ANNUAL REPORT

PNG Sustainable Development Program Ltd

2011

OUR MISSION

PNGSDP promotes development that meets the needs of the present generation and establishes the foundation for continuing progress for future generations of Papua New Guineans.

OUR VALUES

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

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

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

COMPANY BACKGROUND

Mandate

Under the agreements establishing PNGSDP, the Company has three main functions.

To support and promote 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.

Another main function of PNGSDP as a substantial financial institution is the prudent and wise investment of the Long Term Fund and Development Fund, so that it can support a high level of development expenditure in Western Province and Papua New Guinea in general.

The Company's other substantive responsibility is as majority shareholder of Ok Tedi Mining Ltd (OTML). Through its representative on 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 infrastructure established by OTML for broader social and economic development beyond mine closure.

Incorporation and governance framework

PNGSDP is a Papua New Guinean institution incorporated in Singapore as a not-for-profit limited liability company, registered and operating 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 PNGSDP and reports to PNG stakeholders annually.

PNGSDP commenced operations in Port Moresby Papua New Guinea in November 2002.

Assurance and indemnification

PNGSDP indemnifies the State and BHP Billiton against environmental claims related to activities of OTML and provides indemnity over the Independent Directors on the Board of OTML.

LETTER FROM THE CHAIRMAN

PNG Sustainable Development Program Ltd.
Port Moresby, Papua New Guinea

6 APRIL, 2012

The Independent State of Papua New Guinea
BHP Billiton Ltd.
Ok Tedi Mining Ltd.

In accordance with Clause 20 of the Company's Program Rules under the Articles of Association of the PNG Sustainable Development Program Ltd., I submit to the Independent State of Papua New Guinea, BHP Billiton Ltd., and Ok Tedi Mining Ltd., the Annual Report 2011, covering the financial year ending 31 December 2011. The Annual Report also includes the financial statements and the report of the Auditor.

Furthermore, in accordance with Clause 19.3 of the Program Rules of the Company, the key elements of the Annual Report will be presented for discussion at the Annual Report Meeting of the Company, to commence at 9.00 am on Tuesday 5 June 2012 at the Conference Room, Crowne Plaza Hotel, Port Moresby.

Sincerely,

ROSS GARNAUT AO
Chairman Board of Directors

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CHAIRMAN'S REPORT - A messsage from Ross Garnaut

Dr Ross Garnaut AO - Chairman

There was strong progress in each of PNGSDP's areas of responsibility in 2011. The Ok Tedi Mine operated profitably and further steps were taken towards an environmentally responsible mine life extension into the 2020s. The Long Term Fund was managed prudently to earn positive returns in a difficult international environment, with an increase in the proportion of the Fund invested in Papua New Guinea. The level of activity supported by the Development Fund increased strongly.

The Company's work has been assisted by the completion late in 2011 of the second of the periodic independent reviews required under the PNGSDP rules. The Howes-Kwa Review and the earlier Perkins Review are available on the Company's website. The Review was broadly positive about the Company's work, and made suggestions for improvement which are being implemented and which have influenced the content of this Annual Report.

The Ok Tedi Mine has continued to perform well commercially. Ok Tedi Mining Limited paid US$350 million as dividends to shareholders in 2011, after applying US$335 million cash to buy back the shares of the Canadian company Inmet. The buy-back made Ok Tedi Mining Limited wholly owned by Papua New Guinea interests—respectively PNGSDP, the Independent State of Papua New Guinea, and provincial and local interests. PNGSDP share of dividends after payment of withholding tax to the State was US$199.7 million in 2011. Apart from payment of dividends, the Ok Tedi Mine continued as the largest taxpayer in Papua New Guinea, and its royalty payments again gave Western Province the highest revenues per resident amongst Papua New Guinea's provinces.

The engineering work underpinning the feasibility study on the extension of the life of the Ok Tedi Mine generated a number of options. The priority of environmental considerations caused the options to be re-worked on several occasions, and was crucial in the recommended option. The final feasibility study will be assessed by the Independent State of Papua New Guinea and affected communities through the remainder of 2012.

PNGSDP places two thirds of its net income into a Long Term Fund for use after the closure of the Ok Tedi Mine. Through the year, the average rate of return on the Long Term Fund's assets was 3.2%. This took the weighted average return since the commencement of the Fund to 4.5%. During the year the balance of the Fund rose from US$1.04 billion at the beginning of the year to US$1.2 billion at the end. The top priority of the Long Term Fund is to maintain services in the North Fly after mine closure to levels available prior to closure. With continued good governance and management, the funds will be available to make substantial contributions to the maintenance of basic infrastructure in the region and to development in perpetuity.

The proportion of the Long Term Fund committed to domestic investments within Papua New Guinea rose through 2011 from 17.0% to 22.8%. These investments have been made within the requirements of a low risk portfolio.

CHAIRMAN'S REPORT - A messsage from Ross Garnaut

The nationally important projects that PNGSDP is building to underpin services and incomes in Western Province and to contribute more generally to national development became more concrete in 2011.

Nearly all villagers in Western Province now have access to mobile phone and related internet services as a result of PNGSDP's telecommunications towers project. The telecommunications towers project is now being extended into adjacent areas of Sandaun and Gulf Provinces.

Western Power's rural electrification program continues to reach new villages. A major assessment of management capacity late in the year caused the Board to modify its expectations on completion of rural electrification in Western Province. It is now expected that 70% of the province's population will have access to power by 2015.

PNGSDP in cooperation with OTML has made considerable progress on planning for the transformation of Tabubil into a vibrant town, providing a home for nationally important educational institutions as well as services to diverse mining and other activities in the western end of the country. Major programs within the framework of the Star Mountains Institute of Technology are now providing education and training for rural doctors (through Divine Word University) and tradespeople (an extension of the established training facilities of Ok Tedi). Programs for post-graduate and in-service education of teachers, for sustainable natural resource management, and in University-level disciplines related to the resources industries are being developed in cooperation with national and international universities. Work is proceeding towards the new campus for the Star Mountains Institute of Technology being available for students from the beginning of 2015.

The Star Mountains Institute of Technology has accepted a responsibility to upgrade and extend school education facilities in and around Tabubil, to support the emergence of a "college town". The Institute will be an increasingly important source of incomes and employment in Tabubil and the North Fly. It will play an important role in sustaining the economic life of Tabubil as the Ok Tedi Mine reduces and one day ends production.

Good progress is being made towards meeting the commercial conditions for commencing construction of the deep water port at Daru and the adjacent Oriomo industrial area that will draw on Western and neighbouring Provinces' power and natural gas. The port and other transport infrastructure have contributed to the growth in interest in gas and other export production in Western Province. PNGSDP's joint venture with Origin Energy Limited, PNG Energy Developments Limited, is working on a large gas power generation project at Stanley for supplying electricity to towns and villages in the North Fly as well as the Ok Tedi Mine.

Apart from the use of gas in the North Fly, three large-scale renewable energy projects to utilise Papua New Guinea's hydro-electric potential and one to utilise gas resources are currently the subject of engineering economic studies, by PNG Energy Development Limited. Subject to these studies and local consents and Government approvals, the massive Purari hydro-electric resource will be available for large-scale industrial use in Gulf and Western Provinces, as well as for sale into the Papua New Guinean and Australian electricity grids. These projects have the capacity to fundamentally transform the availability and use of electric power in Papua New Guinea. All major electricity projects will make power available for use by PNGSDP in its rural electrification programs.

PNGSDP's forestry subsidiary, Cloudy Bay Sustainable Forestry Limited, made good progress towards commercial success through 2011, and became the first Papua New Guinea forestry enterprise to achieve Forest Stewardship Council certification. The Board has authorised the development of a feasibility study for extension of sustainable forestry into Western Province.

PNG Microfinance Limited went through a period of consolidation and strengthening management. It is now again expanding solidly within a system of explicit payments for rural community services.

CHAIRMAN'S REPORT - A messsage from Ross Garnaut

PNGSDP's Community Sustainable Development Programs, in which our partners set the priorities, continue to make large contributions to local development in Western and all other provinces.

The large expansion of PNGSDP's development effort required systematic assessment in 2011 of management's capacity to carry the increased load. The Board agreed with Chief Executive Officer David Sode on steps to strengthen senior management, which are being implemented through 2012.

There have been four important changes in the Board of Directors since the last Annual Report Meeting.

In September 2011, the Treasurer of Papua New Guinea appointed Rex Paki in place of Lawrence Acanufa as his nominee on the Board of Directors. The Board of Directors thanks Lawrence for his good work and large contributions to the work of the Company since he joined the Board in 2009. Rex Paki is a senior Papua New Guinean accountant and businessperson, with extensive experience in many areas of the Company's work, including as a leading member of the Council of the Papua New Guinea University of Technology.

BHP Billiton has appointed Phil Bainbridge to fill the Board vacancy created by the retirement of Jim Carlton. Phil has deep experience of resource developments and project management in developing countries, including in Papua New Guinea through his work as Chief Operating Officer of Oil Search Limited.

As from 2012, the Administrator of Western Province has been invited to take up an ex officio position on the Board. This will assist in coordination of the Company's development programs in Western Province with the plans and activities of the Provincial Government.

The Chief Executive Officer, David Sode, has accepted an invitation to join the Board as Executive Director, while maintaining his role as Chief Executive Officer.

Many people in governments all over the country have helped the work of the Company in 2011 and early 2012. The Provincial Administrator in Western Province has worked closely with us for success on many Western Province projects. In the National Government, I would especially like to thank the Hon. Prime Minister Peter O'Neil, Treasurer Don Polye, Minister for Public Enterprises Sir Mekere Morauta and other senior Government Ministers and Members of Parliament for strong support in acceleration of the Company's work on national projects. And thanks to the local members of Parliament representing Western Province for taking an interest in our work.

I would like to thank David Sode, Chief Executive Officer and Executive Director, and his dedicated team of senior executives for the persistence and dedication that underpin the Company's growing achievements. They have maintained the high standards of integrity and good governance upon which this company has been built while carrying an increasingly heavy load.

It is the Board of Directors' great pleasure that at this year's Annual Report Meeting we are able to launch the biography commissioned by the Company to record the life and contributions to Papua New Guinea public life of its esteemed former Director, the late Sir Ebia Olewale.

Ross Garnaut
Chairman

CEO'S REPORT - A message from David Sode

David Sode - Chief Executive Officer

The year 2011 has seen PNG Sustainable Development Program Ltd again putting in a huge effort to deliver a range of small to large projects consistent with our mission of promoting development that meets the needs of the present generation and establishes the foundation for continuing progress for future generations of Papua New Guineans.

In this CEOs report I briefly index the Company's 2011 score card and what it will set itself to achieve in 2012. I am glad that we are held accountable for our productivity and if one cares to look in detail in the body of this report, one will congratulate and appreciate the difficulty the Company has overcome in delivering projects in the most rural isolated and neglected parts of PNG. My Board, staff and I never fail to admire those stakeholders of PNGSDP who are still struggling to hold a place of service out in those rural areas in the face of considerable difficulty and almost impossible circumstances. It has been our delight that our funds, delivered through careful and accountable structures, have given life to those organisations to keep on. I again, write on behalf of the thousands of silent people who knowingly or unknowingly receive our assistance with gratitude.

In this 2011 year we delivered various projects to a total value of US$135.9 million (K317.8 million) which directly impacted a substantial number of people in some of the remotest communities, and you can double that for an indirect effect.

Brief Progress report on 2010 stated priorities

- Daru Airport: Upgrade and extension is complete and open now for safe larger Aircraft operations. This K40 million project has been delivered.
- Daru Water and Sewage upgrade: Water PNG and PNGSDP signed up a joint working team and have launched the first stage of the preparatory work for the rehabilitation and upgrade works to improve the systems.
- Daru Deep Sea Water Port: First stage of construction has begun with construction of unloading facility at Tawo'o Point which is necessary to unloading of heavy machinery and materials.
- OTML Mine life Extension: project to complete negotiations with stakeholders and seek sanction.

What we delivered in 2011

As you look through this report you will notice that, consistent with our mandate to disburse two thirds of our development funds to the rest of PNG and one third to the Western Province, we have completed a number of highly valued projects:

What we delivered nationally in PNG (excluding Western province):

1. In Western Highlands: Maria Kwin Women's Resources Centre, Banz, Jiwaka Province. Partner: Catholic Diocese of Mt Hagen
2. In Western Highlands: Giramben Primary School Classroom & Staff House Project, Banz, Jiwaka Province. Partner: Christian Leaders Training Centre
3. In Western Highlands: Information Technology Education Equipment Support Project, Fatima Secondary School, Banz, Jiwaka Province. Partner: Catholic Arch-Diocese of Mt Hagen
4. In Western Highlands: Bawii Community Learning & Development Centre Infrastructure Upgrade

Project, Banz, Jiwaka Province Partner: Lutheran Development Service

5. In Milne Bay Province. Computer and Science Laboratory facilities at Watuluma, Goodenough Island. Partner: Santa Maria Secondary School

6. In Southern Highlands: Topopulu Water Supply and Sanitation Project, Ialibu. Partner: AT Projects and PNG Bible Church

7. In Southern Highlands: Mendi United Church HIV VCT Facility Partner: United Church

8. In Southern Highlands: Kumin Community Health Workers Training School Infrastructure Upgrade Project, Mendi. Partner: Catholic Diocese of Mendi

9. In Madang: Mugil Health Centre Maternity Ward Rehabilitation Project. Partner: Catholic Diocese of Madang

10. In Madang: X-Ray Facilities for Rural Health Centre at Gaubin Lutheran Hospital, Kar Kar Island. Partner: Lutheran Health Services

11. In Madang: eVision 2050 Building eLearning Centre, Divine Word University, Partner: Divine Word University

12. In Morobe: Crisis Centre for Children, Lae. Partners: Lae City Mission and Anglicare Stop Aids

13. The substantial completion of the six-year long Roads Maintenance and Rehabilitation Program (RMRP) with actual spending of K42 million of PNGSDP's contribution of K47 million. This has resulted in road improvements in Central, Oro, Morobe, East and West New Britain and Manus Provinces. The balance of PNGSDP funding has been allocated to support the Malalaua to Kerema Highway rehabilitation.

14. In Bougainville: Awarded contract for Togarao Hydro project in Bougainville and called Tender for the road access.

15. In East New Britain: Signed agreement with Agmark and Cocoa Coconut Institute (CCI) to provide support for rehabilitation program of the cocoa industry in East New Britain and other cocoa growing Provinces.

16. In Madang: Signed agreement with the Institute of Medical Research to support design and construction of a malaria research center and facilities in Madang.

17. In West Sepik: Signed agreement with Tenkile Conservation Alliance (TCA) in Lumi, to support the work of TCA as part of a newly created conservation and sustainable Development Program.

18. In Gulf Province: Work on the girls' dormitories in Aramiri Secondary School and St. Joseph's Kikori Vocational Training Centre continues. Partner: Diocese of Kerema.

19. In Manus Province: Maria Molnar Institute, Music Education Centre, was nearing completion. Partner: Evangelical Church of Manus.

20. In East Sepik Province: Community water supply projects in Ambunti. Partner: Pacific Island Ministries.

What we delivered in Western Province:

1. Province wide: Completion of construction and operationalization of 48 telecommunication towers in the Western Province at total cost of US$26 million (PNGK62 million) providing wide mobile coverage to communities previously with no access to any form of telecommunication.

2. In North Fly: Completed a seven year planting program of 2227 hectares of Rubber in Lake Murray involving 1500 growers from 21 villages at a total investment of K15.5 million. Partner: North Fly Rubber Ltd and PNG Microfinance Ltd.

3. In North Fly: Kiunga Community Mental Health Centre K141,000, Catholic Diocese of Daru-Kiunga.

4. In North Fly: St. Gabriel's Technical School Water Supply Project K223,000, Catholic Diocese of Daru-Kiunga.

5. In South Fly: Completion of Daru Airport at the cost of K40 million, PNGSDP contribution is K22 million, Fly River Provincial Government K18 million. This is now allowing undisrupted flights to Daru. Air Niugini has commenced flights to Daru following the upgrade.

6. In South Fly: Upgrade of the Daru Water and Sewerage system has commenced which will see improve water supply and a new sewerage system established progressively over 2012/13. This is a

significant milestone given difficulties of progressing the project in the last six years.

7. In South Fly: Medical intervention in Cholera outbreak.

8. In South Fly: Mobile medical intervention with YWAM ship.

9. Province wide: 32 Western Province scholarship holders; 16 in PNG and 16 in Melbourne, GRM International.

What major projects we will deliver in 2012:

- We will commence upgrade of the Daru Water systems and survey and design for a new Daru Sewage system contracted.
- Reconstruction of Daru Trestle completed and re-commissioned.
- Daru Airport fully operational with sustainable management arrangement discussed and agreed with National Airports Corporation.
- Commence Tawo'o Point loading wharf and facility construction.
- Fully implement Western Province Rubber Program Phase 2 involving planting of 2800 hectares.
- Delivery of Health Program, in coordination with other partners commenced implementation.
- Province-wide water and sanitation program designed and implementation plan agreed.
- We will commission and commence construction of phase one of the Daru International Port at Tawo'o Point.
- We will issue Tender and commence construction of the Star Mountain Institute of Technology.

Other projects to be delivered in 2012

The projects mentioned below projects will be implemented through partners including our Church Agency Education and Health Program.

- In North Fly: Biangabip Primary School teachers houses and double classrooms K603,240 – Catholic Diocese of Daru -Kiunga
- In North Fly: Bolivip Primary School teachers houses K311,000 - Catholic Diocese of Daru - Kiunga
- In North Fly: Tmoknai Primary School teachers houses, Double classrooms K544,440 - Catholic Diocese of Daru -Kiunga
- In Middle Fly: Bamio Community School, Bamu K831,000 - Catholic Diocese of Daru -Kiunga
- In Middle Fly: Barasaro Community School, Bamu K604,000 - Catholic Diocese of Daru -Kiunga
- In Middle Fly: Bimaramio Community School, Bamu K600,000 - Catholic Diocese of Daru - Kiunga
- In Middle Fly: Bina Community School, Bamu K336,000 - Catholic Diocese of Daru -Kiunga
- In North Fly: Iowara Health Centre, K319,000 - Catholic Diocese of Daru -Kiunga
- In North Fly: Catholic Health Services Capacity Building through Australian Doctors International K173,000 - Catholic Diocese of Daru -Kiunga
- In Middle Fly: ECP Electrification Projects in Balimo K68,000 – Evangelical Church of PNG
- In Middle Fly: Bamio Health Centre, Bamu K1,200,000 - Catholic Diocese of Daru -Kiunga
- In North Fly: Catholic Health Office, Drug Stoarage Facilities, Kiunga K46,000 - Catholic Diocese of Daru -Kiunga
- In Middle Fly: Ibuwo Community Health Post, Bamu K1,200,000 - Catholic Diocese of Daru - Kiunga
- In North Fly: Catholic Education Office Extension & Transit Accommodation Facility K363,500 - Catholic Diocese of Daru –Kiunga

Noteworthy Corporate Achievements:

Significant Staff Movements:

I pay tribute to my outgoing colleague and Chief Program Officer, Mr. Camillus Midire who has served the Company over the last eight years with distinction. Mr. Midire has been a stable influence and responsible for the steady progress in the programs of the Company given the years of wisdom gained in his life prior in Development, ultimately aspiring to Secretary for National planning in the years 1999 to 2002.

CEO'S REPORT - A message from David Sode

I would like to point out the major projects in the Western Province and PNG that Mr. Midire devoted his time to ensure they were progressed and completed.

IN WESTERN PROVINCE	REST OF PNG
• The Kiunga to Kokonda Road. • Gre to Drimgas Road. • Lake Murray Rubber and Western Province Rubber expansion program. • Western Province King Tide Emergency Response and Cholera Response • Daru Airport Upgrade • CMCA Water Projects Phase One. • Daru Water and Sewage project. • Tabubil Education Improvement Program • Community Conversations and the HIV Response • Daru trestle and wharf reconstruction. • Western Province Aquaculture Program. • Western Province Health Improvement Program • Forestry in particular, eaglewood domestication program. • Kunini Health Centre, in South Fly District • Introduction of One Laptop Per Child Program to 8 schools in North Fly. • Chruch Agency Health and Education Program	• Roads Maintenance and Rehabilitation Program involving six provinces, • Smallholder Agriculture Development Program in the Oil Palm Sector, • Kokopo Road Project • Bougainville Church Agency Health and Education Programs • HIV Response through Community Conversations in 7 provinces. • Panguna Elementary School Teachers' Training Program • Simbu, Livelihood Skills Training Mingende • Community Based water, education and health projects in 21 provinces

Camillus, a special note of gratitude to you and best wishes for the future from the people of PNG and Western Province you have been able to reach with the programs you were responsible for.

Seventeen new people joined PNGSDP in 2011: Executive Office 2, Finance 3, Corporate Services 3, Programs 1, Mine Impact Unit 1, Transformational Projects Unit 4, Western Province Sustainable Aquaculture 1 and Star Mountains Institute of Technology 1. Existing staff were either recruited to new positions or replaced those who had left the Company. Eleven staff left the Company on their own accord.

Conclusion

I thank the political leadership of the Chief, The Right Hon Grand Chief Sir Michael T. Somare GCL CGMG CHCF KStJ, Prime Minister and Minister for Climate Change, the Deputy Prime Minister and Minister for Works & Transport, the Hon Don Polye, the Treasurer, the Hon Peter O'Neill, CMG, and other senior Government Ministers and Governors and members of Parliament and heads of government departments who have contacted or visited us at our offices and accompanied me on several project planning and opening trips. Their co-operation was outstanding.

Our stakeholders are also to be congratulated for their dedication to meet the Company's demands of partial equity and in seeing that the projects are finished on time and the funds fully acquitted for.

My gratitude also goes to the PNGSDP Chairman and the Board who have served the Company and supported my executive team with distinction. I welcome the Board's decision in agreement with the O'Neil–Namah Government to include the Administrator of the Western Province as a member of the PNGSDP Board which will give the People of Western Province a very direct representation in the Company. He will take up this Board position immediately after the June 2012 Annual Report Meeting.

David Sode

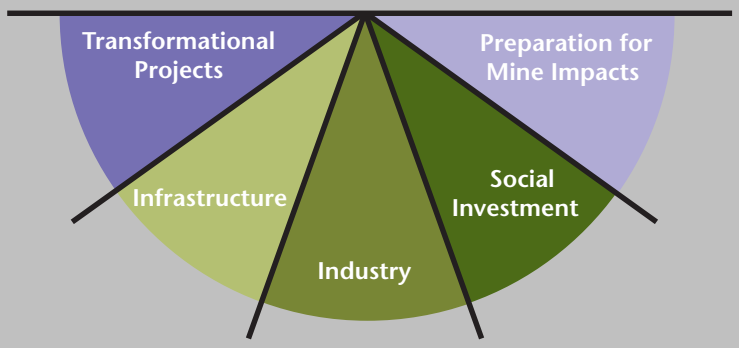
CEO

STRATEGY

INTRODUCTION

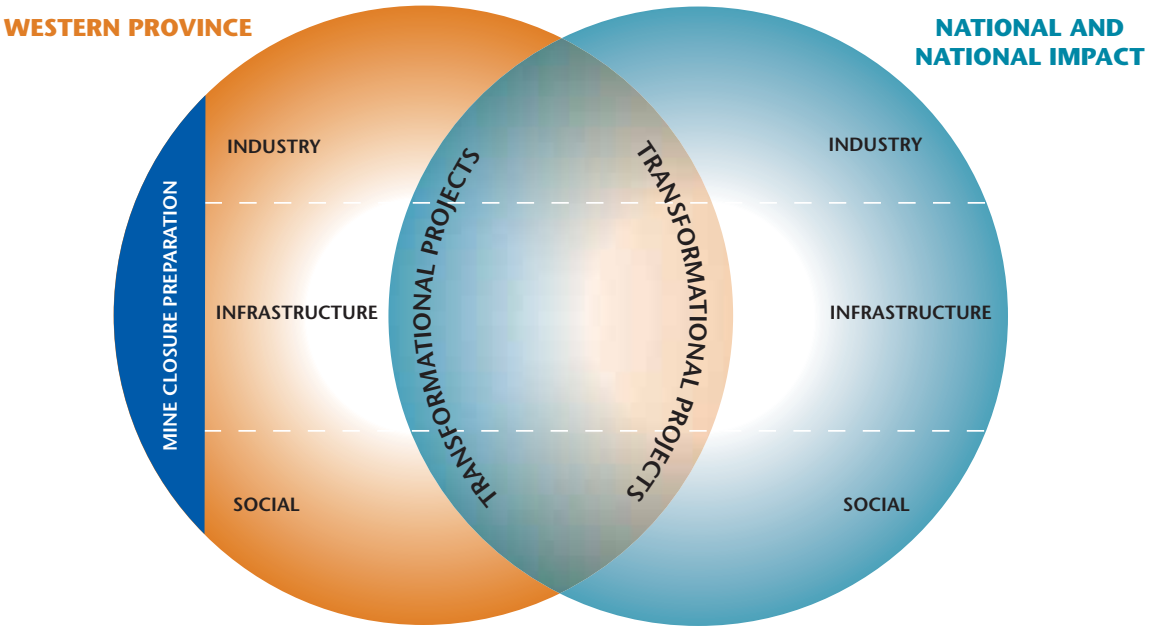
PNGSDP's approach is to focus our work in five areas:

1. Transformational Projects
2. Infrastructure
3. Industry
4. Social Investment
5. Preparation for Mine Impacts



PNGSDP invests in projects to develop infrastructure, industry and improve the social wellbeing of all Papua New Guineans, with a particular mandate to serve the people of Western Province.

