$15,600,000) dividend withholding tax deducted from the dividend income that the Company received from its jointly controlled entity, Ok Tedi Mining Limited, dividend withholding tax of \$64,874 on Bank South Pacific and tax credit of US\$165,559 (2005: US\$327,020) from PNG Microfinance Limited.

The dividend withholding taxes have been paid to the Papua New Guinea Internal Revenue Commission during the financial year.

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

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

7. Income taxes (continued)

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

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Surplus before tax	322,273,517	173,111,605	314,128,689	155,492,692
Tax calculated at Singapore rates applicable to surplus in Papua New Guinea at 20% (2005: 20%)	64,454,703	34,622,321	62,825,737	31,098,538
Effect of different tax rates in other countries	(31,264,874)	(15,600,000)	(31,264,874)	(15,600,000)
Income not subject to tax	(4,986,953)	(1,616,737)	(4,684,678)	(1,646,530)
Tax benefits of deductible expenses not recognized	4,066,494	1,619,257	4,388,689	1,747,992
Tax calculated on share of results of jointly controlled entities	(63,699,803)	(34,951,861)	-	-
Tax charge	31,099,315	15,272,980	31,264,874	15,600,000
Comprising of:				
Dividend withholding tax paid to the Internal Revenue Commission (Papua New Guinea)	31,264,874	15,600,000	31,264,874	15,600,000
Deferred tax benefits recognised for tax losses of subsidiary	(165,559)	(327,020)	-	-
	31,099,315	15,272,980	31,264,874	15,600,000

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

8. Cash and cash equivalents

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Cash and bank balances	244,529,087	55,230,765	239,334,650	53,983,062
Cash held in treasury bills	1,974,744	2,601,420	-	-
Cash held in investment funds	77,519,661	31,499,957	77,519,661	31,499,957
Commercial papers and certificates of deposit	34,460,071	6,451,525	34,460,071	6,451,525
	358,483,563	95,783,667	351,314,382	91,934,544

Cash and cash equivalents are denominated in the following currencies:

Currency profile

US Dollar	352,374,938	90,549,529	352,374,938	90,549,529
PNG Kina	6,108,625	5,234,138	(1,060,556)	1,385,015
	358,483,563	95,783,667	351,314,382	91,934,544

9. Financial assets at fair value through profit or loss

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Current				
Commercial papers and certificates of deposit	12,589,566	13,770,005	12,589,566	13,770,005
Accrued interest	45,139	166,735	45,139	166,735
Bonds (quoted)	-	3,968,250	-	3,968,250
	12,634,705	17,904,990	12,634,705	17,904,990
Non current				
Bonds (quoted)	105,020,921	101,166,709	105,020,921	101,166,709
Equity securities (quoted)	20,913,722	42,465,480	20,913,722	42,465,480
Fund of Hedge funds	45,785,522	-	45,785,522	-
Accrued interest	1,258,734	830,402	1,258,734	830,402
	172,978,899	144,462,591	172,978,899	144,462,591
Total	185,613,604	162,367,581	185,613,604	162,367,581

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets at fair value through profit or loss (continued)

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
US Dollar	146,292,094	130,793,443	146,292,094	130,793,443
Euro	833,841	6,323,194	833,841	6,323,194
Canadian Dollar	318,271	4,158,313	318,271	4,158,313
Sterling	1,121,301	2,980,185	1,121,301	2,980,185
Yen	3,046,076	4,753,774	3,046,076	4,753,774
PNG Kina	31,659,606	11,457,272	31,659,606	11,457,272
Others	2,342,415	1,901,400	2,342,415	1,901,400
	185,613,604	162,367,581	185,613,604	162,367,581

10. Other debtors and prepayments

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Prepayments	182,876	295,641	1,237	9,220
Interest receivable	-	31,792	-	31,792
Deposits	6,561	-	6,561	-
Other advances	1,994,007	1,314,331	4,672	715,695
	2,183,444	1,641,764	12,470	756,707

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

The carrying amounts of Interest receivable, deposits and other advances approximated their fair values.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