PNGSDP recognises the importance of cultivating economic activity on a scale that will replace the contribution of OTML when the mine closes. Therefore, in addition to investing in locally owned industry, infrastructure and social projects, PNGSDP is committed to initiatives located in Western Province, with benefits which are national. These are described as Transformational Projects.



1/3 **DEVELOPMENT FUND** 2/3

☑ WP - Project is located in Western Province
☑ NI - Project has significant National Impact
☑ N - Project is located outside Western Province

STRATEGY

OUR WESTERN PROVINCE VISION

By 2020 people achieve equitable socio-economic development so that Western Province is recognised as a model for development in PNG. By mine closure, new industries that support improved equitable development will replace the positive contributions of Ok Tedi Mine.

OUR NATIONAL VISION

The lives of people in Papua New Guinea are improved through the promotion of diversified and balanced socio-economic development which is driven, directed and owned by our strategic partners.

Western Province Strategy

Western Province is PNG's largest province, covering 97,300 square kilometres, or approximately one-fifth of PNG's land mass. The Province borders Indonesia in the west and Australia in the south, and also Sandaun (West Sepik) Province, Hela Province and Gulf Province.

180,455 people live in Western Province *(Source: Preliminary figures, 2011 Census)* giving a population density of less than two persons per square kilometre, reflecting limited availability of arable land.

One third of PNGSDP's Development Fund is allocated to fulfill our mandate in relation to the people in Western Province. The centrepiece of the Western Province Strategy is the development of Multi-sector Economic Development Hubs. Industry and Infrastructure development in Western Province is central to cultivating these hubs of economic activity. Identified hub locations are based on different economic activities and include Balimo, Daru, Kiunga, Lake Murray, Morehead, Nomad and Tabubil.

The Western Province Strategy overlaps with the National Strategy in the development of Transformational Projects, those Western Province initiatives that will have significant national economic benefit.

National Strategy

Two thirds of PNGSDP's Development Fund is allocated to projects outside Western Province or to projects with national scale impact.

The centrepiece of our National Strategy is our partnership approach. Whether government, community or business, we support our partners to do what they do best to improve the lives of Papua New Guineans. For national impact projects, we drive initiatives and develop partnerships with organisations who operate at the required scale.

WESTERN PROVINCE STRATEGY

OUR VISION FOR WESTERN PROVINCE

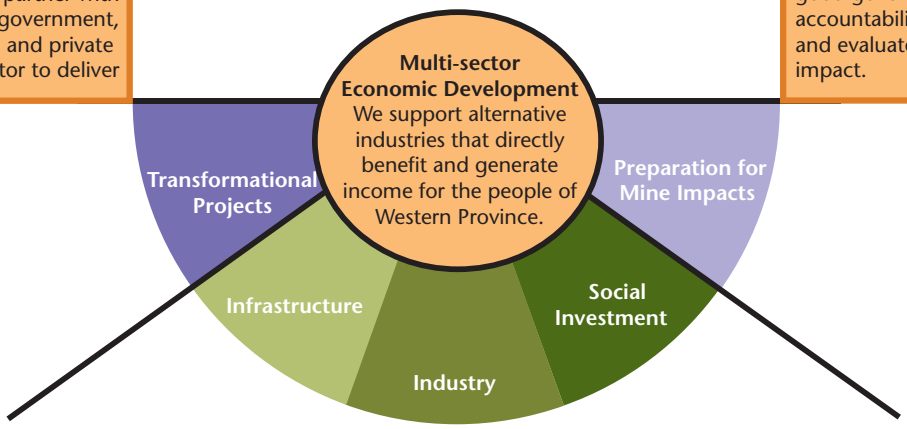
By 2020 people achieve equitable socio-economic development so that Western Province is recognised as a model for development in PNG.

By mine closure, new industries that support improved equitable development will replace the positive contributions of Ok Tedi Mine.

APPROACH

Partnership Development Model: We partner with government, communities, and private sector to deliver

Impact and Effectiveness: We practice and promote good governance and accountability. We plan and evaluate program impact.



2012 STEP CHANGES

Implementation of a Stakeholder Engagement Strategy.
Design and rollout of Monitoring and Evaluation system and processes.
Mainstreaming environmental impact assessment across projects.

WE WILL: STRATEGIC COMMITMENTS

Transformational Projects

Develop key economic drivers facilitating the establishment of:

- Daru as a major trans-shipment port utilised by OTML
- Gas commercialisation and large scale power generation by multinationals including PNG ENERGY DEVELOPMENTS LTD.
- Oriomo Industrial Centre
- Towers Project as key component of communications network.

Infrastructure

Support and establish a communication network by 2013 and other appropriate transport networks, both with commitments in terms of operation and maintenance.

The networks will:

- connect people to health and education services, markets and industry development opportunities; and
- open up access to strategic and economic locations in WP.

Deliver through WESTERN POWER commercially sustainable electrification projects and develop alternative renewable energy projects for all communities by 2013.

Industry

Support and establish a new range of industries across Agriculture, Aquaculture, Forestry, Trade and Tourism that equitably employ local people, and which provide food and income security with minimum impact on the environment and social systems.

Ensure a range of financial services are offered for micro business operators and individuals.

SMIT will provide international quality education, training and research that will support sustainable development for the benefit of the people.

Social Investment

Support accessible and reliable health and education services with appropriate technology.

Deliver access to safe water and sanitation to all communities by 2013. Build capacity of local delivery agents.

Mainstream HIV prevention through all activities.

Identify high value conservation areas and establish a management structure to preserve and protect the areas in partnership with land owners and communities.

Preparation for Mine Impacts

Minimise the dislocation of people from socio-economic and environmental impacts of the mine.

Empower communities to sustain and improve their food security and livelihoods.

Develop TABUBIL from a mining town to a mixed user residential town of choice.

Facilitate transfer of OTML subsidised services and owned assets to third parties.

SUPPORTED BY

Effective and efficient Corporate and Financial Services serving all PNGSDP offices, programs and partners.

NATIONAL STRATEGY

OUR VISION FOR PAPUA NEW GUINEA

The lives of the people of Papua New Guinea are improved through the promotion of diversified and balanced socio-economic development which is driven, directed and owned by our strategic partners.

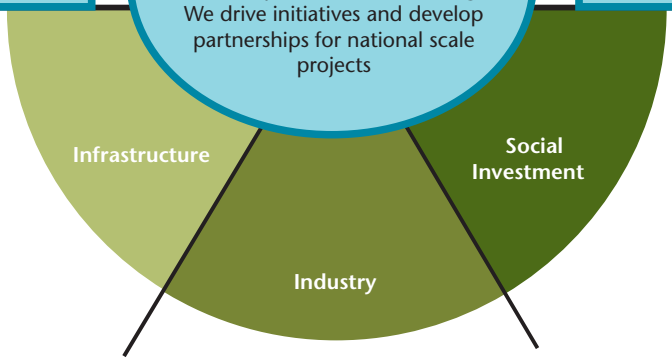
APPROACH

Development:
We support development activities that meet the needs of the present generation and establish the foundation for continuing progress for future generations of Papua New Guineans.

Partnership Development Model:
We partner with government, communities, NGOs and the private sector to help them achieve their goals. We drive initiatives and develop partnerships for national scale projects

Impact and Effectiveness:
We practice and promote good governance and accountability.

We plan and evaluate program impact.



2012 STEP CHANGES

Implementation of a Stakeholder Engagement Strategy.
Design and rollout of Monitoring and Evaluation system and processes.
Mainstreaming environmental impact assessment across projects.

WE WILL:

STRATEGIC COMMITMENTS

Support establish and rehabilitate:

- Appropriate transport networks that link people to markets and services.
- Infrastructure that will contribute to development in PNG.
- Infrastructure where commitments in terms of operation and maintenance are demonstrated.

Deliver through WESTERN POWER and PNG ENERGY DEVELOPMENTS LTD commercially sustainable electrification projects and develop alternative renewable energy projects.

Support build and develop:

- Long term sustainable industries that employ Papua New Guineans.
- Papua New Guinean industry expertise and leadership particularly in Forestry, Agriculture and Banking.

SMIT will provide international quality education, training and research that will support sustainable development for the benefit of the people.

CLOUDY BAY SUSTAINABLE FORESTRY LTD will demonstrate that sustainable forestry best practices can operate on a commercial basis in PNG.

PML will provide rural banking services throughout PNG.

Support changes in communities through:

- Building capacity of local delivery agents.
- Community based programs,
- Accessible and reliable health and education services; and
- General improvement of social infrastructure.

Mainstream HIV prevention through all activities.

Deliver our small grants program which supports a diverse range of social initiatives.

Identify high value conservation areas and establish a management structure to preserve and protect the areas in partnership with land owners and communities.

WESTERN PROVINCE NATIONAL IMPACT PROJECTS

WE WORK:

- To support our partners to deliver key development priorities that can be sustained for future generations of Papua New Guineans.
- Alongside all levels of government and its donors and provide counterpart funding assistance to selected development projects..
- In consultation with government, and through NGOs and Churches to empower local communities to determine their own way forward.

SUPPORTED BY

Effective and efficient Corporate and Financial Services serving all PNGSDP offices, programs and partners.

STRATEGY

As well as developing and managing development projects during 2011, PNGSDP committed to work on the following strategic initiatives:

1. Increase the Company's presence in Western Province.

   The Mine Impacts Unit opened an office in Tabubil and the unit personnel are in the process of relocating. Designs for the PNGSDP permanent office are being drawn up. The move to the Kiunga office was delayed due to delays in construction of the new OTFRDP building, in which PNGSDP will be a tenant.

   An engineering site office was opened at the Daru port site and PNGSDP concluded the acquisition process for the land required on Daru Island for a number of infrastructure projects.

2. Developed the concept of multi-sector economic hubs in Western Province.

   The concept has been developed with Lake Murray established as the pilot hub. The approach requires co-ordination between all the operating units of PNGSDP and a number of the Company's subsidiaries. Management of this is challenging and the next step is to ensure that PNGSDP has the correct resources to manage the process.

3. Mainstream HIV prevention through all the programs of PNGSDP.

   This program was not progressed as planned. However, the HIV team within the Community Social Investment unit are in the process of developing a strategy for approval by the Board.

4. Identify and support key conservation activities in PNG.

   A Sustainable Natural Resource Management Strategy (SNRM) was developed during the year. Details can be found in the SNRM section of the report.

During 2012, PNGSDP will continue work on the strategic initiatives from last year. In addition, three new initiatives will deliver a step change in PNGSDP's work.

1. Implementation of a Stakeholder Communications Strategy;
2. Design and rollout of an appropriate monitoring and evaluation system;
3. Mainstreaming environmental impact assessments across PNGSDP projects.

To help benchmark progress in these areas, this annual report includes:

- A new section reporting stakeholder engagement activity and outcomes, and
- Identification of Strategic Natural Resource Management (SNRM) initiatives within the project reports, as identified by this icon.

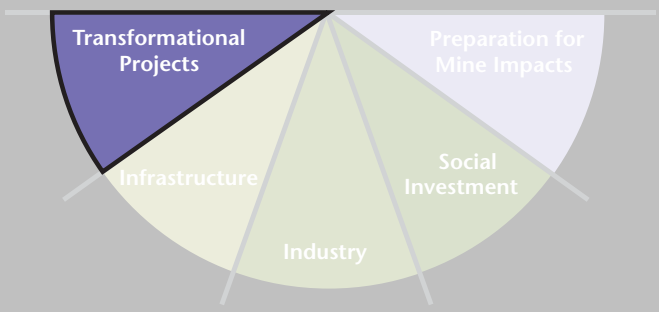
SNRM

Sustainable Natural Resource Management

STRATEGIC ACTION

Develop key economic drivers facilitating the establishment of:

- A communications and roads network
- Star Mountains Institute of Technology
- Large scale power generation by multinationals
- Daru as a major trans-shipment port utilised by OTML
- Oriomo Industrial Centre
- Gas commercialisation



COMMUNICATIONS AND ROADS NETWORK

STRATEGIC ACTION

Support and establish:

- A communication network in Western Province by 2013.
- Other appropriate communication and transport networks that link people to markets and services, where commitments in terms of operation and maintenance are demonstrated.

Communications Network

☑ WP ☑ NI

PNGSDP's subsidiary Western Power, with contract partner Digicel, has delivered a network of 48 communication towers that have been either constructed from scratch or renovated. The project is the largest undertaken by PNGSDP to date at a cost of K62 million.

In remote and challenging terrain, construction teams built the network to service the most populated areas of Western Province. Along with the eight existing towers, the working network now means the vision of 90% of people in Western Province with access to mobile communications has been achieved.

In isolated locations, such as Mogulu, mobile phone traffic has increased substantially as communities take advantage of the new opportunities available, and Western Power is receiving requests for the coverage to be widened even further, a possibility via the use of booster technology.

However, challenges remain. The Daru town tower remains uncommissioned due to a legal dispute regarding access. Alongside the provision of the towers, people also require facilities to purchase and charge their phones. The greatest uptake of use has unsurprisingly been in areas where charging facilities are established. A key strategy going forward is to establish charging stations throughout the entire network.

The vision of sustainable development in Western Province has received major impetus through the establishment of the towers network. What was a dream has now become a reality.

Roads Network

☑ WP

Road projects previously grouped as 'Infrastructure Corridor' are now being managed and reported on under infrastructure. PNGSDP's new strategy is to focus on the linking of towns via road access to jetties and airstrips.

Due to potential development in Oriomo, priority is being given to the road link between Daru and Sturt Island. Other priority transport hubs to which roads will be prioritised include Morehead and Balimo.

Telecommonication Towers Network

STAR MOUNTAINS INSTITUTE OF TECHNOLOGY (SMIT)

☑ WP ☑ NI

STRATEGIC ACTION

SMIT will provide international quality education, training and research that will support sustainable development for the benefit of Western Province and PNG.

Aerial shot of Tabubil showing the site for SMIT new campus buildings, Western Province.

A number of significant milestones were achieved in 2011 toward the vision of developing Tabubil into an international quality college town.

Incorporation

SMIT became an incorporated company and subsidiary of PNGSDP. As part of the governance structure, a "Friends of SMIT" Committee has been formed with prominent members from the community.

Technical Training

Ok Tedi Mining Ltd (OTML) agreed to the transfer of the OTML Training Centre to SMIT from January 2012. The Centre delivers a range of technical, vocational, education and training services including apprenticeship training, computer, first aid and driver training and is now known as SMIT Technical College. The College is being repositioned to offer national extension programs commercially and obtain full accreditation with the National Training Council.

SMIT CEO Trevor Davison and OTML Manager Training & Development, Erik Kuman, sign transfer documents at the official handover of the Star Mountains Community Learning Centre to SMIT.

New Campus

Tender design invitations extended for proposals resulted in receipt of three tenders for construction of a new campus from which university level courses will be run. Due to higher than expected costs, a successful tender is yet to be awarded.

Artist's impression of a new classroom facility for the SMIT Technical College, to be completed in 2012.

Distance Education

SMIT now runs The Star Mountains Community Learning Centre which delivers pre and post matriculation courses to 400 Western Province students.

International School

An MOU has been agreed with OTML and the International Education Agency for the transfer of the Tabubil International School to SMIT from 2013.

Medical training

SMIT is partnering with Divine Word University (DWU) to develop Tabubil Hospital into a training hospital. DWU will manage the hospital from the beginning of 2012.

Laboratory Services

Under a new joint venture with University of Technology, SMIT will help revitalise the National Analytical and Testing Services Laboratory in Lae.

Alongside these initiatives, SMIT has been building its capacity with a new team in the corporate office and the construction of twelve new town houses for staff. A communications strategy was developed and implemented with a bimonthly electronic newsletter and launch of the SMIT website.

Construction of SMIT staff housing in Tabubil, Western Province.

LARGE SCALE POWER GENERATION BY MULTI-NATIONALS

☑ NI

PNG Energy Developments Ltd (PNGEDL) is a 50/50 joint venture between PNGSDP and the Australian listed public energy company Origin Energy Ltd. It has as its major objectives, the supply of reliable, competitively priced hydroelectricity and gas fired power for local, industrial, commercial and major resource projects in Papua New Guinea.

Hydroelectricity

Feasibility studies are underway for the Purari Project, which could provide over 3,000 MW of power. The aim of the project is to provide power to large industrial projects in Western Province and elsewhere in PNG. Subject to PNG and Australian Government approvals, the project could also export about 1,800 MW by undersea cables across the Torres Strait from the mouth of the Purari to Cape York and then by overland transmission to join the Queensland Grid.

The Governments of PNG and Queensland along with PNGEDL and Origin Energy Ltd have a Memorandum of Co-operation that was signed by the former Queensland Government. All the indications are that the new Queensland Government will honour that agreement.

The Purari project has the potential to deliver dividends and royalties to the PNG Government, people and

Staging camp for feasibility studies conducted on Purari River hydroelectricity, Gulf Province.

development opportunities in Gulf Province for the life of the proposed scheme, which could exceed 70 years.

A major environmental and commercial objective of PNGEDL's hydroelectricity projects is to reduce PNG's reliance on high priced diesel powered generators. Planning for the proposed upgrade and expansion of the Yonki-Ramu Scheme supplying Lae is also underway.

Gas

Feasibility studies are also underway for the Stanley Gas Project. If successful, the project will use locally produced gas to generate electricity for parts of Western Province.

Partnership

PNGEDL is working with the PNG Government, in particular the Departments of Treasury, National Planning and Development, Petroleum and Energy and Environment and Conservation. PNGEDL is also working with PNG Power Ltd, the World and Asian Development Banks and Japan International Cooperation Agency to seek upgrading of the current PNG electricity grids so that power can be transmitted throughout PNG.

PNGEDL's projects have the potential to deliver significant, positive and visible advantages to large numbers of Papua New Guineans.

DARU PORT

☑ WP ☑ NI

An extensive geotechnical investigation to understand the subsurface was completed by the contractor, Canstruct Pty Limited in November 2011.

The study focused on the Daru land and marine based footprints of the proposed 175m wide by 13km shipping channel, marine turning basin berthing facilities, 3km causeway from the land to the wharf and the land based facilities associated with the port development. The study also extended to Oriomo, Kurunti, Podare and Mabudawan on the mainland to determining site suitability and construction material sourcing for the development of the Daru Port.

Studies also included the sediment transport modelling carried out on Daru and Bristow islands and the surrounding areas.

The technical team has taken vital steps forward to have construction contractors submit an Environment Management & Monitoring Plan.

Following design and configuration change requests, in April 2011, a gap analysis of environmental considerations was completed comparing previous investigations (2008) and Government regulations. As part of pre-construction planning, a Rapid Environmental Assessment will be undertaken in the project footprint areas looking at marine ecological features, sea-grass and mangrove and possible acid sulphate soil concentrations along the proposed disturbed areas.

ORIOMO INDUSTRIAL CENTRE

☑ WP ☑ NI

As part of the Daru Port geotechnical investigations, 20 test pits were excavated across the entire 60 square kilometres of the proposed Oriomo Industrial Centre. Field tests were conducted and pits were also dug outside of the industrial area to determine the suitability of materials for port related construction.

To determine water supply information, four water bores were drilled. Flow tests yielded a total of 7.5 mega litres of water continuously over a 24 hour period with minimal draw down of the source of supply indicating a very reliable source. This yield is five times the current total supply for Daru.

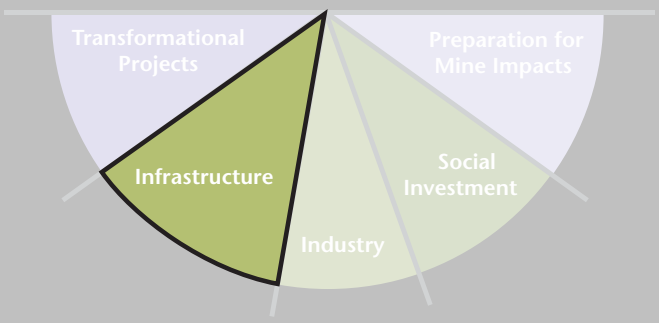
A study will be commissioned to develop a baseline environmental condition for the proposed Oriomo Industrial Park. The study will include spatial analysis of land use and vegetation cover, as well as on-ground assessment of social, community and environmental conditions.

GAS COMMERCIALISATION

☑ WP ☑ NI

PNGSDP's work to consolidate the stranded gas fields in Western Province has been rewarded with greatly increased commercial interest in the opportunities. This has allowed PNGSDP to shift its focus to supporting specialist petroleum companies in their exploration, development and community activities. In particular PNGSDP has MOUs with Horizon Oil and Talisman Energy in pursuit of developing the Stanley gas field to supply power to the Kiunga region, and the Elevala gas fields for future export of condensate through the Daru Port.

INFRASTRUCTURE



STRATEGIC ACTION

PNGSDP continued to support the Government with the development of key transport and other infrastructure in PNG and Western Province with the key objective to provide important access to agriculture and services, particularly for rural communities. To implement the Western Province strategy of cultivating multi-sector development hubs, greater focus was given to integrating infrastructure development with other development activities around a number of selected growth centres in Western Province.

Maintenance continues to be a concern and efforts are ongoing to secure suitable arrangements in partnership with Government and others to ensure infrastructure is maintained into the future.

ROADS

National

Road Maintenance Rehabilitation Project (RMRPII)

☑ N

By the end of 2011, PNGSDP has contributed K48.3 million to the rehabilitation of 102km of roads in six provinces, in partnership with the Government and the World Bank. The upgrade and sealing of 15km of the Magi Highway including construction of culverts was completed during the year at a cost of K5.2 million. The last remaining project under this program, the Alepa – Omond road project is scheduled to be completed in the first quarter of 2012.

Negotiations are ongoing with the World Bank and the government to extend the program to an additional 150 kilometres of road.

Upgrade and sealing of road, Magi Highway, Central Province.

The improved road conditions are having a positive impact on communities in six provinces.

Completed section of road, Ormond Bridge to Bukuku along Magi Highway, Central Province.

Smallholder Agriculture Development Project (SADP)

☑ N

PNGSDP provided support to upgrade smallholder oil palm roads with the aim of improving production and productivity in smallholder oil palm blocks. Unfortunately, implementation of road works experienced substantive delays during the year as a result of capacity issues of the implementation partner and the long procurement processes.

Road works began to progress towards the end of the year. In November, a contract worth K1.5 million was awarded for the reconstruction of two roads totaling 2.8km in Oro. Discussions began with potential construction partners on cost effective methods of rehabilitating the balance of the roads in Oro during 2012.

Transportation of fresh fruit bunches from smallholder oil palm blocks, Oro Province.

Western Province

Road Maintenance Program

☑ WP

A contract was awarded to Stanley Resources Investment Ltd for the maintenance of the Gre - Drimgas and Kiunga – Kokonda roads which were built as part of PNGSDP's commitment to develop the road infrastructure in Western Province.

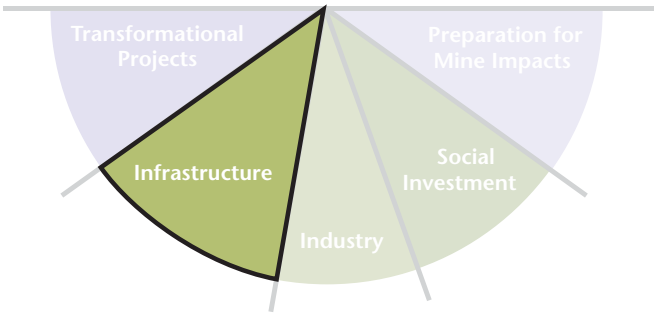
Community Roads Projects

☑ N

PNGSDP helped fund (K155,000) an extension to the road previously built to link the Homaria community to Margarima, Southern Highlands Province, and support classroom construction in the local primary school. The project is nearing completion.

Kiunga - Kokonda Road after construction, North Fly District, Western Province.

Road extension provides vital access to services for the women of Homaria Community, Southern Highlands Province.



AIRSTRIPS and AIRPORTS

Daru Airport Upgrading

☑ WP

The airport upgrade was 80% complete at the end of 2011. The major project involved reinforcement and resealing of the 1.4km runway and apron area at a total cost of K40 million, funded by Fly River Provincial Government (FRPG) through the South Fly District (K18 million) and PNGSDP (K22 million). The upgrade is expected to be completed in the first quarter of 2012.

Daru Airport suffered regular closure due to the deteriorating condition of the runway. The upgrade not only ensures regular operation, but also provides the base for future expansion to take bigger aircraft. During the year, discussion with landowners and the PNG Lands Department commenced to acquire an additional 900m to extend the runway to 2300m.

Upgrading of Daru Airport, South Fly District, Western Province.

Completed Daru Airport, South Fly District, Western Province.

WHARVES

Daru Trestle Wharf Reconstruction

☑ WP

Agreement was reached between PNG Ports and PNGSDP during the year, and whereby PNGSDP will provide K10.2 million to fund the reconstruction of the existing Daru Trestle which was closed for public use in 2010 as it was declared unsafe. A construction contract was awarded to Curtain Brothers and mobilisation is expected in the first quarter of 2012. Cardno PNG has been engaged as the project supervisor.

The wharf is essential for movement of cargo and people to and from Daru and around Western Province. Coastal shipping services are expected to be fully restored by the end of 2012.

Daru Trestle Wharf, South Fly District, Western Province.

JETTIES

☑ WP

To improve transport accessibility, PNGSDP is redeveloping a number of jetties in the South Fly Districts at Oriomo and Arufi. These jetties fell into disrepair many years ago due to lack of maintenance.

In 2011, expressions of interest were called for detailed investigation and design for the two jetties. Design and construction will be undertaken in 2012.

ENERGY and RURAL ELECTRIFICATION

STRATEGIC ACTION

Deliver through WESTERN POWER commercially sustainable electrification projects and develop alternative renewable energy projects for rural communities.

RaitPower

☑ WP

The road to economic sustainability in Western Province requires commercial savvy and community mindedness. RaitPower is a great example of how these can be achieved.

Power generation and supply in Western Province is too expensive for a profitable business case. Undeterred by the associated challenges, PNGSDP subsidiary Western Power responded to an invitation by the provincial government to implement a system to ensure some costs can be recouped through an agreed tariff in order to underwrite sustainable power supply.

More than 3000 RaitPower meters have been installed across the three districts in Western Province. The meters support a pre-paid system to allow people to manage their power supply needs and avoid costly bills they are unable to pay.

Western Power continues to work with the provincial government to set appropriate tariffs and communicate the long term benefits of electricity services to consumers. The vision of reliable power supply throughout Western Province is consistent with

Installation of a RaitPower metre rolled out throughout the three districts of Western Province.

Western Power staff carrying out inspection of power facilities at Balimo, Western Province.

Western Power's long term strategy. The initial rollout of RaitPower meters is an important foundational step in Western Power's community electrification program.

Togarao Hydro and Access Road Upgrade

☑ N

PNGSDP began the procurement process to upgrade the 20.1km Togarao access road in support of the development of a mini hydro power project in Wakunai, Central Bougainville. The project (road and hydro) is expected to cost K48 million. The contract for the hydro has been awarded and the tender for the road component was under evaluation at the end of the year with construction expected to commence in mid 2012.

The project will provide easy road access and electricity for more than 10,000 people, including schools, health centres and government establishments in Wakunai station.

Balimo

☑ N

Western Power take-over of the power supply system at Balimo was effected in May 2011 following a request from the FRPG. Western Power carried out thorough inspections of the power facilities at Balimo and corrected defective installation for compliance with required safety standards prior to taking over the operation. As part of the exercise, a new 300kW diesel generator was purchased and installed to replace two existing unserviceable small generators and additional fuel storage facilities were addressed. Improved power supply facility at Balimo paves the way for more new consumers to be supplied and enhances opportunities for potential industrial activities to be developed.

Community Energy Projects

Walamali

☑ N

In support of renewable energy generation K134,000 was allocated to renovating an existing hydro power generator at a major service provider's headquarters near Tari. Work was nearing completion at the end of 2011.

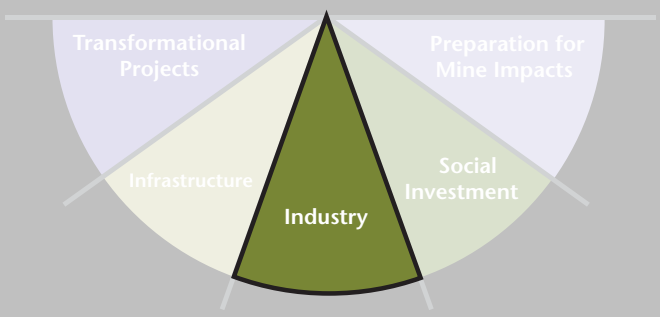
Solar Power - North Fly, Sandaun and Jiwaka

☑ WP

The introduction of One Laptop Per Child has seen total reliance on solar power systems for computer wireless networking and laptop charging in two North Fly schools, three in Oksapmin and one in Kisap, Jiwaka.

STRATEGIC ACTION

Support and establish a new range of industries across Agriculture, Aquaculture, Forestry, Trade and Tourism that equitably employ local people, and which provide food and income security with minimum impact on the environment and social systems.



AGRICULTURE

Western Province Rubber Industry Development

☑ WP

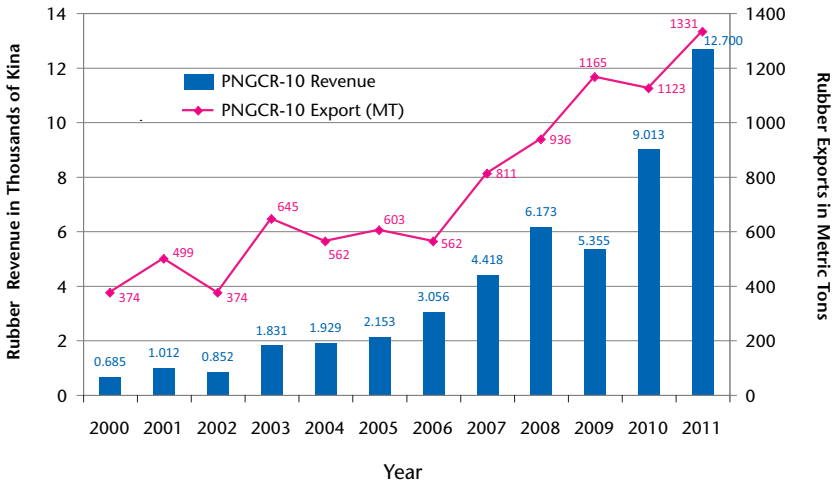
The Western Province Rubber Development Project (WPRDP) has been developed in partnership with Ok Tedi Fly River Development Program (OTFRDP), North Fly Rubber Ltd (NFRL), FRPG, and the people of Western Province.

Rubber tree plantings, Lake Murray, Western Province.

The WPRDP aim to increase the number of rubber producing hectares in Western Province to 10,000 hectares by 2014, has been pushed out to 2018. PNGSDP has allocated K44.3 million to plant the balance of 2,800 hectares (Kiunga 1,072; Balimo 1,148 and Suki 582) and to build up the infrastructure and management capacity of NFRL to cater for the increased planting, production, transport, processing and export activity.

Production was up 41% in 2011 but the higher Kina against the US dollar meant this translated to an 18% improvement in total export revenue. As a direct result of PNGSDP's direct support to rubber plantings in Lake Murray, the farmers received income of over K1 million for their rubber produce in 2011 as compared to K500,000 in 2010. Income levels are expected to further increase as more rubber plantings come into production.

Western Province Rubber Export & Revenue, 2000 - 2011



It is noted from the graph on the proceeding page that the tonnage exported over the last 12 years since 2000 has significantly increased from 374 to over 1,300 metric tonnes in 2011. During this period revenue also increased significantly from nearly K0.7m to K12.7m in 2011. The large increase in revenue between 2009-2010 was a result in significant increase in international rubber prices.

Lake Murray Village Rubber Project

☑ WP

Lake Murray is the pilot hub in PNGSDP's strategy to cultivate hubs of economic activity in Western Province. By the end of 2011 the Lake Murray Village Rubber project, a partnership with NFRL, PNG Microfinance (PML) and the people of Lake Murray, had exceeded its target of 2,200 hectares, planting 2,227 hectares of clonal rubber. 1,500 growers from 21 villagers in Lake Murray have participated in the project since 2004, pushing the reach of the project beyond the target number of 840 growers.

The maintenance program will be stepped up from 2012 to ensure that all the blocks are brought up to production stage by 2017. Already 100 hectares of the newly planted rubber have been tapped, beginning 2009.

Smallholder Agricultural Development Project (SADP) – Oil Palm

☑ NI

The SADP is a partnership with the World Bank, PML and the milling companies to encourage farmers to be involved in an Oil Palm infill credit facility. PNGSDP delivered its commitment to provide credit funds however implementation has stalled due to a failure of other partners to reach agreement on how to proceed.

Waria Waria Oil Production

☑ WP

In 2011, PNGSDP ended the Waria Waria Oil Company Ltd project, a joint venture established to operate the Waria Waria oil processing business in the Morehead area of the South Fly District, Western Province. This followed management's assessment that the JV could not operate the business sustainably.

PNGSDP still considers Waria Waria oil production as a potentially viable industry to support and is seeking other partners to develop the industry. The resource is estimated to be over 400,000 hectares of Waria Waria oil trees growing in the wild in the South Fly District.

PNGSDP is conscious that this resource sits in the middle of the Tonda Wildlife Management Area and is maintaining close liaison with the Department of Environment and Conservation to secure the appropriate Environment Permit.

Sustainable Eaglewood Project

☑ WP

PNGSDP continued with propagation of Eaglewood seeds, development of nurseries and distribution of seedlings to communities in Western Province. In Central Province, a partnership with Cloudy Bay Sustainable Forestry Ltd (CBSFL) was created to establish and support a nursery in the Cloudy Bay area to supply seedlings to communities within the vicinity of its operation. PNGSDP has sole license and distribution rights for the Cultivation Agarwood (Eaglewood) Kits for PNG.

By the end of 2011, a total of over 60,000 Eaglewood seedlings have been successfully propagated and distributed to stakeholders in Central and Western Provinces.

Eaglewood seedlings

Until an investment partner is secured to help develop the Eaglewood industry, PNGSDP's principle role will be to help communities plant Eaglewood seedlings supplied through its nursery and seedling distribution program in order to create a supply base for a viable commercial operation in the future.

Nursery Records of Eaglewood seedlings propagated between 2009 and 2011:

Stakeholder	2009	2010	2011
PNGFA	9,000	12,000	0
Cloudy Bay	0	4,000	11,700
OTFRDP	1,500	6,000	7,800
Emmaus Farm	2,700	0	3,500
Sisimakam Youth Farm	0	200	2,500
TOTAL	13,200	22,200	25,500

Community Agriculture Projects

Goat

☑ N

Communities in inland Rigo, Central Province, are benefiting from a goat raising project supported by The Child Fund and launched in December 2010 with K250,000 from PNGSDP.

Goat raising project, Rigo, Central Province.

Livestock production

☑ N

Funding of K250,000 was provided to Salt Livestock Farmers' Co-operative and Oxfam International to expand livestock production in Salt-Nomane, South Simbu. The project was completed in 2011.

SUSTAINABLE FORESTRY

Cloudy Bay Sustainable Forestry Ltd (CBSFL)

☑ NI

STRATEGIC ACTION

CLOUDY BAY SUSTAINABLE FORESTRY LTD will demonstrate that sustainable forestry best practices can operate on a commercial basis in PNG.

In October 2011 CBSFL was awarded the internationally recognised Forest Stewardship Council Controlled Wood and Chain of Custody environmental and social certification in recognition of its responsible management of the forests under its control. It is the first large scale commercial forestry operation in PNG to achieve this certification for selective harvesting of native forests.

The 2011 calendar year was very eventful for the Company with the final commissioning of the new saw mill at Bam in Cloudy Bay and the wood processing plant at 9 Mile in Port Moresby. The milling and processing infrastructure for the Company is now all in place after three years of sourcing and construction. As a result the Company now has the capability to deliver its products and services to the domestic and export markets. It is increasing its domestic market share in the structural timber market and started exporting timber to Australia.

The new sawmill at Bam in Cloudy Bay, Abau District, Central Province.

The expertise to build modular timber frame kit homes, aimed mainly at the rural family, education and health care markets has been developed. These buildings are simple to assemble and transport and do not require highly skilled labour to erect. The capability to increase production output of these buildings commenced in late 2011 with completion of this capability expected in mid 2012.

Timber kit home, Cloudy Bay, Abau District, Central Province.

The joinery division of the Company had a very successful year with the completion of the internal fit-outs for the residential expansion at the Airways Hotel. Our skilled craftsmen also completed the fabrication of solid rosewood church pews for a prominent Port Moresby Church, various fit-outs including the Origin Energy apartments in Boroko and the CHM Office building in Gordons plus a number of small projects around Port Moresby.

Employee constructing a Workmen's Dormitory cupboard, Joinery Shop, 9 Mile, National Capital District.

The development of the local building and roads infrastructure in Cloudy Bay continued throughout the year with some setbacks experienced due to above average rainfall occurring on 65% of the workdays in 2011. The Company undertook extensive repairs to the Magi Highway after storms and poor drainage made the road impassable. The Bam Technical High School and dormitories were completed as well as numerous village elementary and primary schools throughout Cloudy Bay. The Bam Health Centre construction began in mid 2011 and completion is expected in early 2012.

School dormitories, Bam Technical High School, Cloudy Bay, Abau District, Central Province.

FISHERIES

Western Province Sustainable Aquaculture Project

☑ WP

The Barramundi Hatchery operation on Daru Island went through a challenging period of two years without a manager after the incumbent left in 2009. An offer of contract to a new manager was made in August and it is expected that after completion of employment formalities, the candidate would take up the position in early 2012.

Guided by a number of competent technical staff, the first Barramundi spawning was achieved towards the end of December 2010. Over 20,000 fingerlings were estimated to have spawned and over 18,000 survived. Further mortality occurred in fingerling numbers due to transport and other management difficulties. Over 9,000 fingerlings were stocked in a number of trial pontoons; five in the Middle Fly and four in the South

Fly Districts. Mortality in these pontoons was quite high due to inappropriateness of the transportation equipment employed and unsuitability of the pilot sites selected. These are useful lessons that are being taken into account to guide future planning.

The remaining fingerlings have grown well and are expected to be released into the river systems during 2012.

The Hatchery as an operation still has a number of outstanding issues which require urgent attention before it can become fully operational. These will be addressed progressively when the new manager takes up the position.

BANKING SERVICES

STRATEGIC ACTION

Ensure a range of financial services are offered for micro business operators and individuals.

PNG Microfinance Ltd

☑ WP ☑ NI

PNG Microfinance Ltd (PML) endeavors to increase financial inclusion in Papua New Guinea by liberalizing access of credit and savings products to the vast population of the country that have been excluded from mainstream banking services.

PML's deposit products are designed to promote a savings culture. They range from an affordable passbook savings account charging only K1.00 per month to a high interest account.

Credit facilities include the Wanbel Dinau group loan product aiming to support small scale income generating activities and loans designed to assist aspiring local entrepreneurs with their business needs.

PML staff providing information to customers on their services.

PML assists small business operator, Kiunga, Western Province.

In 2011, from experiences in Western Province, PML introduced the Financial Inclusion Savings Account "FISA", specifically targeted at the low and seasonal income bracket of both rural and urban populations. With its K1.00 per month account keeping fee, this is the cheapest passbook savings account in PNG.

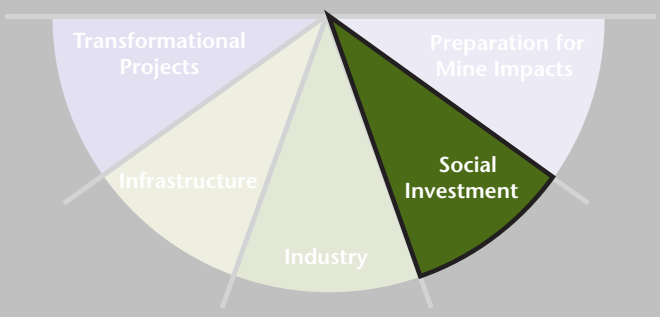
PML facilitated payments totalling over K10.6 million to beneficiaries of OTML's 2011 CMCA payments through its Kiunga branch and satellite service centers throughout Western Province. This demonstrates vast improvements in internal processes and the growing confidence in PML.

2012 is expected to be a year of unparalleled growth as PML embarks on a major rebranding exercise, preceding an ambitious plan to open three new branch locations; in Port Moresby, Lae and Mt. Hagen. Work is also underway to introduce a centralized core banking system to improve the customer's banking experience. These initiatives will enable PML to reach more of Papua New Guinea's financially excluded population and achieve its mission of creating an economically and socially prosperous country.

PML staff promote their services at PNGSDP's 9th Annual Report Meeting last year, Crowne Plaza Hotel, Port Moresby.

STRATEGIC ACTION

- Support accessible and reliable health and education services with appropriate technology.
- Deliver access to safe water and sanitation to all communities by 2013.
- Build capacity of local delivery agents.



CLEAN WATER & SANITATION

Daru Water and Sewerage

☑ WP

Following the agreement with Water PNG for the upgrading of the water supply and sewerage on Daru a technical working team comprising engineers from both Water PNG and PNGSDP was established and the design for the urgent upgrading of the current water supply facilities was completed. Procurement of materials was commenced in the last quarter of the year and construction of the upgrading works of the Daru water supply will commence in 2012. The feasibility studies on the sewerage system for Daru were also completed and tenders have been called for the survey and the design. Construction of these facilities is expected to commence in 2012.

Rural Water Supply and Sanitation

☑ WP

PNGSDP is venturing into partnerships aimed at attracting NGOs to be based in Western Province to assist community adoption of safe water and sanitation projects. Appropriate Technology Projects (ATprojects) is one such NGO. ATprojects in partnership with the Catholic Diocese of Daru-Kiunga is implementing a joint project to train individuals to be able to construct and install, in areas subject to flooding or high water table, Urine-Diversion Toilets. These will initially be built in health posts in Western Province, with the trained builders then assisting with similar projects in the general community.

South Fly and Middle Fly Water Supply

☑ WP

K15 million was provided to PNGSDP's implementing partner OTFRDP, representing phase two of the South and Middle Fly Water Catchment Project. The amount is part of PNGSDP's K21.5 million annual CMCA funding allocation.

Community Water and Sanitation Projects

☑ WP

Schools

Daru, Montfort Primary School (K162,000) water and sanitation project is near completion.

Awaba Secondary School (K250,000) water, sewage and accommodation upgrade is near completion.

Rainwater harvesting and sanitation

Aiming to provide improved rainwater harvesting and sanitation facilities, the Suabi (Nomad District) K128,000 Community and Sanitation Project, supported by ATprojects was approved and completed in 2011.

Training

ATprojects have commenced training at Emmaus Farm, Kiunga for people involved in water and sanitation improvement.

Emergency Cholera Response

In addition to PNGSDP's efforts to support the Cholera epidemic response in 2010, further efforts have been

made to improve water and sanitation facilities for schools on Daru Island.

With a project already in place at Montfort Primary a team from PNGSDP carried out an assessment of the state of the sanitation facilities in each of the five primary schools and Daru Secondary School. A plan is now available to assist schools to improve their water and sanitation facilities.

HEALTH

Western Province Health Policy Framework

☑ WP

Following extensive consultation with national and provincial health authorities, health agencies and the World Health Organisation, PNGSDP has adopted a framework to provide strategic direction for investment in Western Province health projects over the next five years.

At the core of the strategy is PNGSDP's commitment to strengthen the existing health system, supporting the strategies and efforts of existing service providers. This approach positions PNGSDP to complement the approach of government and donors as well as address gaps in the overall system.

The components and activities of the framework are captured below.

Western Province Health Improvement Program

☑ WP

PNGSDP remains committed to supporting the work of those who are providing health services. With a program valued at K10.3 million to support almost 50% of health services in Western Province that is provided by the church agency institutions, PNGSDP has provided K5.6 million since 2008. This program supports the church agencies' health project priorities and implementation plans.

After a very rapid start up which saw new facilities in 10 locations, the Evangelical Church of PNG (ECPNG) has faced some challenges with project implementation and is working to improve performance in the challenging environment of the province. In 2011, funding for the electricity and water supply provision to the Health Secretary's houses in Balimo was approved and commenced, as was water supply for the 18 new health posts and health workers' houses in the Balimo and Fly River areas.

Funds were made available to the Catholic Health Agency in 2011 to support the Australian Doctors International (ADI) Capacity Building Project, the ADI House in Kiunga and the Iowara Health Centre Project.

HIV and Development

☑ WP ☑ N

STRATEGIC ACTION

Mainstream HIV prevention through all activities.

Mainstreaming HIV prevention

This program has not progressed as planned. However, the HIV team within the Community Social Investment unit are in the process of developing a strategy for approval by the Board.

Community Conversations

In 2011, the HIV and Development Team concentrated on strengthening the capacity of organizations adopting Community Conversations into their work. In Western Province, 12 trainers of Community Conversations facilitators were themselves trained. The trainers are from the Seventh Day Adventist, ECPNG and Catholic Churches. Other partners who received training included Rumginae Community Health Workers College, the CMCA Women's Association and the Sirus Naraqi Foundation Community Conversations Project in Balimo. The Diocese of Daru Kiunga provided office space and accommodation for the Community Conversations Initiative in Western Province

Nationally the program has focused on the training of trainers and coordinators in Community Conversations. Organisations which received mentoring support through the year and are adapting the concept well are the Sirus Naraqi Foundation, Save the Children Poro Sapot and Tingim Laip Projects, Mt Hagen Archdiocese and Anglicare Stop AIDS PNG. The Mt Hagen Archdiocese has an office for Community Conversations and a full time Coordinator.

Madang Institute of Malaria Research – Laboratory and Office Complex

Alexander & Lloyds Architect was awarded the contract to carry out the design and supervision of a modern office complex and laboratory in Madang for research purposes. Total cost of the project is K19.2 million. It is anticipated that construction will commence towards the end of 2012.

Community Health Projects

☑ WP

Buildings

Infrastructure Development has commenced with the shipment of materials for a maternity ward in Obo (K217,500) and doctors' houses in Rumginae and five new projects are commencing in North Fly and Middle Fly (K452,314).

The Callan Service Community Mental Health Service Centre in Kiunga was officially launched in October. (K141,200)

Assistance was given for the Mougulu Health Centre with the ECPNG, in Nomad District. (K100,000)

Drug storage

Drug storage facilities, as a provincial priority, have been funded and await provincial government action. (K250,000)

Incineration and sterilization equipment items were delivered to Kiunga hospital, awaiting installation. (K594,601)

Drug transit storage facilities have been provided at the Catholic Health Agency Office in Kiunga (K41,000)

Audit

An audit of Kiunga Hospital accounts was conducted (K7,000) and the report provided to the provincial administration early in 2011.