11. Investment in jointly controlled entities

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Investment in OTML at cost			2,903,581	2,903,581
Investment in PNGSEL at cost			2,029,913	579,913
Total Investment			4,933,494	3,483,494
At the beginning of the financial year	141,642,279	51,015,044		
Investment in PNGSEL at cost	1,450,000	579,913		
De-recognition of discount on acquisition of jointly controlled entities	-	74,515,709		
Share of results after tax	318,499,016	174,759,307		
Share of hedge reserve	(1,583,404)	(3,670,127)		
Dividends received	(312,000,000)	(156,000,000)		
Foreign currency translation differences	2,594,001	442,433		
At the end of the financial year	150,601,892	141,642,279		

The summarised financial information of jointly controlled entities are as follows:

- Assets	680,688,365	531,973,686
- Liabilities	382,712,082	259,580,240
- Revenues	1,522,873,413	1,073,208,966
- Net results	612,403,037	336,045,292
Share of contingent liabilities incurred jointly with other investors	19,352	24,186

Details of the jointly controlled entities 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 and gold ore	Papua New Guinea	52%
PNG Sustainable Energy Limited	Develop, produce and distribute electricity and energy	Papua New Guinea	50%

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

11. Investment in jointly controlled entities (continued)

Ok Tedi Mining Limited

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 Singapore 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.

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 Jointly controlled entities" as this jointly controlled entity is jointly controlled by its shareholders.

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. The discount on acquisition has been taken to revenue reserve.

PNG Sustainable Energy Limited

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.

According to the shareholder agreement, all significant and key management decisions require the unanimous agreement of the shareholders. Furthermore, the two shareholders of PNG Sustainable Energy Limited are equally represented on the Board.

PNG Sustainable Energy Limited has been established to implement and manage electricity and energy projects in line with the overall goals and objectives of PNG Sustainable Development Program Limited. SMEC Developments Power Pty Ltd provides technical expertise whilst PNG Sustainable Development Program Limited provides the funding for the projects.

PNGSDP FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

11. Investment in jointly controlled entities (continued)

Contingent liabilities

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

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Bank guarantees	19,352	12,577	-	-

Capital commitments

The Company has incurred the following capital commitments in relation to its interests in jointly controlled entities:

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Capital expenditure	5,545,280	1,394,038	-	-

12. Investment in subsidiaries

	The Company	
	2006	2005
	US\$	US\$
Investments (unquoted at cost)		
PNG Microfinance Limited	1,981,201	1,949,401
PNG Sustainable Infrastructure Limited	1	-
Total	1,981,202	1,949,401

PNG Microfinance is a 60% owned subsidiary. The principal activity of the subsidiary is to provide financial services designed to meet the needs of low income households and small business operators across Papua New Guinea.

PNG Sustainable Infrastructure Limited, a wholly owned subsidiary of the Company, was incorporated on 3 January 2006. The subsidiary's principal activities are to develop and construct infrastructure projects in Papua New Guinea.

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

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 2006	466,119	37,956	247,901	37,296	789,272
Additions	136,481	88,665	106,666	4,928	336,740
At 31 December 2006	602,600	126,621	354,567	42,224	1,126,012
Accumulated depreciation					
At 1 January 2006	182,829	11,705	156,205	11,259	361,998
Depreciation charge	214,875	47,989	64,915	11,013	338,792
At 31 December 2006	397,704	59,694	221,120	22,272	700,790
Net book value					
At 31 December 2006	204,896	66,927	133,447	19,952	425,222
Cost					
At 1 January 2005	173,663	29,034	195,123	15,833	413,653
Additions	292,456	8,922	52,778	21,463	375,619
At 31 December 2005	466,119	37,956	247,901	37,296	789,272
Accumulated depreciation					
At 1 January 2005	37,781	-	79,484	-	117,265
Depreciation charge	145,048	11,705	76,721	11,259	244,733
At 31 December 2005	182,829	11,705	156,205	11,259	361,998
Net book value					
At 31 December 2005	283,290	26,251	91,696	26,037	427,274