Communications

To improve direct communications between health professionals a project to collect mobile phone data was commenced. (K700,000)

☑ N

HIV AIDS

Lae City Mission and Anglicare Stop AIDS Crisis Centre for Children. (K247,500)

Haus Clare Crisis Centre providing a safe refuge for children affected by HIV and Aids, Lae, Morobe Province.

Buildings

Double storey classroom at the Kumin Community Health Workers Training School in partnership with the Catholic Diocese of Mendi, Southern Highlands Province. (K250,000)

HIV VCT Training and Drop-in Centre refurbishment in partnership with the United Church Highlands Region, Mendi. (K98,578)

Maternity Ward at the Mugil Health Centre with the Catholic Archdiocese of Madang. (K200,000)

X-ray

X-ray facilities for the Gaubin Lutheran Hospital, Madang Province. (K151,000)

Four new community health projects totaling K726,720 were approved in 2011 with NGO and church agency partners in Southern Highlands, Western Highlands, Morobe and NCD.

EDUCATION

One Laptop Per Child Program (OLPC)

☑ WP

The network infrastructure setup for the OLPC program for the 12 pilot schools; eight in the North Fly including the Callan Services, three in the Oksapmin area and one in the Jiwaka Province has been completed with the servers installed and the entire system in each school up and running. In most of the schools, the entire network is powered through a total solar solution. The wireless set up enables the students and teachers to access the server wirelessly and browse through its contents. The server signal can be picked up within a 1km radius of the school.

The server contains a large electronic library, for use by both teachers and students, which has made a huge difference in remote schools that lack access to educational information. In school book deprived Oksampin, for instance, the teachers were keen to point out that their students are using the server to carry out research, and that in doing so the students are, for the first time, ever learning important literacy skills that will help them immeasurably.

Western Province Scholarships Program

☑ WP

K12.4 million has helped Western Province students study at tertiary level.

National Scholarships

2011 was the inaugural year for the awarding of 16 Western Province Scholarships. Over 900 applications were received with scholarships awarded for: Education Leadership, Special Needs Education, Teaching, Civil Engineering, Electrical Trades, Economics, Surveying, Arts, Applied Science and Information Technology at institutions including University of PNG, UniTech, Divine Word University and University of Natural Resources and Environment.

International Scholarships

Seven young people commenced Foundation Year at Royal Melbourne Institute of Technology. Five continuing students began their first year degree programs in fields of International Business, Economics and Finance, Business Management and Chemical Engineering. The students receive additional support and counseling to help them integrate into university life overseas.

Students from Western Province selected to study at Royal Melbourne Institute of Technology, Melbourne, Australia.

Western Province Education Improvement Program

☑ WP

PNGSDP supports primary and community schools run by the United, ECPNG and Catholic Church education agencies.

Electricity and water

Funding (K209,301) was made available to ECPNG to deliver electricity and water supply to the newly built Education Secretary's house in Balimo, and water supply for 9 aid posts and staff houses.

Water supply projects for 14 new double classrooms and teachers' houses in the Balimo and Fly River areas were approved and commenced.

Buildings

The Catholic education agency commenced projects to build teachers' houses and double classrooms at Biangabip, Bolivip and Tmoknai Primary Schools.

In October, a new transit accommodation facility and extensions to the education agency office in Kiunga was launched.

Sponsorship

Seven students sponsored under the United Church Agency Program graduated from the primary school teacher training program at Gaulim Teachers' College in Rabaul.

Community Education Projects

Community Education Projects completed in 2011 included:

☑ WP

The Serendipity Education Endowment Fund received K240,000 spread over 5 years to support the education of children in Western Province whose lives have been touched by the HIV and AIDS epidemic.

SMIT took on the project management role of delivering the Tabubil Catchment School Program, and has made a committment to work with OTML on infrastructure improvements to a number of the schools within the Tabubil township.

☑ N

16 educational institutions in Morobe, Eastern Highlands, Southern Highlands, Enga, East Sepik, Bougainville and NCD received support totaling K3.3 million.

Official launchings were held for the Fatima Secondary School IT Laboratory, Western Highlands Province (Partner: Catholic Archdiocese of Mt. Hagen) and Santa Maria Watuluma High School IT and Science Laboratory, Milne Bay Province (Partner: Catholic Archdiocese of Alotau-Sidea)

Bougainville Health & Education Rehabilitation Program

☑ N

Since 2008 PNGSDP has assisted the Bougainville Catholic and United Church Health and Education Agencies undertake priority infrastructure rehabilitation projects through a funding commitment of K4 million.

STRATEGIC ACTION

Deliver our small grants program which supports a diverse range of social initiatives.

In 2011 most of the work covered by these funds was completed. Communities saw health workers' houses, dormitories, classrooms and health posts renovated on relatively small budgets.

- Five high schools have had infrastructure maintained or constructed at the cost of K1.9 million.
- 18 heath centres in Bougainville have been maintained or built at the cost of K1.8 million.
- A staff house at the Ruruvu Health Centre in the Wakunai Constituency serving 21 communities and more than 5,400 people was officially opened in October, 2011.

An unfortunate set-back was experienced at Kulula, in South Bougainville, where community disputes flared and a new building funded by PNGSDP was destroyed. A tragedy for the people of the district and a disappointment for all involved.

CEO SMALL GRANTS

PNGSDP continues to support an array of development projects in Western Province and in other provinces through small grants up to K50,000 that are approved at the discretion of the CEO. Projects funded in 2011 include:

☑ WP

- Freight costs for school materials donated to Charlmers Primary School, Daru (K13,000)
- YWAM Medical Ships mission to Western Province (K52,500)
- Panguna Certificate Course in Elementary Teacher Training (K22,000)
- Igat Hope HIV Awareness Balimo (K15,750)
- Extensions to the Catholic Education Agency Office in Kiunga (K39,000)

☑ N

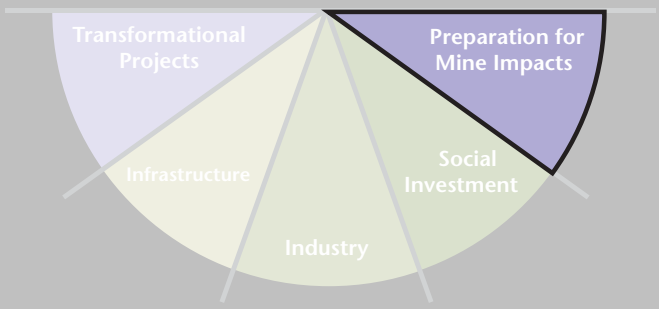
- All Nations Women's Group book on PNG cooking (K20,000), with proceeds to Hohola Youth Devlopment Centre
- Anglicare STOPAIDS Community Conversations Workshop(K40,500)
- Bawii Community Learning and Development Centre, Banz – library books (K10,000)
- Barola Village Birth Attendants' Training Program, Kainantu (K18,000)
- Catholic Secondary School Teachers' Workshop for Personal Development Programs (K23,000)
- Community Leaders from Archdiocese of Mount Hagen - Workshop on Community Conversations in addressing HIV (K14,300)
- ECOM Music Education Infrastructure Project, Manus (K12,000)
- Integrating Community Conversations Methodology into VSO Programs (K43,300)
- Safe Kidz Program, IEA, Port Moresby (K10,000)
- Koromi Christian Academy, Ialibu, library books (K8,000)
- Menyamya Primary School library complex, furniture and computer (K35,420)
- Nunga Primary School, Dei Council, WHP, library books (K8,000)
- Sago Studio 2011-Laukanu/Kelkel University students' Water and Sanitation Project Salamua (K50,000)
- Santa Maria Secondary School Watuluma, Goodenough Island, Computers (K18,400)
- Sumkar Youth Leadership Skills development (K41,000)
- Tonu High School educational literature (K10,000)

Graduation at Barola Village of 20 birth attendants, Kainantu, Eastern Highlands Province.

MINE IMPACTS

STRATEGIC ACTION

- Minimise the dislocation of people from socio-economic and environmental impacts of the mine.
- Empower communities to sustain and improve their food security and livelihoods.



The Mine Impacts Unit (MIU) represents PNGSDP in the processes associated with mine life extension and mine closure planning as well as preparing communities for life beyond mine life.

The MIU collaborates with OTML, government and community based development entities to develop programs to address the critical needs of Western Province people who are affected by the mine.

Strategic Partnership

The Ok Tedi Fly River Development Program (OTFRDP) is responsible for the on-ground delivery of projects for the communities who are party to the Community Mine Consultation Agreement (CMCA). PNGSDP's relationship with OTFRDP is therefore crucial for the implementation of the strategic actions; to minimise the dislocation of people due to mine impacts, and empower them to sustain and improve their food security and livelihoods.

During 2011, the MIU worked in partnership with relevant development partners to implement the following:

Environmental Management and Monitoring: Riverine Impact Assessment (RIA)

☑ WP

The RIA will deliver village level social impact information associated with Fly River flooding. The tender process for the study was completed and in association with OTML and the FRPG, was awarded to BMT WBM Pty Ltd. Phase 1 of the Study will be completed in June 2012.

Small Scale Mining

☑ WP

The Small Scale Mining Project will deliver the necessary administrative infrastructure and training to facilitate the development of small scale mining based mainly in the Ok Tedi River around the Ningerum area. A Project Funding Agreement with the Minerals Resource Authority was signed early in 2010 and a World Bank funded project manager was appointed in October 2011.

PNGSDP continued the critical work of establishing and maintaining relationships of trust with local land owners.

Female miner processing gravel. Typical mining and processing technique used widely along the Ok Tedi River, Western Province.

Communications and Stakeholder Engagement

☑ WP

Mine Life Extension

PNGSDP continued its active participation in community consultations and negotiations associated with the proposed mine life extension of the Ok Tedi Mine.

Conference Presentations

MIU staff presented on the CMCA Capacity Building Project to a Chamber of Mines and Petroleum hosted conference at UniTech in Lae which resulted in a number of enquiries from Community Affairs students. A technical presentation on the Riverine Impact Assessment was also delivered at another Chamber of Mines and Petroleum hosted Mining Seminar, in Port Moresby.

Publications

The MIU assisted in the publication of the Western Province Investment Magazine during 2011.

CMCA 10% Women and Children's Fund

☑ WP

PNGSDP facilitated the signing of two Project Funding Agreements; one for capacity building and one for the construction, management and upgrading of regional Resource Centres and village Learning Centres.

As part of a comprehensive development program called the Systems Development Framework a training needs analysis was launched to better understand the needs of women throughout the nine CMCA regions. Recommendations from the analysis will be piloted at four sites across each of the South, Middle and North Fly districts.

Following positive community initiative, a high frequency radio was installed at Eniyawa village, to be used for a range of communication needs alongside mobile phones. As a free service it is principally for liaising with OTFRDP community relations personnel and for medical emergencies.

TABUBIL FUTURES

STRATEGIC ACTION

- Develop Tabubil from a mining town to a mixed user residential town of choice.
- Facilitate transfer of OTML subsidised services and owned assets to third parties.

Following the delivery of the Tabubil Futures Study in 2010, the Tabubil Futures Transition Team has spent the year in problem formulation and planning. Areas under development include:

A North Fly Power System

☑ WP

A project being developed with PNGEDL to purchase gas from the Stanley Gas Field and generate cheaper power for the Kiunga grid, Tutuwe corridor and Tabubil.

Town Planning

☑ WP

A comprehensive town plan was delivered by consultants CityPlan. The plan will form the basis of town planning activities going forward.

Affordable Housing

☑ WP

Plans are being developed to meet the existing and future demand for accommodation, including upgrading existing housing into duplex and terrace dwellings and the development of low cost, self-help prototypes for a new housing precinct.

Cement Manufacturing

☑ WP

A pre-feasibility study was carried out to establish whether a cement industry could be developed utilising the available limestone and natural gas in the wider Tabubil area. Further work will be commissioned once demand for cement is determined.

Hotel Developments

☑ WP

Discussions have been held with existing PNG hotel operators on the potential for new developments in Kiunga, Tabubil and Daru.

User-charge Regime

☑ WP

Extensive work was carried out with OTML to establish a basis for future user charges being levied on town residents as the town makes the transition from being solely a mining town.

SUSTAINABLE NATURAL RESOURCE MANAGEMENT

SNRM
Sustainable Natural Resource Management

STRATEGIC ACTION

Identify high value conservation areas and establish a management structure to preserve and protect the areas in partnership with land owners and communities.

In 2011, the Board approved a strategy and program focusing on conservation, with specific focus on how it should be used to support communities in achieving sustainable livelihoods through better management of their environment and natural resources. Management, supported by expertise on the Board, consulted with conservation practitioners both in-country and abroad and drew on experiences and knowledge to inform the plan and ongoing program design. The strategy gives a special focus on delivering a number of activities in Western Province.

At one level, the strategy seeks to support organisations already undertaking community based conservation and sustainable development with the view to improving their capacities. Wherever possible, PNGSDP will help replicate useful lessons learned from their activities in other communities interested in undertaking similar projects.

In support of this, the Board approved funding for two projects during the year:

Tenkile Conservation Alliance

☑ N

Funding of K994,700 was approved for the Tenkile Conservation Alliance in Lumi District, West Sepik Province which is conserving the Tenkile Tree Kangaroo. The project will be used to provide participating communities with other livelihood support such as health, water supply and alternative protein sources and the raising of general awareness of the value of conservation and its importance to sustainable livelihoods of their communities. This project is beginning to have positive development impact on these communities.

Tenkile tree kangaroo also known as the Weimang to villagers, Lumi District, Sandaun Province.

National Capital District Botanical Gardens

☑ N

Funding of K153,340 to support the National Capital District Botanical Gardens to improve its exhibitions of rainforest animals and habitat for education and interactive learning for city residents, particularly school children.

At another level, the strategy is to make conservation a mainstream concern in all PNGSDP activities. It is considering such support through a number of avenues including supporting conservation programs in education, training and research institutions, and collaboration with local and overseas conservation organisations to help develop long term capacity to develop a number of selected conservation projects particularly in Western Province. An important

dimension of the strategy is to mainstream conservation into all activities of the PNGSDP.

Hornbills at National Botanical Gardens waiting for a new home, Port Moresby.

Hindenburg Wall

☑ WP ☑ NI

PNGSDP has contracted Wildlife Conservation Society to bring together existing knowledge and generate new knowledge of one of the world's natural wonders, the Hindenburg Wall, part of the "Sublime Karst Areas in Papua New Guinea". It extends 50km long and up to 2km high and is located in the Star Mountains, North Fly District, Western Province. Proposed as a UNESCO World Heritage Site, the wall is visually stunning, largely unspoiled, biologically diverse and relatively unknown to science.

Community Environment Projects

☑ N

An environmental awareness, reafforestation and conservation project serving 10 villages in Kompri, Henganofi District of Eastern Highlands Province was completed and launched in February 2011 in partnership with the Research Conservation Foundation (RCF).

Villages in Kompri Henganofi District participating in conservation projects, Eastern Highlands Province.

Annual Report Meeting Report

The Board of Directors reports regularly to the Members, the Government of Papua New Guinea, BHP Billiton, Ok Tedi Mining Ltd., and to other Papua New Guinea stakeholders.

Under the Rules, the Company must hold an Annual Report Meeting every year. The 2010 Annual Report was presented at the ninth PNGSDP Annual Report Meeting convened at the Crowne Plaza Conference Room in Port Moresby on 10 June 2011. The Meeting was attended by representatives of key stakeholders of the Company. The Chairman and all Non-Executive Directors of the Board, the Chief Executive Officer, and all PNGSDP staff were present. The Company's auditors were present to answer questions on the accounts.

Guests attending the 9th Annual Report Meeting at Crowne Plaza Hotel, Port Moresby.

CEO Media Updates

The Chief Executive Officer commenced writing a weekly article for the national dailies during July 2011. The articles feature informative stories on current development projects being implemented by PNGSDP.

Documentary Series – Impact of Communications on Rural Communities

PNGSDP developed a documentary to record the impact of telecommunications on the lives of people of the Western Province. The film captures the expectations of the people before and during the construction phase of the project, and showcases the impact of communications on their lives post construction. A second film will be produced in twelve months time to document the actual impact that has been made in Western Province.


PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD

PNGSDP boosts gender equality in Western Province

CEO's weekly articles as it appears every Friday in the National Dailies.

Business Forum

PNGSDP has attended the annual bilateral business forum between Australia and PNG organised by the Business Council of PNG. The forum provided an opportunity for PNGSDP to present our development programs and projects to potential development partners and investors in each country, and to broaden our business relationships. The forum is attended by key government ministers from Australia and PNG and a range of expert speakers.

Community Consultation

PNGSDP through its Mine Impact Unit participated in various community consultations related to the proposed Mine Life Extension. These consultations are important to minimise the dislocation of people due to mine impacts and to empower them to improve their livelihoods.

OTFRDP Partnership

OTFRDP aims to build on the good will and operating foundations laid during 2011 to deliver projects in Western Province. Good progress has been made on delivering community based projects funded by PNGSDP, through increased community engagement.

Visitors to PNGSDP display at the Ninth Annual Report Meeting.

Western Province Business and Investment Guide

PNGSDP commissioned Business Advantage to create a magazine on Western Province showcasing the province's commercial and potential tourism activities. There is little known about the Western Province and the aim of the publication is to showcase the province and what it has to offer to potential investors, development partners and tourists. The magazine will be launched in November 2012.

Conference Presentations by CEO

During 2011 the Chief Executive Officer presented papers on the work of PNGSDP at various high level conferences. This included a presentation to the Economic Ministers Forum at the National Parliament.

PNGSDP Website Redesign

The PNGSDP website is currently being updated and redesigned to capture accurately the development works and commercial activities the Company is engaged in.

Independent Review

The Program Rules of the Company requires a formal review of the Program by a person who is independent of the Program. The purpose of the Review is to ensure that:

- The Company's Program operations continue to conform to the Objects and the Program Rules of the Company;
- The Program is managed efficiently and effectively; and
- The impact of the Program is documented and taken into account in the future development of the Program.

The 2011 Review Report can be found on the Company's website, www.pngsdp.com.

INCOME AND EXPENDITURE

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 Program Company's operations are governed by a set of rules and agreements that pertain to its unique structure and circumstances.

Under its Constitution, PNGSDP 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 2011 amounted to US$1.43 billion (K3.06 billion) [2010: US$1.34 billion (K3.57 billion)]. In accordance with the Rules of PNGSDP the assets of the Program 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 Program 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 Program Company, namely OTML, PML, PNGEDL, CBSFL, Western Power and SMIT. The contribution of OTML to the PNGSDP Group is accounted for as an investment in a jointly controlled entity by the Program Company. The assets of the PNGSDP Group do not appear on the balance sheet of the Program 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 Program Company.

Under the Deed of Indemnity with BHP Billiton, the Program 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 Program 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 of US$120 million.

Total Net Assets of PNGSDP in 2011

	US$	K
Current Assets	660,271,850	1,415,373,741
Non Current Assets	776,967,059	1,665,524,242
Liabilities	(11,606,430)	(24,879,807)
Net Assets	**1,425,632,479**	**3,056,018,176**

Representation of PNGSDP Assets in 2011

	US$	K
Members' Subscription	17	36
General Fund	2,903,581	6,224,182
Long Term Fund	1,201,463,955	2,575,485,434
Development Fund	221,264,926	474,308,523
Total Funds	**1,425,632,479**	**3,056,018,176**

INCOME AND EXPENDITURE

Income

The Company is required by its rules to apply its income to the 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$221.9 million (K518.9 million) [2010:US$338 million (K924 million)] from OTML during 2011.

Total investment income from funds invested amounted to US$35.6 million (K83.3 million) [2010: US$34.8 million (K95.1 million)]. Return on investments represents an increasing source of income to the Company.

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$22.2 million was deducted in respect of dividend income from OTML and paid to the PNG Internal Revenue Commission during 2011. No Singapore income tax is payable on the basis that none of the Program Company's dividend or interest income is remitted to Singapore.

Expenditure

Expenditure on projects under the Sustainable Development Program accounted for over 92% of the Program Company's expenditure in 2011, amounting to US$135.9 million (K317.8 million) [2010: US$46.1 million (K126.0 million)].

The Company spent US$7.7 million (K17.9 million) [2010: US$6.8 million (K18.7 million)] on administration during 2011, on staff costs, travel, insurance, financial expenses, professional services and information services, amongst other costs.

The Company spent US$2.3 million (K5.5 million) [2010: US$2.1 million (K5.8 million)] on governance in 2011. This comprised of Directors' fees, Board administration, the annual report and stakeholder meetings, the Company Audit, and the Company Secretary.

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 three years.

INCOME IN 2011

	US$	K
Dividend OTML	221,900,000	518,942,937
Investment Income	35,641,525	83,352,491
	257,541,525	602,295,428

EXPENDITURE IN 2011

	US$	K
Governance	2,340,386	5,473,307
Administration	7,660,797	17,915,802
Investment Program Costs	2,027,660	4,741,955
Development Costs	135,904,999	317,832,084

FUNDS MANAGEMENT

Investment Funds of the Program 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 Company relating to the application of the income received. Under the Rules of the Program 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 Program 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 Program Company's Investment Policy and Guidelines.

In 2011, the Long Term Fund increased from US$1.04 billion (K2.8 billion) to US$1.2 billion (K2.6 billion) mainly due to dividend received from Ok Tedi Mine in 2011.

Rate of Return

The weighted annual rate of return for the LTF in 2011 was +3.19%, while the weighted average rate of return over the life of the fund is +4.48%.

Value of the Long Term Fund (US$ millions)

	2005	2006	2007	2008	2009	2010	2011
Value at the end of financial year	175.5	376.6	594.2	677.8	817.9	1044.8	1201.5
Annual rate of return	4.44%	7.80%	14.08%	-2.62%	5.01%	3.55%	3.19%

THE DEVELOPMENT FUND

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 that meet our sustainable development criteria.

The Development Fund receives 1/3 of dividend income from OTML after deducting operating expenses, contractual and other legal obligations. One third of 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 utilised to support ongoing activities of the Sustainable Development Program, which PNGSDP should be able to sustain for a minimum of 40 years or more after mine closure.

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.

Development Fund project allocations and expenditures in 2011

New projects approved in 2011 amounted to K156 million. This is lower than K173 million of new projects approved during 2010.

The Development Fund disbursement was higher in 2011 with K317.8 million disbursed during 2011 compared to K126 million in 2010.

Cumulative approved project funding

Since 2002, cumulative approved project funding from the Development Fund amounts to over K860.1 million. Cumulative disbursements on Western Province and National Projects have been K166.7 million and K623.0 million respectively. Cumulative approved project funding for Western Province is over 78% of the National Fund and this reflects the priority that PNGSDP continues to place on supporting sustainable development in Western Province.

The Western Province approved project funding includes many long-term projects and accordingly the disbursements will occur over a longer period of time.

Project Funding Approvals and Disbursements

2011	K	US$ millions
New Approved Project Funding	155.8	62.3
Disbursements	317.8	135.9

2010	K	US$ millions
New Approved Project Funding	173.0	64.0
Disbursements	126.0	46.1

Project Funding Approvals and Disbursements Since 2002

	K	US$ millions
Cumulative Approved Project Funding 2002-2010	860.1	325.8
National Fund	483.2	182.8
Western Province Fund	376.9	143.0
Total Cumulative Disbursements 2002-2011	789.7	311.4
National Fund	623.0	248.4
Western Province Fund	166.7	63.0

DIRECTORS' REPORT

The Directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2011 and the balance sheet as at 31 December 2011, the statement of comprehensive income and the statement of changes in equity of the Company for the financial year ended 31 December 2011.

Directors

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

Ross Gregory Garnaut	
Jakob Weiss	
Patricia Joy Caswell	
Donald Wabirao Manoa	
Lim How Teck	
Rex Lam Paki	(Appointed on 30 September 2011)
Philip James Bainbridge	(Appointed on 2 March 2012)
David Sode	(Appointed on 2 March 2012)

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 was 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 shares, debentures or share options of any related corporations.