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

13. Property, plant and equipment (continued)

The Company

	Computers and computer software US\$	Motor vehicles US\$	Office furniture and equipment US\$	Leasehold Improvements US\$	Total US\$
Cost					
At 1 January 2006	344,800	-	200,375	29,299	574,474
Additions	23,953	53,522	-	-	77,475
At 31 December 2006	368,753	53,522	200,375	29,299	651,949
Accumulated depreciation					
At 1 January 2006	158,284	-	142,919	9,308	310,511
Depreciation charge	194,659	4,460	37,458	9,766	246,343
At 31 December 2006	352,943	4,460	180,377	19,074	556,854
Net book value					
At 31 December 2006	15,810	49,062	19,998	10,225	95,095
Cost					
At 1 January 2005	151,316	-	158,822	15,833	325,971
Additions	193,484	-	41,553	13,466	248,503
At 31 December 2005	344,800	-	200,375	29,299	574,474
Accumulated depreciation					
At 1 January 2005	38,354	-	79,484	-	117,838
Depreciation charge	119,930	-	63,435	9,308	192,673
At 31 December 2005	158,284	-	142,919	9,308	310,511
Net book value					
At 31 December 2005	186,516	-	57,456	19,991	263,963

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

14. Deferred tax asset

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Deferred income tax assets:				
- to be recovered within one year	-	-	-	-
- to be recovered after one year	537,494	362,880	-	-
	537,494	362,880	-	-

The movement in the deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

The Group

Deferred income tax assets

	US\$
2006	
Balance at beginning of financial year	362,880
Credited to income statement	174,614
Balance at end of financial year	537,494
2005	
Balance at beginning of financial year	32,485
Credited to income statement	330,395
Balance at end of financial year	362,880

PNGSDP FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

15. Sundry creditors and accruals

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Other creditors and accruals	7,500,153	3,266,879	1,481,035	463,689

Currency profile

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
US Dollar	-	370,983	-	52,656
PNG Kina	7,500,153	2,895,896	1,481,035	411,033
	7,500,153	3,266,879	1,481,035	463,689

16. Members' subscriptions

As a Company "limited by guarantee", the Company does not have any issued shares or shareholders. At 31 December 2006, there were 3 members of the Company (2005: 3).

17. 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	
	2006	2005
	US\$	US\$
At the beginning of the financial year	2,903,581	2,903,581
Dividends from OTML	312,000,000	156,000,000
Governance and administrative expenses	(4,509,440)	(3,809,778)
10% Withholding tax paid to Internal Revenue Commission (Papua New Guinea)	(31,200,000)	(15,600,000)
Transfer to long term and development funds	(276,290,560)	(136,590,222)
At the end of the financial year	2,903,581	2,903,581

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

17. General, long term and development funds (continued)

Long term fund

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

	The Company	
	2006	2005
	US\$	US\$
At the beginning of the financial year	175,528,655	79,396,706
Investment income for the year	17,617,601	5,498,502
Investment expenses	(683,980)	(426,701)
Transfer from General Fund	184,193,707	91,060,148
At the end of the financial year	376,655,983	175,528,655

The weighted average rate of return on investment for the long term fund for the year was 7.80% (2005:4.44%).

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	National Program Fund	Program Total	Total
	2006	2006	2006	2005
	US\$	US\$	US\$	US\$
At the beginning of the financial year	27,572,521	54,211,457	81,783,978	38,023,236
Investment income for the year	1,951,929	3,111,849	5,063,778	2,734,148
Investment & Development expenses	(3,738,829)	(12,477,324)	(16,216,153)	(4,503,480)
Transfer from General Fund	30,698,951	61,397,902	92,096,853	45,530,074
At the end of the financial year	56,484,572	106,243,884	162,728,456	81,783,978

The weighted average rate of return on short term investments for the development fund for the year was 5.60% (2005: 4.58%).