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 accompanying financial statements, and except that Dr. Ross Gregory Garnaut is a nominee Director of Ok Tedi Mining Limited and receives remuneration in this capacity, which is payable by the Company.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its 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)

10 April 2012

STATEMENT BY DIRECTORS

In the opinion of the Directors,

(a) the statement of comprehensive income, 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 112 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 2011 and of the results of the business and changes in equity of the Company and of the Group and 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)

10 April 2012

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

Report on the Financial Statements

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 112, which comprise the balance sheets of the Company and of the Group as at 31 December 2011, the statement of comprehensive income of the Company and of the Group, the statement of changes in equity of the Company and of the Group, and the consolidated statement of cash flow of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition, that transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

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 audit 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 controls relevant to the entity's preparation of financial statements that give a true and fair view 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

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

Opinion

In our opinion, the statement of comprehensive income, the balance sheet and the statement of changes in equity of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of 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 2011 and the results, changes in equity of the Company and of the Group and cash flows of the Group for the financial year ended on that date; and

Report on Other Legal and Regulatory Requirements

In our opinion, 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 LLP

Public Accountants and Certified Public Accountants

Singapore, 10 April 2012

STATEMENT OF COMPREHENSIVE INCOME

	Note	The Group 2011 US$	The Group 2010 US$	The Company 2011 US$	The Company 2010 US$
Revenue					
Dividends from investment in a joint venture	4	**-**	-	**221,900,000**	338,000,000
Revenue from other activities, net	4	**13,490,250**	7,840,266	**-**	-
Other investment income	4	**37,218,546**	34,958,978	**35,641,525**	34,795,974
		50,708,796	42,799,244	**257,541,525**	372,795,974
Expenses					
Governance costs	5	**(2,340,386)**	(2,116,083)	**(2,340,386)**	(2,116,083)
Administration costs	5	**(23,232,261)**	(22,856,968)	**(7,660,797)**	(6,843,861)
Fund management costs	5	**(2,027,660)**	(1,859,393)	**(2,027,660)**	(1,859,393)
		(27,600,307)	(26,832,444)	**(12,028,843)**	(10,819,337)
Operating surplus before development program costs		**23,108,489**	15,966,800	**245,512,682**	361,976,637
Development program costs	5	**(105,224,594)**	(46,098,111)	**(135,904,999)**	(46,098,111)
Operating (deficit)/surplus from operations		**(82,116,105)**	(30,131,311)	**109,607,683**	315,878,526
Share of results of joint ventures	13	**337,087,976**	386,109,232	**-**	-
Surplus before income tax		**254,971,871**	355,977,921	**109,607,683**	315,878,526
Income tax expense	7	**(24,031,165)**	(43,420,274)	**(23,433,570)**	(34,927,270)
Surplus from operations		**230,940,706**	312,557,647	**86,174,113**	280,951,256
Other comprehensive surplus:					
Currency translation difference arising from consolidation		**146,364,760**	23,830,935	**-**	-
Share of hedge reserve in joint venture	13	**4,555,796**	(24,901,639)	**-**	-
		150,920,556	(1,070,704)	**-**	-
Total comprehensive surplus:		**381,861,262**	311,486,943	**86,174,113**	280,951,256
Surplus from operations attributable to:					
Equity holders of the Company		**230,964,624**	312,583,247	**86,174,113**	280,951,256
Non-controlling interests		**(23,918)**	(25,600)	**-**	-
		230,940,706	312,557,647	**86,174,113**	280,951,256
Total comprehensive surplus attributable to:					
Equity holders of the Company		**382,001,391**	310,450,943	**86,174,113**	280,951,256
Non-controlling interests		**(140,129)**	1,036,000	**-**	-
		381,861,262	311,486,943	**86,174,113**	280,951,256

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

BALANCE SHEET

	Note	The Group 2011 US$	The Group 2010 US$	The Company 2011 US$	The Company 2010 US$
ASSETS					
Current assets					
Cash and cash equivalents	8	**468,731,200**	363,369,707	**464,156,662**	353,216,651
Financial assets at fair value through profit or loss	9	**136,303,309**	163,543,174	**136,303,309**	163,543,174
Finance lease receivables	10	**7,681,987**	7,162,417	**-**	-
Other receivables	11	**25,322,745**	35,130,477	**59,811,879**	124,412,401
Inventory		**4,918,581**	3,048,382	**-**	-
		642,957,822	572,254,157	**660,271,850**	641,172,226
Non-current assets					
Financial assets at fair value through profit or loss	9	**772,550,922**	699,904,931	**759,740,651**	699,904,931
Finance lease receivables	10	**37,504,751**	45,181,125	**-**	-
Investment in joint ventures	13	**818,862,321**	535,325,686	**16,871,105**	2,903,581
Investment in subsidiaries	14	**-**	-	**1**	5,450,001
Property, plant and equipment	15	**5,596,259**	19,651,735	**355,302**	142,524
		1,634,514,253	1,300,063,477	**776,967,059**	708,401,037
Total assets		**2,277,472,075**	1,872,317,634	**1,437,238,909**	1,349,573,263
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	17	**42,709,208**	21,052,551	**11,005,893**	9,768,098
Provisions for employee benefit costs		**2,059,021**	1,020,094	**600,537**	346,799
		44,768,229	22,072,645	**11,606,430**	10,114,897
Non-current liabilities					
Deferred income tax liability	18	**44,659,639**	44,062,044	**-**	-
Total liabilities		**89,427,868**	66,134,689	**11,606,430**	10,114,897
NET ASSETS		**2,188,044,207**	1,806,182,945	**1,425,632,479**	1,339,458,366
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	19	**17**	17	**17**	17
Funds, comprised of:		**1,955,323,291**	1,724,358,667	**-**	-
- General Fund	20	**-**	-	**2,903,581**	2,903,581
- Long Term Fund	20	**-**	-	**1,201,463,955**	1,044,803,634
- Development Fund	20	**-**	-	**221,264,926**	291,751,134
Share of hedge reserve of a joint venture – Ok Tedi Mining Ltd		**(9,050,914)**	(13,606,710)	**-**	-
Foreign currency translation reserve		**241,757,739**	95,276,768	**-**	-
		2,188,030,133	1,806,028,742	**1,425,632,479**	1,339,458,366
Non-controlling interests		**14,074**	154,203	**-**	-
Total equity		**2,188,044,207**	1,806,182,945	**1,425,632,479**	1,339,458,366

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group

	Attributable to the Company						
	Members' subscription	Total funds	Share of hedge reserve of joint venture - Ok Tedi Mining Limited	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	US$	US$	US$	US$	US$	US$	US$
2011							
Beginning of financial year	**17**	**1,724,358,667**	**(13,606,710)**	**95,276,768**	**1,806,028,742**	**154,203**	**1,806,182,945**
Total comprehensive income and reserves for the year	**-**	**230,964,624**	**4,555,796**	**146,480,971**	**382,001,391**	**(140,129)**	**381,861,262**
End of financial year	**17**	**1,955,323,291**	**(9,050,914)**	**241,757,739**	**2,188,030,133**	**14,074**	**2,188,044,207**
2010							
Beginning of financial year	17	1,411,775,420	11,294,929	72,507,433	1,495,577,799	(881,797)	1,494,696,002
Total comprehensive income and reserves for the year	-	312,583,247	(24,901,639)	22,769,335	310,450,943	1,036,000	311,486,943
End of financial year	17	1,724,358,667	(13,606,710)	95,276,768	1,806,028,742	154,203	1,806,182,945

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 2.1.15]. No transfers are made on a Group level as dividend income is eliminated for consolidation purposes.

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

COMPANY STATEMENT OF CHANGES IN EQUITY

The Company	Note	Members' subscription US$	General fund US$	Long term fund US$	Development fund US$	Total US$
2011						
Beginning of financial year		**17**	**2,903,581**	**1,044,803,634**	**291,751,134**	**1,339,458,366**
Total comprehensive surplus	**19**	**-**	**192,825,198**	**28,110,189**	**(134,761,274)**	**86,174,113**
Transfer from General Fund	**19**	**-**	**(192,825,198)**	**128,550,132**	**64,275,066**	**-**
End of financial year		**17**	**2,903,581**	**1,201,463,955**	**221,264,926**	**1,425,632,479**
2010						
Beginning of financial year		17	2,903,581	817,890,515	237,712,997	1,058,507,110
Total comprehensive surplus	19	-	296,102,222	29,511,637	(44,662,603)	280,951,256
Transfer from General Fund	19	-	(296,102,222)	197,401,482	98,700,740	-
End of financial year		17	2,903,581	1,044,803,634	291,751,134	1,339,458,366

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 2.1.15].

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

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2011 US$	2010 US$
Cash flows from operating activities			
Surplus from operations		**230,940,706**	312,557,647
Adjustments for:			
Income tax expense		**24,031,165**	43,420,274
Depreciation		**4,497,986**	1,984,285
Amortisation – inscribed stock premium		**95,401**	43,084
Impairment of property plant and equipment		**23,783,164**	-
Impairment of available for sale financial asset		**-**	6,000,000
Fair value loss (gains) on financial assets at fair value through profit or loss		**(10,607,563)**	(6,554,071)
Interest income		**(20,192,562)**	(22,506,855)
Share of results of joint ventures		**(337,087,976)**	(386,109,232)
Other dividend income		**(6,418,421)**	(5,898,052)
Currency translation differences		**30,124,246**	(2,658,261)
Operating cash flow before working capital changes		**(60,833,854)**	(59,721,181)
Change in working capital			
Other receivables, finance lease receivables and other assets		**16,964,536**	(1,111,054)
Sundry creditors and accruals		**22,695,583**	4,457,952
Inventory		**(1,870,199)**	(1,855,955)
Cash used in operations		**(23,043,934)**	(58,230,238)
Interest received		**20,192,562**	3,701,861
Dividends received		**221,900,000**	338,000,000
Withholding tax paid on dividends received		**(22,190,000)**	(33,800,000)
Net cash provided by operating activities		**196,858,628**	249,671,623
Cash flows from investing activities			
Purchases of financial asset at fair value through profit and loss		**(1,288,146,951)**	(1,430,238,468)
Repayment of loans from a third party		**-**	50,000,000
Payment on finance lease arrangement		**-**	(49,350,000)
Acquisition of a subsidiary (net of cash acquired)	8	**-**	9,082,973
Other dividend received		**6,418,421**	5,898,052
Withholding tax paid on dividends received		**(1,243,570)**	(1,127,270)
Proceeds from sale of financial asset at fair value through profit or loss		**1,230,580,133**	1,328,050,042
Acquisition of interest in joint venture		**(23,297,524)**	-
Purchases of property, plant and equipment		**(15,807,644)**	(8,435,861)
Net cash used in investing activities		**(91,497,135)**	(96,120,532)
Net increase in cash and cash equivalents		**105,361,493**	153,551,091
Cash and cash equivalents at the beginning of financial year	8	**363,369,707**	209,818,616
Cash and cash equivalents at the end of financial year	8	**468,731,200**	363,369,707

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

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 information

PNG Sustainable Development Program Limited ("PNGSDP") is incorporated and domiciled in Singapore. The address of its principal place of business is Level 7, Pacific Place, Champion Parade, PO Box 1786, Port Moresby, Papua New Guinea. The address of its registered office is 10 Collyer Quay, #10-01 Ocean Financial Centre, Singapore 049315.

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 14.

2.1 Significant accounting policies

2.1.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented. Comparative information have also been consistently applied except as disclosed in Note 13.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 certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2011

On 1 January 2011, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

FRS 24 (Amendments): Related Party Disclosures

The revised standard simplifies the definition of a related party. It clarifies its intended meaning and eliminates inconsistencies from the definition. The amendment also removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and replaces it with a requirement to disclose information which is considered sufficient for the financial statements users to understand the effects of related party transactions.

2.1 Significant accounting policies (continued)

2.1.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's and Company's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group and the Company recognises revenue when the amount of revenue and related cost can be reliably measured when it is probable that the collectability of related receivables is reasonably assured and when specific criteria for each of the Group's and Company's activities are met as follows.

(a) Dividend income

Dividend income is recognised when the right to receive payment is established.

(b) Interest income

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

(c) Surplus on sale of a financial asset

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the profit or loss. Gains or losses arising from changes in fair value of investment in securities [Note 2.1.17] that have been designated as "Financial assets at 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.

(d) Sale of timber products

The Group harvests, mills and sells timber products. Sales of goods are recognised when a Group entity has delivered the products to the customers, the customers have accepted the products and the collectability of the related receivables is reasonably assured.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting

(a) Subsidiaries

(i) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the noncontrolling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to Note 2.1.6(a) for the subsequent accounting policy on goodwill.

(iii) Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (continued)

(a) Subsidiaries (continued)

(iii) Disposals of subsidiaries or businesses (continued)

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.1.4 for the accounting policy on investments in subsidiaries.

(b) Transactions with non-controlling interests

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(c) Joint ventures

The Group's joint ventures 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 joint ventures is accounted for in the consolidated financial statements using the equity method of accounting.

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

In applying the equity method of accounting, unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

When the Group sells assets to a joint venture, the Group recognises only the portion of unrealised gains or losses on the sale of assets that is attributable to the interest of the other venturers. The Group recognises the amount of any loss when the sales provide evidence of a reduction in the net realisable value of current assets or an impairment loss.

When the Group purchases assets from a joint venture, it does not recognise its share of the profits of the joint ventures arising from the Group's purchase of assets until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group. Please refer to Note 2.1.4 "Investments in subsidiaries, joint ventures and associated companies" for the accounting policy on investments in joint ventures.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (continued)

(d) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at 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. Goodwill on associated companies represents the excess of the cost of acquisition of the associate over the Group's share of the fair value of the identifiable net assets of the associate and is included in the carrying amount of the investments.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated companies are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Gains and losses arising from partial disposals or dilutions in investments in associated companies are recognised in profit or loss. Investments in associated companies are derecognised when the Group loses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.1.4 for the accounting policy on investments in subsidiaries, joint ventures and associated companies.

2.1.4 Investments in subsidiaries, joint ventures and associated companies

Investments in subsidiaries, joint ventures and associated companies are carried at cost, less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.1.5 Property, plant and equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recognised at cost. Buildings and leasehold land are subsequently carried at their costs less accumulated depreciation and accumulated impairment losses.

2.1 Significant accounting policies (continued)

2.1.5 Property, plant and equipment (continued)

(a) Measurement (continued)

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) 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:

	Annual Rates %
Computers and computer software	$33^{1/3}$ - 100
Motor vehicles	20
Fixtures and fittings	$33^{1/3}$
Plant and equipment	$33^{1/3}$
Leasehold improvements	$33^{1/3}$
Buildings	2
Leasehold land	2

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the profit or loss when the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. All other repair and maintenance expense are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is taken to profit or loss.

2.1.6 Intangible assets

(a) Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries, joint ventures and associated companies at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses. Goodwill on joint ventures and associated companies are included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained earnings in the year of acquisition and not recognised in profit or loss on disposal.

2.1 Significant accounting policies (continued)

2.1.6 Intangible assets (continued)

(b) Acquired licenses

Licenses acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These cost are amortised to profit or loss using the straight-line method over the shorter of the estimated useful lives or period of contractual rights.

2.1.7 Impairment of non-financial assets

(a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in an associated company or joint venture is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

(b) Intangible assets

Property, plant and equipment

Investments in subsidiaries, joint ventures and associated companies

Intangible assets, property, plant and equipment and investments in subsidiaries, joint ventures and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) 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 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 difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease. Please refer to Note 2.1.5 "Property, plant and equipment" for the treatment of a revaluation decrease.

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.

2.1 Significant accounting policies (continued)

2.1.7 Impairment of non-financial assets (continued)

(b) Intangible assets

Property, plant and equipment

Investments in subsidiaries, joint ventures and associated companies (continued)

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment is also recognised in profit or loss.

2.1.8 Leases

(a) When the Group is the lessee:

(i) Lessee - Finance leases

The Group leases motor vehicles, office space and warehouses under operating leases from non-related parties. Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in the profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

(ii) Lessee - Operating leases

Leases of motor vehicles, office space and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(b) When the Group is the lessor:

Lessor - Finance leases

The Group leases aircraft under finance leases to non-related parties. Leases where the Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet and included in “finance lease receivables”. The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.1 Significant accounting policies (continued)

2.1.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.1.10 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all 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 arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, 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.

A 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 and tax losses can be utilised.

Deferred income tax is measured:

(i) at 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 substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group and the Company 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 profit or loss 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.

2.1.11 Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.1 Significant accounting policies (continued)

2.1.12 Employee compensation or employee remuneration

The Group's and the Company's contributions are recognised as employee compensation expense when they are due, unless they can be capitalised as an asset.

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Company pays fixed contributions into separate entities such as National Superannuation Fund 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 and the Company's contribution to defined contribution plans are recognised as employee benefit expense when they are due.

(b) 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.

2.1.13 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group and the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in United States Dollars ("US$").

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) 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 currency translation differences are recognised in the currency translation reserve in equity.

2.1 Significant accounting policies (continued)

2.1.14 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash and bank balances, treasury bills, commercial papers and certificates of deposit, which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings in the balance sheet.

2.1.15 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.

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

2.1 Significant accounting policies (continued)

2.1.15 Long Term Fund, Development Fund and General Fund (continued)

Development Fund (continued)

(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 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.

2.1.16 Grants

Grants provided to subsidiaries, joint ventures and third parties are expensed in the period in which the grants are released.

2.1.17 Financial assets

(a) Classification

The Group and the Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The designation of financial assets at fair value through profit or loss is irrevocable.

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group and the Company investment strategy.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

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.

2.1 Significant accounting policies (continued)

2.1.17 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "other receivables", "finance lease receivables" and "cash and cash equivalents" on the balance sheet.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group and the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised immediately in profit or loss.

(d) Subsequent measurement

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Group and the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

2.1 Significant accounting policies (continued)

2.1.17 Financial assets (continued)

(e) Impairment (continued)

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

(i) Loans and receivables

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

The cumulative loss that was recognised in the fair value reserve is transferred to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss on debt securities. The impairment losses recognised in profit or loss on equity securities are not reversed through profit or loss.

2.1.18 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.1.19 Exploration assets

Exploration assets represent capitalized expenditures incurred on exploration projects. When, as a result of exploration work, recoverable reserves are determined to be present in commercially producible quantities, exploration expenditures and subsequent development costs are transferred to mine and mining properties. Impairment is provided for the estimated unrecoverable costs based on the assessment of the Company of the future prospect of the mining property.

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Financial asset at fair value through profit or loss

The Group and the Company uses market or quoted price to fair value its financial assets. In cases where market or quoted prices are not used, fair value is determined by using valuation techniques and a set of key assumptions that are subject to change depending on the market conditions prevailing at the time in which fair value is determined. Furthermore, the Group and the Company follows guidance of FRS 39 to classify financial assets as financial assets at fair value through profit or loss. The current classification is based on the premise that these financial assets are managed on a portfolio basis and traded accordingly. Prevailing market conditions could change resulting in reassessment of the current classification.

(b) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

(c) Fair value of derivative financial instruments

The Group through its investment managers may, from time to time, hold financial instruments that are not quoted in active markets, such as over-the counter derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed independently.

(d) Functional currency

The Board of Directors considers the US dollar the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The US Dollar is the currency in which the Group and the Company measures its performance and reports its results, as well as the currency in which it generates revenue from its investments. This determination also considers the competitive environment in which the Group and the Company are compared to other investment products.

4. Revenue

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Dividend income from investment in a joint venture	**-**	-	**221,900,000**	338,000,000
Sale of goods	**4,971,256**	2,995,023	**-**	-
Other income	**8,518,994**	4,845,243	**-**	-
	13,490,250	7,840,266	**221,900,000**	338,000,000
Other investment income				
Other dividends	**6,418,421**	5,898,057	**6,418,421**	5,898,057
Fair value gains on financial assets through profit or loss	**10,607,563**	6,554,071	**10,607,563**	6,554,071
Interest income from commercial papers, certificates of deposits, bonds and cash balances	**20,192,562**	22,506,850	**18,615,541**	22,343,846
	37,218,546	34,958,978	**35,641,525**	34,795,974
Total revenue	**50,708,796**	42,799,244	**257,541,525**	372,795,974

During the year the Company received gross dividend income of US$221,900,000 (2010: US$338,000,000) from its investment in a joint venture, OK Tedi Mining Limited. A 10% dividend withholding tax of US$22,190,000 (2010: US$33,800,000) was deducted in respect of this dividend income and paid to the PNG Internal Revenue Commission during the financial year (see Note 7). Other dividends relates to dividend received from In-house Managed Funds (see Note 9).

5. Expenses

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Governance costs				
Board of Directors' fees	**749,159**	712,204	**749,159**	712,204
Board administration	**569,547**	443,956	**569,547**	443,956
Audit	**499,018**	574,073	**499,018**	574,073
Annual report meeting expenses	**200,944**	88,290	**200,944**	88,290
Company secretary	**143,458**	156,733	**143,458**	156,733
Annual report	**143,332**	131,112	**143,332**	131,112
Advisory council	**34,928**	9,715	**34,928**	9,715
	2,340,386	2,116,083	**2,340,386**	2,116,083
Administration costs				
Employee compensation (Note 6)	**12,899,670**	9,816,868	**4,103,561**	3,435,077
Depreciation (Note 15)	**4,497,986**	1,984,285	**256,365**	173,704
Professional services	**1,199,722**	1,003,576	**737,587**	441,845
Travel	**993,690**	979,929	**553,661**	540,738
Insurance	**953,468**	586,646	**395,506**	338,125
Office rent	**915,314**	770,910	**247,765**	192,400
Information services	**603,679**	415,349	**275,609**	211,066
Advertising and promotion	**331,720**	28,152	**253,731**	17,256
Motor vehicle expenses	**163,738**	215,138	**163,738**	150,017
Contractual obligation	**106,498**	94,445	**106,498**	94,445
Amortisation – premium on inscribed stock	**95,401**	43,084	**95,401**	43,084
Net foreign exchange loss	**-**	751,131	**-**	495,536
Other expenses	**471,375**	6,167,455	**471,375**	710,568
	23,232,261	22,856,968	**7,660,797**	6,843,861
Fund management cost				
Investment service fees	**2,027,660**	1,859,393	**2,027,660**	1,859,393
	2,027,660	1,859,393	**2,027,660**	1,859,393
Development program costs				
Western Province	**9,609,350**	21,717,562	**9,609,350**	21,717,562
National	**95,615,244**	24,380,549	**126,295,649**	24,380,549
	105,224,594	46,098,111	**135,904,999**	46,098,111
Total expenses	**132,824,901**	72,930,555	**147,933,842**	56,917,448

The following impairment losses have been included as part of the development program costs above:

Impairment loss on property, plant and equipment	**23,783,164**	-	**-**	-
Impairment loss on loans receivable from subsidiaries	**-**	-	**76,343,277**	-
	23,783,164	-	**76,343,277**	-

6. Employee compensation

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Wages and salaries	**10,062,286**	7,852,460	**3,616,670**	2,946,803
Other employee benefits and costs	**2,219,212**	1,485,238	**325,380**	325,102
Employer's contribution to defined contribution plans	**618,172**	479,170	**161,511**	163,172
	12,899,670	9,816,868	**4,103,561**	3,435,077

Key management remuneration is disclosed in Note 25.

7. Income taxes

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Tax expense attributable to the operating surplus is made up of:				
Current income tax – Foreign	**23,433,570**	34,927,270	**23,433,570**	34,927,270
Deferred income tax	**597,595**	8,493,004	**-**	-
	24,031,165	43,420,274	**23,433,570**	34,927,270

The tax expense is comprised of:

- US$22,190,000 (2010: US$33,800,000) in connection with the withholding tax deducted from the dividend income received from its investment in a joint venture (Ok Tedi Mining Limited);
- US$$271,450 (2010: US$8,493,004) in connection with the withholding tax on the retained earnings of Ok Tedi Mining Limited (representing the withholding tax on the expected future dividends from retaining earnings);
- US$1,087,376 (2010: US$995,917) in connection with the withholding tax deducted from dividend income from its Papua New Guinea equity investments;
- US$156,194 (2010: US$131,353) in connection with the withholding tax deducted from interest income from Bank of Papua New Guinea Inscribed Stocks; and
- US$326,145 (2010:US$nil) in connection with the taxable temporary differences from a subsidiary.