PNGSDP FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

18. Commitments

(a) 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	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Not later than 1 year	316,177	117,109	117,236	101,541
Later than 1 year but not later than 5 years	387,990	270,116	243,603	238,660
	704,167	387,225	360,839	340,201

(b) Project commitments

The commitments for projects with signed funding agreements, excluding expenditures already made for the projects, are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Western Province	5,369,428	5,019,106	5,369,428	5,019,106
National	146,200	7,294,849	146,200	7,294,849
	5,515,628	12,313,955	5,515,628	12,313,955

PNGSDP FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS

19. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group has appointed two professional investment managers to carry out the investment activities in accordance with the investment policies and guidelines approved by the Board of Directors. An Investment and Finance Committee of the Board has been established to monitor investment and risk management and the performance of the investment managers.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the PNG Kina. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's risk management policy is to enter into cross currency hedging with no single exposure to be more than 2% of investment in hedge funds. The permitted currencies for investment are US dollar, Australian dollar, Euro, UK pound, Yen and Singapore dollar.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(iii) Interest rate risk

As the Group has significant interest-bearing assets, the Group's income and cash flows are affected by changes in market interest rates.

The Group's interest rate risk arises from commercial papers and bonds. The Group's risk management policy is to limit investment in commercial papers to not more than 1% per institution and no more than 20% of the investment portfolio exposure to any single country.

(b) Credit risk

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'AAA' are accepted. For sovereign OECD parties, parties with a minimum rating of 'AA' rating are accepted. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The investment in commercial papers and bonds are restricted to institutions in OECD member countries.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group maintains sufficient funds in cash and cash equivalents to meet its operating commitments.

The duration of the fixed return investment are relatively short.

PNGSDP FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

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) Commitment fees paid

Commitment fees of US\$373,683 (2005: US\$228,592) were paid to a jointly controlled entity in accordance with Clause 2.2 of the Subsidy Deed between the Company and Ok Tedi Mining Limited signed on 11 December 2001 and are non-refundable.

(b) Key management personnel compensation

The key management personnel compensation is analysed as follows:

	The Group		The Company	
	2006	2005	2006	2005
	US\$	US\$	US\$	US\$
Directors - fees	518,262	525,596	502,133	525,596
Management salaries and other short-term benefits	541,496	378,544	398,346	378,544
	1,059,758	904,140	900,479	904,140

There has been a Consumer Price Index (CPI) adjustment in the amount of remuneration payable to individual directors. In addition, a director received US\$67,000 (2005: US\$35,000) from the Company in respect of his services provided to a jointly controlled entity, Ok Tedi Mining Limited, as a director of that entity.

Directors are not entitled to other benefits.

21. New accounting standards and FRS interpretations

Certain new standards, amendments and interpretations to existing standards have been published and they are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

FRS 107, Financial Instruments: Disclosures, and a complementary Amendment to FRS 1, Presentation of Financial Statements - Capital Disclosures

The Group has adopted FRS 107 on 1 January 2007, which is the effective date of the Standard.

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk (including sensitivity analysis to market risk). It replaces the disclosure requirements in FRS 32, Financial Instruments: Disclosure and Presentation.

The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of FRS 107 and the amendment to FRS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of FRS 1.

22. 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 13 April 2007.



THE STORY OF THE PNGSDP LOGO

In November 2006, PNGSDP invited members of the general public to assist us to develop a logo that would reflect the Company's identity and values. A logo competition was launched in the national dailies calling for entry designs to capture our mission statement:

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

5 finalists were selected from 150 entries that were received and Elijah Mathias was awarded the winning entry by the Board of Directors in December 2006. Subsequently Daniel Waswas, a professional PNG artist, was requested to carry out some slight modifications to the design.

What does the Logo represent?

The plant sprouting up as part of the outer circle represents sustainability. In addition it portrays harmony with nature and the simple notion that people caring for our environment will allow the environment to continue to care for our people.

The people in the centre of the circle represent the communities of Western Province and around the nation. People are seen as being central to sustainable economic development. The child figures growing into adulthood represent present and future generations and their outstretched arms represent inclusiveness and togetherness.

Finally, the symbol of light illuminating from the center background represents hope for the future.