The dividend withholding taxes have been paid to Internal Revenue Commission ("IRC") of Papua New Guinea during the financial year. No Singapore income tax is payable on the basis that the dividend and interest income is not remitted to Singapore.

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	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Surplus before income tax	**254,971,870**	355,977,921	**109,607,683**	315,878,526
Tax calculated at Singapore rate applicable to surplus in Papua New Guinea at 17% (2010: 17%)	**43,345,218**	60,516,247	**18,633,306**	53,699,349
Effect of different tax rates in other countries	**(15,533,000)**	(23,660,000)	**(15,533,000)**	(23,660,000)
Income not subject to tax	**(27,111,320)**	(14,451,771)	**(4,967,928)**	(4,912,646)
Expenses not deductible for tax purpose	**23,058,817**	12,522,794	**25,301,192**	9,800,567
Tax recognised on retained earnings of joint venture	**271,450**	8,493,004	**-**	-
Tax charge	**24,031,165**	43,420,274	**23,433,570**	34,927,270
Comprising of:				
Dividend/interest withholding tax paid to the Internal Revenue Commission (Papua New Guinea)	**23,433,570**	34,927,270	**23,433,570**	34,927,270
Deferred income tax	**597,595**	8,493,004	**-**	-
	24,031,165	43,420,274	**23,433,570**	34,927,270

8. Cash and cash equivalents

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Cash and bank balances	**400,820,339**	288,573,901	**396,245,801**	278,420,845
Funds under management:				
Cash held in investment funds	**49,410,861**	46,794,407	**49,410,861**	46,794,407
Commercial papers and certificates of deposit	**18,500,000**	28,001,399	**18,500,000**	28,001,399
	67,910,861	74,795,806	**67,910,861**	74,795,806
	468,731,200	363,369,707	**464,156,662**	353,216,651

For the purpose of presenting the consolidated cash flow statements, the consolidated cash and cash equivalents comprise the following:

	The Group	
	2011 US$	**2010 US$**
Cash and bank balances (as above)	**468,731,200**	363,369,707

8. Cash and cash equivalents (continued)

Acquisition of additional shares in an associated company

On 26 May 2010, the Group acquired an additional 32% share in PNG Microfinance Limited, an associate company. This transaction effectively resulted in PNG Microfinance Limited being an 81% owned subsidiary. The effects of the acquisition on the cash flows of the Group were:

	The Group Acquisition
	At fair values US$
Identifiable assets and liabilities	
Cash and cash equivalents	9,118,873
Trade and other receivables	2,872,057
Property, plant and equipment	1,104,582
Total assets	13,095,512
Trade and other payables	13,095,512
Total liabilities	13,095,512
Identifiable net assets acquired	-
Non-controlling interests	-
Investment held prior to acquisition	-
Net of identifiable net assets acquired	-
Cash consideration paid	(35,900)
Less: Cash and cash equivalents in subsidiary acquired	9,118,873
Net cash inflow on acquisition	9,082,973

9. Financial assets at fair value through profit or loss

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Current				
Funds under management:				
Bonds	**118,189,674**	129,037,677	**118,189,674**	129,037,677
Commercial papers and certificates of deposit	**18,113,635**	34,505,497	**18,113,635**	34,505,497
Total Current	**136,303,309**	163,543,174	**136,303,309**	163,543,174
Non-current				
Funds under management:				
Bonds	**542,488,913**	455,262,294	**542,488,913**	455,262,294
Equity securities	**50,296,590**	70,255,229	**50,296,590**	70,255,229
Funds	**11,646,932**	47,640,282	**11,646,932**	47,640,282
	604,432,435	573,157,805	**604,432,435**	573,157,805
In-house Managed Funds:				
Bonds	**24,552,417**	10,037,119	**11,742,146**	10,037,119
Equity securities *	**143,566,070**	116,710,007	**143,566,070**	116,710,007
	168,118,487	126,747,126	**155,308,216**	126,747,126
Total Non-current	**772,550,922**	699,904,931	**759,740,651**	699,904,931
Total	**908,854,231**	863,448,105	**896,043,960**	863,448,105

* Investments in listed equity securities.

Funds under management

The financial assets that are externally-managed comprised funds placed with the various professional fund managers pursuant to investment management agreements. The Group can, pursuant to the terms, terminate the agreements by giving the requisite prior notice in writing to the fund managers. These fund managers are given discretionary powers within certain guidelines to invest the funds and these financial assets are managed on a portfolio basis and their performance evaluated on a fair value basis.

10. Finance lease receivables

The Group leases aircrafts to a non-related party under a finance lease arrangement. The initial agreement on the first aircraft terminates in 2013.

In October 2010, the Group entered into finance lease arrangements for two aircraft. These agreements terminate in 2017.

	The Group	
	2011	**2010**
	US$	**US$**
Gross receivables due		
- Not later than one year	**10,587,784**	10,591,394
- Later than one year but within five years	**44,180,675**	47,307,820
- Later than five years	**-**	7,448,337
Total	**54,768,459**	65,347,551
Less: Unearned finance income	**(9,581,721)**	(13,004,009)
Net investment in finance leases	**45,186,738**	52,343,542

The net investment in finance leases is analysed as follows:

	The Group	
	2011	**2010**
	US$	**US$**
Not later than one year	**7,681,987**	7,162,417
Later than one year		
- Between one and five years	**37,504,751**	37,966,325
- Later than five years	**-**	7,214,800
	37,504,751	45,181,125
	45,186,738	52,343,542

The fair value of lease receivables at 31 December 2011 amounted to US$53,113,896 (2010: US$59,911,121). The fair values are based on cash flows discounted using a rate of 2.5% (2010: 2.7%).

11. Other receivables

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Current				
Loans receivable from subsidiaries	**-**	-	**56,566,025**	86,970,444
Other debtors	**25,322,745**	35,130,477	**3,245,854**	37,441,957
	25,322,745	35,130,477	**59,811,879**	124,412,401

Loan receivable from subsidiaries

	The Company	
	2011 US$	**2010 US$**
Western Province Sustainable Power	**33,510,416**	7,805,283
Champion 34	**56,566,025**	50,523,762
Cloudy Bay Sustainable Forestry	**42,832,861**	28,641,399
	132,909,302	86,970,444
Allowance for impairment	**(76,343,277)**	-
	56,566,025	86,970,444

Other debtors (excluding prepayments and interest receivable) are denominated in PNG Kina. The carrying amounts of interest receivable and other debtors approximated their fair values.

The loans receivable from Champion 34 and Cloudy Bay Sustainable Forestry are interest-free, unsecured with no fixed repayment period and will be called upon when these subsidiaries have the capacity to repay the loans.

During the financial year, impairment losses of US$33,510,416 (2010: US$nil) and US$42,832,861 (2010: US$nil) were recognised on loans receivable from Western Province Sustainable Power and Cloudy Bay Sustainable Forestry respectively as management believes that the recoverability of these receivables is uncertain based on their internal assessment of the future profitability of the subsidiaries.

The impairment losses have been included in development costs in the statement of comprehensive income.

12. Financial assets, available-for-sale

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Beginning of financial year	**-**	6,000,000	**-**	6,000,000
Impairment	**-**	(6,000,000)	**-**	(6,000,000)
End of financial year	**-**	-	**-**	-

Available-for-sale financial assets are analysed as follows:

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Unlisted securities	**-**	-	**-**	-

The Company maintains a 5% interest in a telecommunication carrier in Papua New Guinea acquired at a cost of US$6,000,000. (An initial investment of US$5,000,000 was established on 3 November 2008 and a further US$1,000,000 in 2009). Based on fair value assessment at balance date, the investment was fully impaired in 2010 and remains impaired in 2011.

13. Investment in joint ventures

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Investment in OTML at cost			**2,903,581**	2,903,581
Investment in PNGEDL, at cost			**13,967,524**	-*
Total Investment			**16,871,105**	2,903,581
Beginning of the financial year	**535,325,686**	487,987,386		
Investment in Habourside Development Limited	**9,330,000**	-		
Investment in PNGEDL at cost	**13,967,524**	-*		
Share of results after tax	**337,087,976**	386,109,232		
Share of hedge reserve	**4,555,796**	(24,901,639)		
Dividends received	**(221,900,000)**	(338,000,000)		
Foreign currency translation differences	**140,495,339**	24,130,707		
End of the financial year	**818,862,321**	535,325,686		

*Less than US$1.

The investments in joint ventures are represented by:

Share of net assets	**724,928,210**	-	-	-
Notional goodwill in investment in OTML	**93,934,111**	-	-	-
Total	**818,862,321**	-	-	-

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13. Investment in joint ventures (continued)

The summarised financial information of joint ventures are as follows:

	The Group	
	2011 US$	**2010 US$**
- Assets	**998,911,649**	828,815,544
- Liabilities	**273,316,344**	285,283,576
- Revenue	**1,234,966,874**	967,252,324
- Net results	**336,710,206**	385,368,753
Share of capital commitment	**111,882,614**	41,878,720
Share of contingent liabilities incurred jointly with other investors	**-**	-

Ok Tedi Mining Limited ("OTML")

The investment in a joint venture 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 joint venture to the Company.

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).

On 2 December 2010, OTML entered into a Share Buy Back Agreement with Inmet Mining Corporation to buy back 42,300,000 shares (18%) held by Inmet Mining Corporation for a total consideration of US$ 335,000,000 (equivalent to K881,000,000), comprising a return of capital of US$51,488,000 and a deemed dividend of US$285,282,000. The consideration agreed with Inmet in exchange for the shares was settled on 28 January 2011.

The restated shareholding effective from the date of the share buy-back is as follows:

	Pre-acquisition	Post-acquisition
PNGSDP	52%	63.4%
Inmet	18%	-
The Independent State of Papua New Guinea	20%	24.4%
Mineral Resources Ok Tedi	10%	12.2%
Total	100%	100%

The Shareholders Agreement was amended on 28 January 2011 to reflect the change in shareholding (5th Restated Shareholders Agreement). With these shares brought back, PNGSDP's interests have increased from 52% to 63.4%. Investment in OTML continued to be accounted for as joint venture based on the existence of joint-control in OTML. The change in interest from 52% to 63.4% has resulted in the Group recognising a notional goodwill amounting to US$93,934,111, which is included as part of the investment in OTML.

13. Investment in joint ventures (continued)

PNG Energy Development Limited ("PNGEDL")

Pursuant to a shareholder agreement, PNGEDL is equally owned by PNGSDP and Origin Energy Ltd. The principal activity of PNGEDL is to implement and manage electricity and energy projects which are in line with the overall goals and objectives of PNGSDP. Origin Energy Ltd provides technical expertise whilst PNG Sustainable Development Program Limited provides funding for the projects.

Harbourside Development Limited

During the year, the Group, through its subsidiary, Champion 34 Limited, entered into a 50% joint venture agreement with Steamships Trading Company Limited to develop an office complex on the waterfront in Port Moresby. The initial investment in this development was $9,330,000 which has been equity accounted in accordance with the Group's policy for joint ventures.

Details of the joint ventures are as follows:

Name of joint venture	Principal activities	Country of incorporation	Effective Interest	
			2011 %	**2010 %**
Ok Tedi Mining Limited	Mining of copper and gold	Papua New Guinea	**63.4**	52
PNG Energy Development Limited	Development of energy projects	Papua New Guinea	**50**	50
Habourside Development Limited	Property development	Papua New Guinea	**50**	-

14. Investment in subsidiaries

	The Company	
	2011 US$	**2010 US$**
Investments (unquoted at cost)		
Cloudy Bay Sustainable Forestry Limited	**16,930,639**	16,930,639
Impairment of Cloudy Bay Sustainable Forestry Limited	**(16,930,639)**	(16,930,639)
PNG Sustainable Infrastructure Limited	**1**	1
Impairment of PNG Sustainable Infrastructure Limited	**(1)**	(1)
PNG Sustainable Energy Limited	**5,450,000**	5,450,000
Impairment of PNG Sustainable Energy Limited	**(5,450,000)**	-
Champion No. 34 Limited	**1**	1
Western Province Sustainable Power Limited	**-***	-*
Impairment of Western Province Sustainable Power Limited	**-***	-*
Daru Port Development Company Ltd	**23,666,445**	-
Impairment of Daru Port Development Company Ltd	**(23,666,445)**	-
Star Mountains Institute of Technology Ltd	**4,797,421**	-
Impairment of Star Mountains Institute of Technology	**(4,797,421)**	-
PNG Microfinance Ltd	**1,940,787**	1,940,787
Impairment of PNG Microfinance Ltd	**(1,940,787)**	(1,940,787)
	1	5,450,001

* less than US$1.

14. Investment in subsidiaries (continued)

During the financial year, the Company recognised an impairment loss of US$33,913,866 for investment in PNG Sustainable Energy Limited, Daru Port Development Company Ltd and Star Mountain Institute of Technology Ltd as management believes that these investments are not recoverable based on their internal assessment of the future profitability of the subsidiaries. Details of the subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation	Effective Interest	
			2011 %	**2010 %**
Cloudy Bay Sustainable Forestry Limited	Harvest, mill and sell timber products and also promote sustainable forestry management practices.	Papua New Guinea	**100**	100
PNG Sustainable Infrastructure Limited	Develop and construct infrastructure projects in Papua New Guinea. Inactive since 2008.	Papua New Guinea	**100**	100
PNG Sustainable Energy Limited	Develop, produce and distribute electricity and manage energy projects. Inactive in 2010.	Papua New Guinea	**100**	100
Champion No. 34 Limited	Leasing of aircraft and investment activites	Papua New Guinea	**100**	100
Western Province Sustainable Power Limited	Implement and manage electricity projects in the Western Province.	Papua New Guinea	**100**	100
PNG Microfinance Ltd	Financial institution	Papua New Guinea	**81**	81
Star Mountains Institute of Technology Ltd *	Provide education, training & research in the Western Province.	Papua New Guinea	**100**	-
Daru Port Development Company Ltd *	Construction of port and road facilities in the Western Province.	Papua New Guinea	**100**	-

* Incorporated during the financial year.

15. Property, plant and equipment

The Group	Computer and computer software US$	Motor vehicles US$	Fixtures & fittings US$	Plant and equipment US$	Leasehold Improvements US$	Leasehold land US$	Buildings US$	Capital work in progress US$	Total US$
2011									
Cost									
Beginning of financial year	**1,399,222**	**468,304**	**2,341,129**	**12,141,502**	**232,447**	**2,943,134**	**5,985,177**	**561,859**	**26,072,774**
Additions	**601,655**	**848,725**	**208,644**	**5,984,042**	**146,716**	**-**	**4,900,856**	**3,117,006**	**15,807,644**
Transfers	**-**	**-**	**-**	**1,314,810**	**-**	**-**	**334,210**	**(1,649,020)**	**-**
Disposals	**(380,149)**	**-**	**(1,430,071)**	**-**	**(107,488)**	**-**	**-**	**-**	**(1,917,708)**
End of financial year	**1,620,728**	**1,317,029**	**1,119,702**	**19,440,354**	**271,675**	**2,943,134**	**11,220,243**	**2,029,845**	**39,962,710**
Accumulated depreciation and impairment loss									
Beginning of financial year	893,979	108,351	708,445	1,652,255	114,875	2,943,134	-	-	6,421,039
Depreciation charge	596,827	401,704	475,611	1,243,999	106,241	-	1,673,604	-	4,497,986
Impairment loss	-	-	-	16,301,788	-	-	7,481,376	-	23,783,164
Disposals/adjustments	(21,662)	-	(314,076)	-	-	-	-	-	(335,738)
End of financial year	1,469,144	510,055	869,980	19,198,042	221,116	2,943,134	9,154,980	-	34,366,451
Net book value									
End of financial year	**151,584**	**806,974**	**249,722**	**242,312**	**50,559**	**-**	**2,065,263**	**2,029,845**	**5,596,259**

15. Property, plant and equipment (continued)

The Group	Computer and computer software US$	Motor vehicles US$	Fixtures & fittings US$	Plant and equipment US$	Leasehold Improvements US$	Leasehold land US$	Buildings US$	Capital work in progress US$	Total US$
2010									
Cost									
Beginning of financial year	1,081,617	424,491	775,472	4,650,850	205,486	2,943,134	457,376	6,766,461	17,304,887
Additions	266,183	151,311	490,208	27,570	26,961	-	-	7,473,628	8,435,861
Transfers	253,134	82,857	242,461	7,463,082	54,014	-	5,571,289	(13,666,837)	-
Disposals	(253,134)	(207,226)	(203,301)	-	(54,014)	-	(43,488)	(11,393)	(772,556)
Acquisition of subsidiary	51,422	16,871	1,036,289	-	-	-	-	-	1,104,582
End of financial year	1,399,222	468,304	2,341,129	12,141,502	232,447	2,943,134	5,985,177	561,859	26,072,774
Accumulated depreciation									
Beginning of financial year	989,058	113,508	441,358	509,091	139,082	2,943,134	2,431	-	5,137,662
Depreciation charge	158,055	141,814	470,388	1,143,164	29,807	-	41,057	-	1,984,285
Write-offs	(253,134)	(146,971)	(203,301)	-	(54,014)	-	(43,488)	-	(700,908)
End of financial year	893,979	108,351	708,445	1,652,255	114,875	2,943,134	-	-	6,421,039
Net book value									
End of financial year	505,243	359,953	1,632,684	10,489,247	117,572	-	5,985,177	561,859	19,651,735

During the 2011 financial year, the Group recognised an impairment loss of US$23,783,164 (US$nil) for plant and equipment and building held by Cloudy Bay Sustainable Forestry Ltd as management believes that the recoverability of these are uncertain based on their internal assessment of the future profitability of Cloudy Bay Sustainable Forestry Ltd.

15. Property, plant and equipment (continued)

The Company

	Computers and computer software	Motor vehicles	Office furniture and equipment	Leasehold Improvements	Total
	US$	US$	US$	US$	US$
2011					
Cost					
Beginning of financial year	**842,191**	**162,286**	**409,842**	**113,906**	**1,528,225**
Additions	**233,470**	**174,087**	**60,508**	**1,078**	**469,143**
End of financial year	**1,075,661**	**336,373**	**470,350**	**114,984**	**1,997,368**
Accumulated depreciation					
Beginning of financial year	**818,875**	**77,107**	**392,570**	**97,149**	**1,385,701**
Depreciation charge	**189,687**	**34,230**	**20,866**	**11,582**	**256,365**
End of financial year	**1,008,562**	**111,337**	**413,436**	**108,731**	**1,642,066**
Net book value					
End of financial year	**67,099**	**225,036**	**56,914**	**6,253**	**355,302**
2010					
Cost					
Beginning of financial year	752,890	224,160	402,713	97,998	1,477,761
Additions	89,301	51,102	7,129	15,908	163,440
Disposals	-	(112,976)	-	-	(112,976)
End of financial year	842,191	162,286	409,842	113,906	1,528,225
Accumulated depreciation					
Beginning of financial year	735,924	105,097	338,630	85,068	1,264,719
Depreciation charge	82,951	24,732	53,940	12,081	173,704
Disposal	-	(52,722)	-	-	(52,722)
End of financial year	818,875	77,107	392,570	97,149	1,385,701
Net book value					
End of financial year	**23,316**	**85,179**	**17,272**	**16,757**	**142,524**

16. Intangible assets

Intangible assets consist of timber permits, research and development and intellectual property acquired.

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Cost	**12,554,500**	12,554,500	**-**	-
Accumulated amortisation	**(526,808)**	(526,808)	**-**	-
Impairment	**(12,027,692)**	(12,027,692)	**-**	-
Net book value	-	-	**-**	-

The carrying value of the timber permits (i.e. timber permits for Cloudy Bay Sustainable Forestry) has been fully impaired as management has estimated that the recoverable amount is less than its carrying amount.

17. Sundry creditors and accruals

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Amounts due to:				
- Subsidiaries (non-trade)	**-**	-	**5,450,000**	5,450,000
- Non-related parties	**42,709,208**	21,052,551	**5,555,893**	4,318,098
	42,709,208	21,052,551	**11,005,893**	9,768,098

The non-trade amount due to subsidiaries is unsecured, interest-free and repayable on demand.

18. Deferred income tax liability

Movement in deferred income tax account is as follows:

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Beginning of the financial year	**44,062,044**	35,569,040	**-**	-
Tax charged to profit or loss	**597,595**	8,493,004	**-**	-
	44,659,639	44,062,044	**-**	-

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	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Deferred income tax liabilities:				
- to be settled after one year	**44,659,639**	44,062,044	**-**	-
	44,659,639	44,062,044	**-**	-

Deferred income tax liabilities are recognised on the retained earnings of Ok Tedi Mining Limited representing withholding tax on the expected future dividends from retaining earnings and other temporary differences. Deferred income tax liabilities are also recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in respect of a subsidiary in the Group.

19. Members' subscriptions

As a Company "limited by guarantee", the Company does not have any issued shares or shareholders. At 31 December 2011, there were 3 (2010: 3) members of the Company.

20. General, Long Term and Development Funds

General Fund

The General Fund is accounted for in accordance with the policy set out in Note 2.1.15.

	The Company	
	2011	2010
	US$	US$
Beginning of the financial year	**2,903,581**	2,903,581
Dividends from investment in joint venture	**221,900,000**	338,000,000
Other income	**3,020,979**	225,075
Governance and administrative expenses	**(9,905,781)**	(8,322,853)
10% Withholding tax paid to IRC of Papua New Guinea	**(22,190,000)**	(33,800,000)
Transfer to long term and development funds	**(192,825,198)**	(296,102,222)
End of the financial year	**2,903,581**	2,903,581

Long Term Fund

The Long Term Fund is accounted for in accordance with the policy set out in Note 2.1.15.

	The Company	
	2011	2010
	US$	US$
Beginning of the financial year	**1,044,803,634**	817,890,515
Investment income	**31,472,899**	32,989,803
Investment expenses	**(2,023,738)**	(1,713,805)
Withholding tax paid to IRC of Papua New Guinea	**(1,243,570)**	(1,127,270)
Administration expenses	**(95,402)**	(637,091)
Transfer from General Fund	**128,550,132**	197,401,482
End of the financial year	**1,201,463,955**	1,044,803,634

The weighted average rate of return on investment for the long term fund for the year was 3.19% (2010: 3.55%).

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

Development Fund

The Development Fund is accounted for in accordance with the policy set out in Note 2.1.15, and is allocated between the Western Province Program Fund and the National Program Fund as follows:

	Western Province Program Fund 2011 US$	National Program Fund 2011 US$	Program Total 2011 US$	Program Total 2010 US$
Beginning of the financial year	103,698,825	188,052,309	**291,751,134**	237,712,997
Investment income	382,549	765,098	**1,147,647**	1,581,096
Investment & Development expenses	(9,609,350)	(126,299,571)	**(135,908,921)**	(46,243,699)
Transfer from General Fund	21,425,022	42,850,044	**64,275,066**	98,700,740
End of the financial year	115,897,046	105,367,880	**221,264,926**	291,751,134

The weighted average rate of return on short term investments for the development fund for the year was 0.54 % (2010: 0.49%).

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21. Commitments

(a) Operating lease commitments

The Group leases office space and motor vehicles from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

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	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Not later than 1 year	**1,361,420**	201,258	**1,361,420**	201,258
Later than 1 year but not later than 5 years	**7,519,982**	558,083	**7,519,982**	558,083
	8,881,402	759,341	**8,881,402**	759,341

21. Commitments (continued)

(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	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Western Province	**67,693,593**	61,356,241	**67,693,593**	61,356,241
National	**42,634,156**	98,226,373	**42,634,156**	98,226,373
	110,327,749	159,582,614	**110,327,749**	159,582,614

(c) Capital commitments

There was no capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investment in a joint venture (Note 13).

(d) Compensation commitments

The Group has signed various compensation agreements with landowners and other surrounding communities affected by the mine. Compensation packages are denominated in the local currency and, in the majority of instances, are payable over the life of the open pit mine.

PNGSDP has an annual commitment to spend at least US$10,029,000 (K21,500,000) or 2.5% of dividends received each year, whichever is greater, in mine affected communities until mine closure date, which is 2013 under the current mine plan.

22. Contingencies

Contingent liabilities

The Shareholder Agreement between PNGSDP, PML and International Finance Corporation (IFC) was amended and restated on 22 May 2006 to cater for a subscription agreement between PNGMF and IFC dated 24 June 2005. IFC agreed on the terms and conditions set out therein and subscribed for approximately 2,900,000 shares ("option shares") of PML. As a condition for investing in PML, the IFC entered into a Put Option Agreement with PNGSDP on 22 May 2006. The Put Option Agreement binds PNGSDP to acquire the option shares when IFC exercises the right to require PNGSDP to purchase any or all of the option shares. The Put Option Agreement specifies that the put option can be exercised by IFC when a "Put Triggering Event" occurs, such as default or non-compliance by PNGSDP or PML with any of its respective obligations, or any misrepresentation or breach of warranty by PNGSDP or PML under the Shareholders Agreement.

23. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Group to transfer securities might be temporarily impaired.

The Group's overall risk management program seeks to maximise the returns derived for the level of risk to which the Group is exposed and seeks to minimise potential adverse effects on the Group's financial performance. All securities investments present a risk of loss of capital. The maximum loss of capital is limited to the fair value of those positions.

The management of these risks is carried out by the investment manager under policies approved by the Board of Directors. The Board of Directors is responsible for setting the objectives and the underlying principles of financial risk management for the Group and the Company. The Investment and Finance committee then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits, covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity in accordance with the objectives and underlying principles that are approved by the Board of Directors.

The Group and the Company has appointed five 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.

23. Financial risk management (continued)

Financial risk factors (continued)

(a) Market risk

i) Price risk

The Group is exposed to equity and bond securities price risk and derivative price risk. This arises from investments held by the Fund Managers for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the US Dollars, the price initially expressed in foreign currency and then converted into US Dollars will also fluctuate because of changes in foreign exchange rates. Please refer to section (b) for measurement and management of foreign exchange risk.

The Group's policy is to manage price risk through diversification and selection of reputable and experienced Fund Managers that manages the securities and other financial instruments within specified limits set by the Board of Directors. A summary analysis of investments by nature is presented in Note 9.

The majority of the Group's equity investments are publicly traded with good credit quality ratings. The Group's policy requires that the overall market position is monitored by the Group's Investment Committee and is reviewed on a quarterly basis by the Board of Directors. Compliance with the Group's investment policies are reported to the Board by the Investment and Finance committee on a quarterly basis.

At 31 December, the fair value of equities and bonds exposed to price risk were as follows:

	Fair Value	
	2011	**2010**
	US$	**US$**
The Group		
Equity securities designated at fair value through profit or loss	**193,862,660**	186,965,236
Bonds designated at fair value through profit or loss	**685,231,004**	594,337,090
The Company		
Equity securities designated at fair value through profit or loss	**193,862,660**	186,965,236
Bonds designated at fair value through profit or loss	**672,420,733**	594,337,090

23. Financial risk management (continued)

Financial risk factors (continued)

(a) Market risk (continued)

i) Price risk (continued)

The table below summarises the sensitivity of the Group's and Company's investments to equity and bond price movements as at 31 December. The analysis is based on the assumptions that the Market Index changed by 5% (2010: 5%) with all other variables held constant, and that the fair value of the Group's portfolio of equity and bond securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonably possible shift in the Market Index, having regard to the historical volatility of the index. The impact below arises from the reasonably possible change in the fair value of equities and equity derivatives.

	2011	2010
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
Managed by Fund Managers		
- increased by	**35,548,362**	27,785,926
- decreased by	**(35,548,362)**	(27,785,926)
Managed in-house		
- increased by	**7,765,411**	6,337,356
- decreased by	**(7,765,411)**	(6,337,356)
The Company		
Managed by Fund Managers		
- increased by	**35,548,362**	27,785,926
- decreased by	**(35,548,362)**	(27,785,926)
Managed in-house		
- increased by	**7,765,411**	6,337,356
- decreased by	**(7,765,411)**	(6,337,356)

23. Financial risk management (continued)

Financial risk factors (continued)

(a) Market risk (continued)

i) Price risk (continued)

The Investment and Finance committee uses market indices as a reference point in assessing the investment decisions made by the Fund Managers. However, the Investment and Finance committee does not manage the Group's investment strategy to track the Market Index or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at 31 December and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the Group's investment portfolio as managed by the Fund Managers is expected to change over time. The sensitivity analysis prepared as of 31 December is not necessarily indicative of the effect on the Group's and Company's investments of future movements in the level of the market index.

ii) Foreign exchange risk

The investment managers of the Group operate internationally and hold monetary assets denominated in currencies other than the US Dollars, the functional currency. Foreign currency risk, as defined in FRS 7, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

Management monitors the exposure on all foreign currency denominated assets and liabilities.

23. Financial risk management (continued)

(a) Market risk (continued)

ii) Foreign exchange risk (continued)

The table below summarises the Group's assets and liabilities, monetary, which are denominated in a currency other than the US Dollar.

The Group's and Company's currency exposure based on the information used by key management is as follows:

	PGK US$	EUR US$	USD US$	HKD US$	Other US$	Total US$
The Group						
2011						
Financial Assets						
Cash and cash equivalents	31,681,074	-	432,062,041	4,988,085	-	468,731,200
Financial assets at fair value through profit or loss	153,980,787	65,526,426	619,875,548	16,349,303	53,122,167	908,854,231
Other receivables and finance lease receivable	25,322,745	-	45,186,738	-	-	70,509,483
	210,984,606	65,526,426	1,097,124,327	21,337,388	53,122,167	1,448,094,914
Financial Liabilities						
Sundry creditors and accruals	(44,768,228)	-	-	-	-	(44,768,228)
Net financial assets	166,216,378	65,526,426	1,097,124,327	21,337,388	53,122,167	1,403,326,686
Less: Net financial assets denominated in the Company's functional currency	-	-	(1,097,124,327)	-	-	(1,097,124,327)
Currency exposure	166,216,378	65,526,426	-	21,337,388	53,122,167	306,202,359

23. Financial risk management (continued)

(a) Market risk (continued)

ii) Foreign exchange risk (continued)

	PGK US$	EUR US$	USD US$	HKD US$	Other US$	Total US$
The Group						
2010						
Financial Assets						
Cash and cash equivalents	10,395,078	83,275	352,891,354	-	-	363,369,707
Financial assets at fair value through profit or loss	125,856,324	58,094,047	666,373,091	5,899,203	7,225,440	863,448,105
Financial assets available-for-sale						
Other receivables and finance lease receivable	52,921,934	-	34,552,085	-	-	87,474,019
	189,173,336	58,177,322	1,053,816,530	5,899,203	7,225,440	1,314,291,831
Financial liabilities						
Sundry creditors and accruals	(22,072,645)	-	-	-	-	(22,072,645)
Net financial assets	167,100,691	58,177,322	1,053,816,530	5,899,203	7,225,440	1,292,219,186
Less: Net financial assets denominated in the respective entities' functional currencies	-	-	(1,053,816,530)	-	-	(1,053,816,530)
Currency exposure	167,100,691	58,177,322	-	5,899,203	7,225,440	238,402,656

23. Financial risk management (continued)

(a) Market risk (continued)

ii) Foreign exchange risk (continued)

	PGK US$	EUR US$	USD US$	HKD US$	Other US$	Total US$
The Company						
2011						
Financial Assets						
Cash and cash equivalents	27,106,536	-	432,062,041	4,988,085	-	464,156,662
Financial assets at fair value through profit or loss	141,170,516	65,526,426	619,875,548	16,349,303	53,122,167	896,043,960
Other receivables	29,776,928	-	56,566,024	-	-	86,342,952
	198,053,980	65,526,426	1,108,503,613	21,337,388	53,122,167	1,446,543,574
Financial Liabilities						
Sundry creditors and accruals	(11,606,429)	-	-	-	-	(11,606,429)
Net financial assets	186,447,551	65,526,426	1,108,503,613	21,337,388	53,122,167	1,434,937,145
Less: Net financial assets denominated in the Company's functional currency	-	-	(1,108,503,613)	-	-	(1,108,503,613)
Currency exposure	186,447,551	65,526,426	-	21,337,388	53,122,167	326,433,532

23. Financial risk management (continued)

(a) Market risk (continued)

ii) Foreign exchange risk (continued)

	PGK US$	EUR US$	USD US$	HKD US$	Other US$	Total US$
The Company						
2010						
Financial Assets						
Cash and cash equivalents	241,999	83,275	352,891,377	-	-	353,216,651
Financial assets at fair value through profit or loss	125,856,324	58,094,047	666,373,091	5,899,203	7,225,440	863,448,105
Other receivables	89,860,316	-	34,552,085		-	124,412,401
	215,958,639	58,177,322	1,053,816,563	5,899,203	7,225,440	1,341,077,167
Financial Liabilities						
Sundry creditors and accruals	(10,114,897)	-	-	-	-	(10,114,897)
Net financial assets	205,843,742	58,177,322	1,053,816,553	5,899,203	7,225,440	1,330,962,260
Less: Net financial assets denominated in the Company's functional currency	-	-	(1,053,816,553)	-	-	(1,053,816,553)
Currency exposure	205,843,742	58,177,322	-	5,899,203	7,225,440	277,145,707

In accordance with the Group's policy, the investment managers monitor the Group's foreign exchange exposure on a daily basis, and the Investment and Finance committee reviews it on a quarterly basis.The table below summarises the sensitivity of the Group's investment portfolio to changes in foreign exchange movements at year end. The analysis is based on the assumptions that the relevant foreign exchange rate increased/decreased against the US Dollars by the percentages disclosed in the table below, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates.

23. Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

If the PGK changed against the USD by 17% (2010: 5%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	2011	2010
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
PGK against USD		
- strengthened	**28,054,244**	7,868,790
- weakened	**(28,054,244)**	(7,868,790)
The Company		
PGK against USD		
- strengthened	**31,468,891**	12,005,437
- weakened	**(31,468,891)**	(12,005,437)

If the EUR changed against the USD by 9% (2010: 2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	2011	2010
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
EUR against USD		
- strengthened	**5,786,197**	1,164,081
- weakened	**(5,786,197)**	(1,164,081)
The Company		
EUR against USD		
- strengthened	**5,786,197**	1,164,081
- weakened	**(5,786,197)**	(1,164,081)

23. Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

If the HKD changed against the USD by 4% (2010: 1%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	2011	2010
	Increase/(Decrease)	
	Surplus from operations	Surplus from operations
	US$	US$
The Group		
HKD against USD		
- strengthened	**846,539**	49,515
- weakened	**(846,539)**	(49,515)
The Company		
HKD against USD		
- strengthened	**846,539**	49,515
- weakened	**(846,539)**	(49,515)

(iii) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. The Group holds fixed interest securities that expose the Group to fair value interest rate risk. The Group also holds a limited amount of euro-denominated floating rate debt, cash and cash equivalents that expose the Group to cash flow interest rate risk. The Group's policy requires the Investment Manager to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities. The average effective duration of the Group's portfolio is a measure of the sensitivity of the fair value of the Group's fixed interest securities to changes in market interest rates.

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

The Group's and the Company's interest rate risk arises from term deposits, commercial papers and bonds. The Group's and the Company'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.

23. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

At 31 December 2011, if interest rates had been 5% (2010: 5%) higher/lower with all other variables held constant, the movement in interest bearing assets for the Group and Company is as follows:

	2011 US$	2010 US$
The Group		
Bonds, securities and commercial papers	**836,615**	913,347
Term deposits and loans	**689,286**	211,996
	1,525,901	1,125,343
The Company		
Bonds, securities and commercial papers	**836,615**	913,347
Term deposits and loans	**66,437**	203,846
	903,052	1,117,193

This primarily arises from the increase/decrease in the fair value of fixed interest securities, with a small proportion arising from the decrease/increase in interest income on cash and cash equivalents. The Group has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities.

In accordance with the Group's policy, the investment managers monitors the Fund's overall interest sensitivity on daily basis; the Investment and Finance committee reviews it on a quarterly basis.

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The major classes of financial assets of the Group and of the Company are cash and bank balances, receivables and financial instruments. For receivables other than related parties, the Group and the Company adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient collateral where appropriate to mitigate credit risk. For other financial assets, the Group and the Company adopts the policy of dealing only with high credit quality counterparties.

The analysis below summarises the credit quality as at year end. The majority of unrated securities have been assessed by the investment managers to have credit quality consistent with the investment policies and guidelines approved by the Board of Directors for an investment grade bond. A BBB/Baa rating is the lowest rating a bond can have and still be considered an investment grade bond. An investment grade bond is a bond considered to have a relatively low risk of default.

23. Financial risk management (continued)

(b) Credit risk (continued)

	2011 US$	2010 US$
The Group		
Debt securities by rating		
AAA/Aaa	**534,500,430**	394,420,216
AA/Aa	**88,902,488**	81,129,425
A/A	**32,038,755**	53,714,799
BBB/Baa	**4,468,859**	1,915,136
Unrated**	**25,320,472**	63,157,514
Total	**685,231,004**	594,337,090
The Company		
Debt securities by rating		
AAA/Aaa	**521,690,159**	394,420,216
AA/Aa	**88,902,488**	81,129,425
A/A	**32,038,755**	53,714,799
BBB/Baa	**4,468,859**	1,915,136
Unrated**	**25,320,472**	63,157,514
Total	**672,420,733**	594,337,090

**This relates to PNG government bonds which have no available rating.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Investment Committee based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Investment Committee. All amounts due from brokers, cash and short-term deposits are held by parties with credit ratings in line with the investment policies and guideline approved by the Board of Directors.

All transactions in listed securities made by the investment managers are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions. For banks and financial institutions, the Group only transacts with independently rated parties with high credit ratings. The investment in commercial papers and bonds are restricted to institutions in OECD member countries.

In accordance with the Groups policy, the investment managers monitor the Group's credit position on a daily basis; the Investment and Finance committee reviews it on a quarterly basis.

As the Group and the Company do not hold any collateral, the maximum risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

23. Financial risk management (continued)

(b) Credit risk (continued)

The maximum exposure to credit risk at year end is the carrying amount of the financial assets as set out below:

	2011 US$	2010 US$
The Group		
Debt securities	**685,231,004**	594,337,090
Cash and cash equivalents	**468,731,200**	363,369,707
Finance & Other receivables	**70,509,483**	87,474,019
Total	**1,224,471,687**	1,045,180,816
The Company		
Debt securities	**672,420,733**	594,337,090
Cash and cash equivalents	**464,156,662**	353,216,651
Other receivables	**86,342,952**	124,412,401
Total	**1,222,920,347**	1,071,966,142

(i) Financial assets that are neither past due nor impaired

Bank deposits, commercial papers and bonds that are neither past due nor impaired are mainly deposits, commercial papers and bonds with banks with high credit-ratings assigned by international credit-rating agencies. Other receivables that are neither past due nor impaired are substantially trade receivables of subsidiaries in the Group.

The Group's other receivables not past due include receivables amounting to US$3,062,927 (2010: US$91,598) that would have been past due or impaired if the terms were not re-negotiated during the financial year.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of other receivables past due but not impaired is as follows:

	The Group		The Company	
	2011 US$	2010 US$	2011 US$	2010 US$
Past due < 3 months	**1,450,068**	195,133	**-**	-
Past due 3 to 6 months	**3,232**	570,466	**-**	-
	1,453,300	765,599	**-**	-

23. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group is exposed to the daily settlement of trading transactions and its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets in investments are not actively traded on a stock exchange. The Group's listed securities are considered readily realisable, as the majority are listed on reputable stock exchanges.

The Group's investment managers may periodically invest in derivative contracts and debt securities that are traded over the counter and unlisted equity investments that are not traded in an active market. As a result, the Group may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

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.

In accordance with the Group's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis; the Investment and Finance committee reviews it on a quarterly basis.

23. Financial risk management (continued)

(c) Liquidity risk (continued)

The Group manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 90 days or less. The following table illustrates the expected liquidity of assets held.

	1-3 months US$	3-12 months US$	More than 12 months US$	Total US$
The Group				
2011				
Financial Assets				
Cash and cash equivalents	468,731,200	-	-	468,731,200
Financial assets at fair value through profit or loss	-	136,187,957	772,666,274	908,854,231
Other receivables and finance lease receivable	-	33,004,732	37,504,751	70,509,483
	468,731,200	169,192,689	810,171,025	1,448,094,914
Financial Liabilities				
Sundry creditors and accruals	(44,768,228)	-	-	(44,768,228)
Net financial assets	423,962,972	169,192,689	810,171,025	1,403,326,686
2010				
Financial assets				
Cash and cash equivalents	363,369,707	-	-	363,369,707
Financial assets at fair value through profit or loss	-	163,543,174	699,904,931	863,448,105
Other receivables and finance lease receivable	-	7,162,417	80,311,602	87,474,019
	363,369,707	170,705,591	780,216,533	1,314,291,831
Financial liabilities				
Sundry creditors and accruals	(22,072,645)	-	-	(22,072,645)
Net financial assets	341,297,062	170,705,591	780,216,533	1,292,219,186

23. Financial risk management (continued)

(c) Liquidity risk (continued)

The Company manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 90 days or less. The following table illustrates the expected liquidity of assets held.

	1-3 months US$	3-12 months US$	More than 12 months US$	Total US$
The Company				
2011				
Financial Assets				
Cash and cash equivalents	464,156,662	-	-	464,156,662
Financial assets at fair value through profit or loss	-	136,187,957	759,856,003	896,043,960
Other receivables and finance lease receivable	-	908,942	85,434,010	86,342,952
	464,156,662	137,096,899	845,290,013	1,446,543,574
Financial Liabilities				
Sundry creditors and accruals	(11,606,429)	-	-	(11,606,429)
Net financial assets	452,550,233	137,096,899	845,290,013	1,434,937,145
2010				
Financial assets				
Cash and cash equivalents	353,216,651	-	-	353,216,651
Financial assets at fair value through profit or loss	-	163,543,174	699,904,931	863,448,105
Other receivables and finance lease receivable	-	37,441,957	86,970,444	124,412,401
	353,216,651	200,985,131	786,875,375	1,341,077,157
Financial liabilities				
Sundry creditors and accruals	(10,114,897)	-	-	(10,114,897)
Net financial assets	343,101,754	200,985,131	786,875,375	1,330,962,260

23. Financial risk management (continued)

(d) Capital risk management

The Group is a "limited by guarantee" entity which means that it has no share capital, debentures, share options or unissued shares. The Group's operations are governed by a set of rules and agreements that pertain to its unique structure and circumstances.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to promote sustainable development within Papua New Guinea, and advance the general welfare of the people of Papua New Guinea.

The Long Term Fund (LTF) and The Development Fund are governed by the rules as described in Note 2.1.15.

Project commitments and funding requirements are monitored on a daily basis by the finance department and reported to the Board on a quarterly basis.

(e) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The investment managers use a variety of methods and make assumptions that are based on market conditions existing at each year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the investment managers may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

23. Financial risk management (continued)

(e) Fair value estimation (continued)

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the investment managers holds for the Group.

Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Effective 1 January 2009 the Group and the Company adopted the amendment to FRS 107 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as-is prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's assets and liabilities (by class) measured at fair value at 31 December 2011.

23. Financial risk management (continued)

(e) Fair value estimation (continued)

All fair value measurements disclosed are recurring fair value measurements:

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
The Group				
2011				
Assets				
Financial assets at fair value through profit or loss				
Bonds	**681,699,658**	**3,531,346**	**-**	**685,231,004**
Equity securities	**174,351,222**	**19,511,438**	**-**	**193,862,660**
Commercial papers and certificates of deposits and accrued interest	**-**	**18,113,635**	**-**	**18,113,635**
Funds	**5,053,915**	**6,593,017**		**11,646,932**
Total assets	**861,104,795**	**47,749,436**	**-**	**908,854,231**
2010				
Assets				
Financial assets at fair value through profit or loss				
Bonds	515,409,907	78,927,183	-	594,337,090
Equity securities	170,158,905	16,806,331	-	186,965,236
Commercial papers and certificates of deposits and accrued interest	-	34,505,497	-	34,505,497
Funds	30,757,449	16,882,833	-	47,640,282
Total assets	716,326,261	147,121,844	-	863,448,105
The Company				
2011				
Assets				
Financial assets at fair value through profit or loss				
Bonds	**668,889,387**	**3,531,346**	**-**	**672,420,733**
Equity securities	**174,351,222**	**19,511,438**	**-**	**193,862,660**
Commercial papers and certificates of deposits and accrued interest	**-**	**18,113,635**	**-**	**18,113,635**
Funds	**5,053,915**	**6,593,017**		**11,646,932**
Total assets	**848,294,524**	**191,315,506**	**-**	**896,043,960**

23. Financial risk management (continued)

(e) Fair value estimation (continued)

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
The Company				
2010				
Assets				
Financial assets at fair value through profit or loss				
Bonds	515,409,907	78,927,183	-	594,337,090
Equity securities	170,158,905	16,806,331	-	186,965,236
Commercial papers and certificates of deposits and accrued interest	-	34,505,497	-	34,505,497
Funds	30,757,449	16,882,833	-	47,640,282
Total assets	716,326,261	147,121,844	-	863,448,105

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations. The Group does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and certain non-US sovereign obligations, listed equities and over the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the investment managers have used valuation techniques to derive the fair value. Per Group mandate, no funds are used for Level 3 investments (2010: Nil).

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated based on quoted market prices or dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates their carrying amount

24. Business Combinations

On 26 May 2010, the Group acquired an additional 32% of equity interest of PNG Microfinance Ltd. The principal activity of PNG Microfinance Ltd is to provide financial services designed to meet the needs of low income households and small business operators across Papua New Guinea. As a result of the acquisition, the Group has increased its shareholding to 81%.

		US$
(a)	**Purchase consideration**	
	Cash paid	35,900
	Consideration transferred for the business	35,900
(b)	**Effect on cash flows of the Group**	
	Cash paid (as above)	(35,900)
	Less: cash and cash equivalents in subsidiary acquired	9,118,873
	Cash inflow on acquisition	**9,082,973**

		At fair value US$
(c)	**Identifiable assets acquired and liabilities assumed**	
	Cash and cash equivalents	9,118,873
	Property, plant and equipment	1,104,582
	Trade and other receivables (Note (d) below)	2,872,057
	Total assets	**13,095,512**
	Trade and other payables	(13,095,512)
	Total liabilities	**(13,095,512)**
	Total identifiable net assets	-

(d) Acquired receivables

The fair value of trade and other receivables was US$2,872,057. The gross contractual amount for trade receivables due was US$3,936,469 of which US$1,064,412 is expected to be uncollectible.

(e) Non-controlling interests

The Group has chosen to recognise the non-controlling interest at the proportionate share of the net assets which is nil.

(f) Revenue and profit contribution

The acquired business contributed revenue of US$2,532,644 and a loss of US$1,172,985 to the Group for the period from 1 June 2010 to 31 December 2010. Had PNG Microfinance Limited been consolidated from 1 January 2010, consolidated revenue and consolidated profit for the year ended 31 December 2010 would have been US$48,209,745 and US$301,579,958 respectively.

25. 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) Key management personnel compensation

The key management personnel compensation is analysed as follows:

	The Group		The Company	
	2011 US$	**2010 US$**	**2011 US$**	**2010 US$**
Directors – fees	**749,159**	712,204	**749,159**	712,204
Management salaries and other short-term benefits	**3,308,970**	2,578,107	**1,642,381**	1,152,386
	4,058,129	3,290,311	**2,391,540**	1,864,590

There has been a Consumer Price Index (CPI) adjustment in the amount of remuneration payable to individual Directors. In addition, a Director received US$106,499 (2010: US$77,899) from the Company in respect of his services provided to a joint venture, Ok Tedi Mining Limited, as a Director of that entity.

Directors are not entitled to other benefits.

26. New or revised accounting standards and interpretations

The Group has not applied the following FRS that have been issued but are not yet effective. These new/revised standards will be adopted by the Group for annual periods commencing on their effective dates as indicated below, and are not expected to have significant impact to the Group's financial statements. The adoption of FRS 112 Disclosure of Interests in Other Entities and FRS 113 Fair Value Measurement will create additional disclosure requirements for the Group's financial statements.

FRS 110 Consolidated Financial Statements (effective 1 January 2013)

FRS 110 establishes control as the basis for determining which entities are consolidated. It provides a single model to be applied in the control analysis for all investees, including special purpose entities that are currently within the scope of INT FRS 12 Consolidation – Special Purpose Entities. Control exists under FRS 110 when the investor has power, exposure to variable returns and the ability to use that power to affect its returns from the investee. FRS 110 also provides guidance on how to apply the control principle, including circumstances involving de facto control and agency relationships, and whether voting rights or rights other than voting are relevant in assessing control.

FRS 111 Joint Arrangements (effective 1 January 2013)

FRS 111 applies to all parties to a joint arrangement including those who participate in, but do not have joint control of, a joint arrangement. The standard prescribes the accounting for joint operations and joint ventures in both consolidated and separate financial statements. It requires that the type of joint arrangement be determined based on the rights and obligations of the parties to the arrangement. Equity accounting is mandatory for participants in joint ventures, while participants in joint operations are to account for its interest in assets, liabilities, revenue and expenses.

26. New or revised accounting standards and interpretations (continued)

FRS 112 Disclosure of Interests in Other Entities (effective 1 January 2013)

FRS 112 combines the existing disclosure requirements in a single disclosure standard. It requires the disclosure of summarised financial information about each subsidiary that has material non-controlling interests as well as material associate and joint venture. It also sets out new disclosure requirements such as financial or other support provided to consolidated and unconsolidated structured entities, and financial information about unconsolidated structured entities that the reporting entity had sponsored.

FRS 113 Fair Value Measurement (effective 1 January 2013)

FRS 113 defines fair value, establishes a framework for measuring fair value and sets out the disclosure requirements for fair value measurements. It explains how to measure the fair value when it is required by other FRSs. It does not introduce new fair value measurements, neither does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. FRS 113 defines fair value as a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

Amendments to FRS 1 Financial Statement Presentation (effective 1 July 2012)

The amendments require entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially recycled to the income statement (reclassification adjustments). Where an entity presents its comprehensive income in two separate statements, the amendments specifically require these statements to be presented consecutively.

Amendments to FRS 12 Income Taxes (effective 1 January 2012)

The amendments introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value, where the presumption that the carrying amount of the investment property will be recovered entirely by sale can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendments also incorporate into FRS 12 the remaining guidance previously contained in INT FRS 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets, which is withdrawn.

Amendments to FRS 107 Financial Instruments: Disclosures (effective 1 July 2011)

The amendments require additional disclosures for all transferred financial assets that are not derecognised in their entirety and those that are derecognised in their entirety but for which the transferor retains continuing involvement existing at the reporting date, irrespective of when the related transfer transaction occurred. The amendments also clarify the conditions under which an entity is deemed to transfer a financial asset.

27. 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 10 April 2012.

Corporate Services Report

A number of changes occurred in 2011 particularly relating to the Company's workforce, which grew in size to 78. These changes were to strengthen the further implementation of the organisation's business strategies.

- Total number of staff at 31 December 2011 was 78 with a number of staff recruited for internal audit, transformational projects and Western Province regional office.
- IT team members obtained Microsoft certification for system administration and networking while other staff members attended management training, relevant workshops and seminars with IT conducting sessions on use of Microsoft suites of applications.
- Performance Management System was developed and reviewed by Management and is being trialled for implementation with roll out anticipated in 2012.
- A number of policy guidelines including Business Travel Guideline were approved to streamline work process and standardise various administration process and procedures.
- Upgraded IT infrastructure to virtual environment and work on the disaster recovery system due to be completed in early 2012.
- Mine Impacts Unit division established its office in Tabubil within the Pitalok Centre, with 3 staff members on site while the decision to build the extension to the Pitalok centre is in progress.

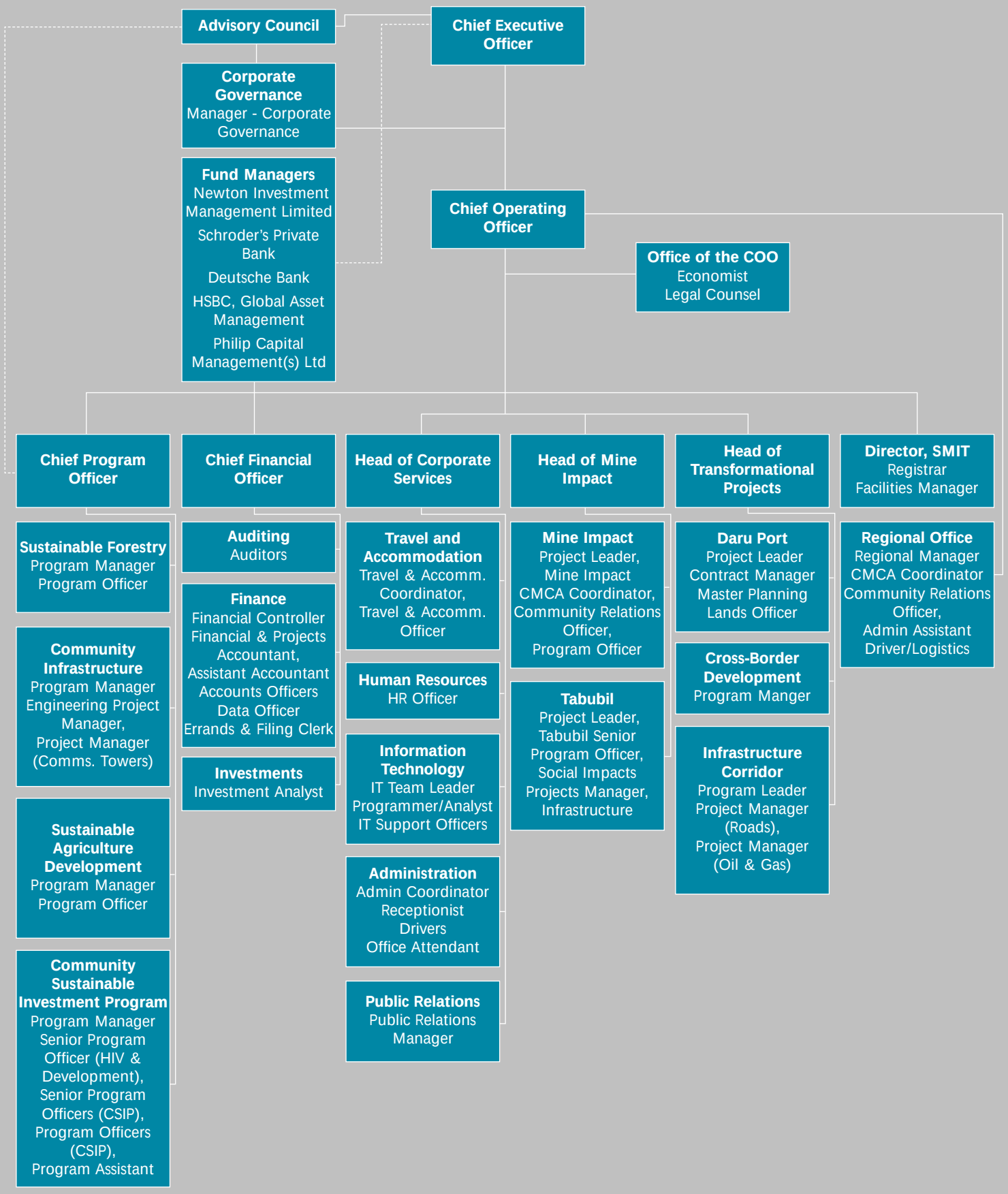
Dudley Daduwe of PNGSDP demonstrating how the One Laptop Per Child program works to Andrew Wilkins of Business Advantage International, Port Moresby.

PNGSDP staff Bob Ande (CSIP) and Michael Poesi (Forestry) explaining PNGSDP programs to a client.

Staff attending the PNGSDP 9th Annual Report Meeting. Front row (L-R): Jacintha Karigawai, Rosa Teria, Michelle Kanasa, Evelyn Smith Back row (L-R): Bernard Tokuau, Michael Ame.

PNGSDP MANAGEMENT CHART

Management Organisational Structure



Advisory Council

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

Members of the Council represent key sectors of the wider community and provide the Company with access to independent monitoring and advisory support.

The Advisory Council did not sit in 2011 as the terms of most members had expired. The roles and functions of the Advisory Council were also reviewed as part of the Independent Review. It was determined that the recommendations from that review should be considered prior to new appointments being made.

PNGSDP providing computer equipment for Santa Maria High School, Waterluma, Milne Bay Province.

Dr Ross Garnaut, AO

Chairman, Non-Executive Director

BA, PhD, FASSA

Skills, experience and expertise

Dr Garnaut is Vice-Chancellor's Fellow and Professorial Fellow in Economics at the University of Melbourne. He is also Distinguished Professor of Economics at the 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.

Dr Garnaut was Senior Economic Advisor to the Australian Prime Minster Robert Hawke and served as Australian Ambassador to China. Dr Garnaut has a long connection with PNG since serving as First Assistant Secretary in PNG's Department of Finance, responsible for financial and economic policy at the time of independence. He has authored numerous books, manuscripts, monographs and articles, particularly in relation to East Asia and the Southwest Pacific. He is the author of several major reports for the Australian Governments, including the Garnaut Climate Change Reviews of 2008 and 2011.

Dr Garnaut was the Chairman of Lihir Gold Ltd (1995-2010) and a board member and Chairman of the International Food Policy Research Institute in Washington DC, USA (2003-2010). Dr Garnaut also has wide-ranging experience in industry including as former Chairman of the Bank of Western Australia Ltd.

Residence: Melbourne, Australia

Mr Donald Manoa, MBE

Non-Executive Director; Chairman National Committee

Skills, experience and expertise

Mr Manoa has a broad range of experience and skills in industry and as a Director. He is Chairman of NGIP/AGMARK Group of companies, Chairman of Kina Fund Management and he is also a Director on the board of First Investment Finance Ltd.

Mr Manoa brings to his role as a Director many years of business experience in Papua New Guinea. He was General Manager of the Papua New Guinea Electricity Commission, and General Manager of Shell Company (PNG) Ltd and Shell Company Ltd, Solomon Islands. He was Chairman of Shell Company (PNG) Ltd, and Gazelle Restoration Authority, (GRA). Mr Manoa was also a member of the Board of Directors of ANZ Banking Group PNG Ltd, Barclay Brothers (PNG) Ltd and Air Niugini.

Mr Manoa has also served in a number of charity and community services in PNG including as Commissioner in the Commission of Enquiry into the National Provident Fund (NPF), and the Commission of Enquiry into the Department of Finance.

He has also served as Honoury Counsel of the Netherlands.

Residence: East New Britain Province, Papua New Guinea

Ms Patricia Caswell

Non-Executive Director

BA (Hons), BEd

Skills, experience and expertise

As Director of Tricia Caswell & Associates, she specialises in sustainability for business and industry with environmental, social, economic and governance dimensions.

Ms Caswell is involved in sustainable development inside and outside Australia. As well as her role as a Board Director of PNG Sustainable Development Program Company she is a Director of KeeptheHabitat, a new company involved in reforestation and carbon capture in Indonesia. She has a number of projects in the private sector in Australia and is a member of Government advisory committees.

Ms Caswell has long standing experience, related to sustainability in mining, forestry, building and property development, renewable energy, the arts, as well as education and training.

Ms Caswell has been a leader in the Australian Trade Unions and a number of other organisations: The Technical Teachers' Union of Victoria, the ACTU Executive, the Australian Conservation Foundation, Plan International Australia, Global Sustainability Institute at RMIT University, and The Victorian Association of Forest Industries.

Over time she has been a representative on public and private organisations in Australia and internationally. These include the National Commission for UNESCO, The Australia Council, Uluru-Kata Juta National Park Board, RMIT University Council and Chair of Circus Oz.

Residence: Melbourne, Australia

Dr Jacob Weiss

Non-Executive Director; Chairman Investment and Finance Committee

BA, MBA, PhD

Skills, experience and expertise

Dr Weiss is Dean Emeritus of the Department of Economics at the College of Management in Tel Aviv, Israel. He was 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 for three years with 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 1999 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 Union Republics.

Dr Weiss was appointed as the Honorary Consul General of Papua New Guinea to Israel in 2007. For all day to day operations, he acts as the Diplomatic Representative of Papua New Guinea to Israel.

Residence: Ramat Hasharon, Israel

Mr Rex Paki

Non-Executive Director

BAC, FCPA

Skills, experience and expertise

Appointed to the Board on 14 September 2011 on the nomination of the Minister for Treasury, Mr Paki is the Managing Director of his own private accounting and strategic consulting practice under RAM Business Consultants. He has been in practice for over 17 years after being with Deloitte for five years. Mr Paki graduated from PNG University of Technology in 1988 with Bachelor of Commerce and completed Australia Corporation Law and Taxation from Deakin University, Melbourne. He is a Fellow of CPA (PNG) and has been the National President for four years. He is a member of the Board of Bank of PNG and is the Chairman of the Civil Aviation Authority, amongst several other board positions.

Currently he is the Chairman of National Road Authority and a Member of Central Supplies Tenders Board and Council of the PNG University of Technology. He also serves on the Board of International Road Federation based in Geneva. He has completed a Senior Roads Executive Program from University of Birmingham, United Kingdom.

In his professional career he has worked on several impact projects which include: Structural Reform of CAA and ADB CAA Investment Program, Mt Hagen City Master Plan, Asian Development Bank Highlands Highway Road Rehabilitation and Motor Vehicle Insurance Ltd (In interim Liquidation). He has also been the principal auditor of National Capital District Commission, Eda Ranu, Investment Corporation, National Fisheries Authority and Pacific International Hospital.

Residence: Port Moresby, Papua New Guinea

Mr Lim How Teck, PBM

Non-Executive Director; Chairman of the Audit Committee

BACC, FCPA (Singapore)/Australia), FCMA(UK), FSID, AIBA

Skills, experience and expertise

Mr Lim, a certified public accountant, has extensive financial experience and serves on several boards in Singapore and corporations around the world.

Mr Lim is Chairman of Redwood International Pte Ltd, Chairman of Certis CISCO Security Pte Ltd, Heliconia Capital Pte Ltd, ARA_CWT trust management (Cache) Ltd and Deputy Chairman of Tuas Power Ltd. He is also a Board Director of Jurong Port Pte Ltd, Rickmers Maritime, ARA Asset Management Ltd, Accuron Technologies Ltd, Mizuho Securities (Singapore) Pte Ltd, Public Utilities Board, Mewah International Inc, Swissco Holdings Ltd, and Foundation of Development Co-operation.

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. He has also been awarded the Education Medal from the Singapore Ministry for Education and the Good Services Medal from the Singapore Civil Defence Force.

Residence: Singapore

Corporate Governance Statement

As a Company "limited by guarantee", PNG Sustainable Development Program Ltd. 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 10 Collyer Quay #10-01, Ocean Financial Centre, Singapore and has a Company Secretary operating at that address. The Company's management office is located in Port Moresby, Papua New Guinea.

This report reflects PNGSDP's corporate governance practices as at 31 December 2011.

The Board, its key duties and responsibilities

The Board must independently oversee the operations and projects of PNGSDP in accordance with the Articles of Association and the Program Rules.

The Board is not subject to the direction or control of the Independent State of Papua New Guinea or BHP Billiton. However, in accordance with the Memorandum and Articles of Association, changes to the Program Rules and structure can only be made with the consent of those parties.

The Board reserves certain functions for itself. Broadly, the duties of the Board include:

- Oversight and review of the overall strategy of the Company to ensure it is consistent with the strategic objectives and that adequate risk management procedures are in place;
- Periodic review of PNGSDP's structures and operations to ensure they are conducted in accordance with the Rules;
- Appointment and evaluation of the Chief Executive Officer and review of the function and performance of other key senior management;
- Determination of which projects are funded by the Company;
- Review periodically the development outcomes and achievements of PNGSDP in terms of the Company's strategic direction;
- Consideration of the income and expenditure accounts and balance sheet;
- Appointment and evaluation of the Auditor;
- Meet at least annually with the Advisory Council; and
- Provide accountability at least annually on the performance and operations through published documents and an Annual Report Meeting.

Board composition and appointment

The Articles of Associate require that the Board has a minimum of four and at all times no more than seven Directors.

As at the date of this report, the Board of Directors consists of six members. The appointment of the Directors is made in accordance with the Articles: three non-executive Directors including the Chairman appointed by BHP Billiton; the Minister for Treasury and Finance, the PNG Chamber of Commerce and Industry and the Bank of PNG each appoint one non-executive Director; and an independent Singapore-resident non-executive Director is also appointed.

As at 31 December 2011, the Board consisted of:

Dr R Garnaut, Chairman, Non-Executive Director appointed by BHP

Ms P Caswell, Non-Executive Director appointed by BHP

Mr R Paki, Non-Executive Director appointed by the Minister for Treasury, PNG

Mr D Manoa, Non Executive Director appointed by the PNG Chamber of Commerce and Industry

Dr J Weiss, Non-Executive Director appointed by the Bank of PNG

Mr L How Teck, Non-Executive Director, Singapore resident

Conflicts of interest

PNGSDP is aware of the importance of managing conflicts of interest. Directors continually monitor and disclose any potential conflicts of interest that arise. In addition, any Director with a material personal interest in a matter being considered by the Board must declare this interest and must not vote on any matter which relates to that interest.

Board meetings

The Board holds three meetings a year at a minimum. It also meets whenever it is necessary between these formal meetings, to carry out its responsibilities.

In carrying out the business which is to be transacted at a Board meeting, Directors are required to raise any questions they may have, request further information if needed, raise concerns and vote on matters before the Board according to their own judgement.

As stipulated in the Articles of Association, a quorum requires one BHP appointed Director and one PNG Director. Decisions are made by majority, but must include at least one BHP appointed Director and one PNG appointed Director.

During 2011, the Board had four scheduled meetings in Singapore and a varying number of Board Committee meetings during the period to 31 December 2011. 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.

Access to information and independent advice

All Directors are given unrestricted access to all records and information relating to PNGSDP. Directors are encouraged to speak with members of senior management at any time to request relevant information.

Directors are entitled to seek independent advice on any matter which relates to PNGSDP at the Company's expense, but must ensure that costs are reasonable and advise the Chairman before obtaining the advice.

Role of Board Committees

The Board has established a number of expert Committees to assist in its duties and responsibilities. Board Committees allow matters to be discussed and considered in greater detail. The Board Committee structure utilises the skills and experience of the PNGSDP Directors to a maximum advantage for the benefit of all stakeholders. Board Committees are formed in response to the needs of the Company and the Board may appoint further Board Committees as it sees fit.

Current Committees of the Board

In order to assist it with its work, the Board has created four main Committees from amongst its members. These are the Audit Committee, the Investment and Finance Committee, the Community and Social Investment Program (CSIP) Committee and the Remuneration Committee.

The Board appoints the Chairman of the Committee.

Each Committee receives reports from Management and independent external experts and makes recommendations to the Board based on the reports.

PNGSDP Board Committee Membership – from 1 January 2011 – 31 December 2011

Audit	Investment & Finance	CSIP	Remuneration
Lim How Teck (C)	Jacob Weiss (C)	Donald Manoa (C)	Ross Garnaut (C)
Patricia Caswell	Ross Garnaut	Patricia Caswell	Donald Manoa
Jacob Weiss	Lim How Teck	Ross Garnaut (ex-Officio)	Lim How Teck
Lawrence Acanufa*			

C - Chairman

* Appointment ceased in September 2011.

Directors' meetings in 2011

The number of Board meetings and meetings of Committees during the year the Director was eligible to attend and the number of meetings attended by each Director were:

	Board	Audit Committee	Investment & Finance Committee	CSIP Committee	Remuneration Committee
Ms Patricia Caswell	6/6	4/4	3/-	4/4	-/-
Mr Lawrence Acanufa	6/4	3/3	-/-	-/-	-/-
Dr Ross Garnaut	6/6	-/-	3/3	-/-	2/2
Mr Lim How Teck	6/5	4/4	3/3	-/-	2/2
Mr Donald Manoa	6/6	-/-	-/-	4/4	2/2
Mr Rex Paki	2/2	-/-	-/-	-/-	-/-
Dr Jacob Weiss	6/6	-/-	3/3	-/-	-/-

Company Secretary

Ms Madelyn Kwang, Senior Manager of DrewCorp Services Pte Ltd, has the chief responsibility for the Company secretarial requirements of the registered company, PNG Sustainable Development Program Ltd.

Ms Kwang, through the appointment of DrewCorp Services Pte Ltd by the PNGSDP Board, is responsible for:

- monitoring Board policy and ensuring that procedures are followed;
- distribution of the Board agenda and briefing materials before each meeting;
- recording, maintaining and distributing the minutes of all General Meetings of the Company;
- notifying the Directors of Board meetings; and
- assisting in oversight of the Company's compliance.

Stakeholder Communication and Member Meetings

The Board of Directors reports regularly to the Members, the Government of Papua New Guinea, BHP Billiton, Ok Tedi Mining Ltd., and to other Papua New Guinea stakeholders.

Annual General Meeting of Members was convened on 5 May 2011 in order to adopt the 2010 Directors' Report and Accounts. Representatives of the Company's auditor for 2010, PriceWaterhouseCoopers, were present at the meeting.

No extraordinary meetings were held during this period by the Members of the Company.

Under the Rules, the Company must hold an Annual Report Meeting every year. The 2010 Annual Report was presented at the ninth PNGSDP Annual Report Meeting convened at the Crown Plaza Conference Room in Port Moresby on 10 June 2011. The Meeting was attended by representatives of key stakeholders. The Chairman and all Non-Executive Directors of the Board, the Chief Executive Officer, and all senior program staff were present to represent the Company at the meeting as well as representatives of the Company's auditors.

Board Delegation to Management

The Board has delegated authority to the Chief Executive Officer to manage the day-to-day leadership and operations of PNGSDP within the delegation limits that are set out in the Program Rules and those set by the Board from time to time. The CEO may sub-delegate responsibilities within these limits; however the CEO remains accountable for all authority that has been delegated to management.

PNGSDP Subsidiaries and Joint Ventures

PNGSDP's relationship with Ok Tedi Mining Ltd is unique in many respects given the responsibilities vested in PNGSDP by the State and BHP Billiton as disclosed earlier in this Annual Report. PNGSDP has a 63.4% shareholding in OTML, however it does not have absolute control over the investment in OTML but shares control with one other shareholder – The State.

PNGSDP has established five companies to undertake investments and provide services which improve the quality of life of communities, especially in rural areas. These companies are Cloudy Bay Sustainable Forestry Ltd, PNG Microfinance Ltd, PNG Energy Developments Ltd,Western Province Sustainable Power Ltd and Star Mountains Institute of Technology.

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. Each company is an independently run, registered business with shareholders, a Board of Directors and a professional management team.

PNG Energy Developments Limited is a joint venture between PNGSDP and Origin Energy Ltd. PNGEDL has been established to implement and manage energy projects in line with the overall goals and objectives of PNG Sustainable Development Program Limited. Origin Energy Ltd provides technical expertise whilst PNG Sustainable Development Program Limited provides the financing for the projects.

Western Province Sustainable Power Limited is a wholly owned subsidiary company trading as "Western Power" to pursue the development of rural electrification and infrastructure in Western Province and throughout Papua New Guinea.

PNG Microfinance Limited is a 81% owned subsidiary of PNGSDP. International Finance Corporation holds 19%. It was established as a vehicle to provide financial services to low income households and village communities throughout Papua New Guinea. PML was one of the Company's first major investment initiatives that pioneered PNGSDP's sustainable development business model.

Cloudy Bay Sustainable Forestry Limited is a wholly owned subsidiary of PNGSDP, located in Central Province. It promotes sustainable forestry practices; it harvests, mills and sells finished timber products including furniture.

Star Mountains Institute of Technology Limiteds. As a wholly owned subsidiary of PNGSDP, SMIT Ltd's vision is to become a world-class education, training and research facility. It plans to achieve that vision by forming partnerships with national and international organisations to deliver a broad-range of learning and research programs for individuals and businesses. SMIT will also develop and offer its own educational, training and trade programs.

These companies 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 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. As set out in the constitution of each company, these Directors can be sourced internally from the PNGSDP Management team or externally.

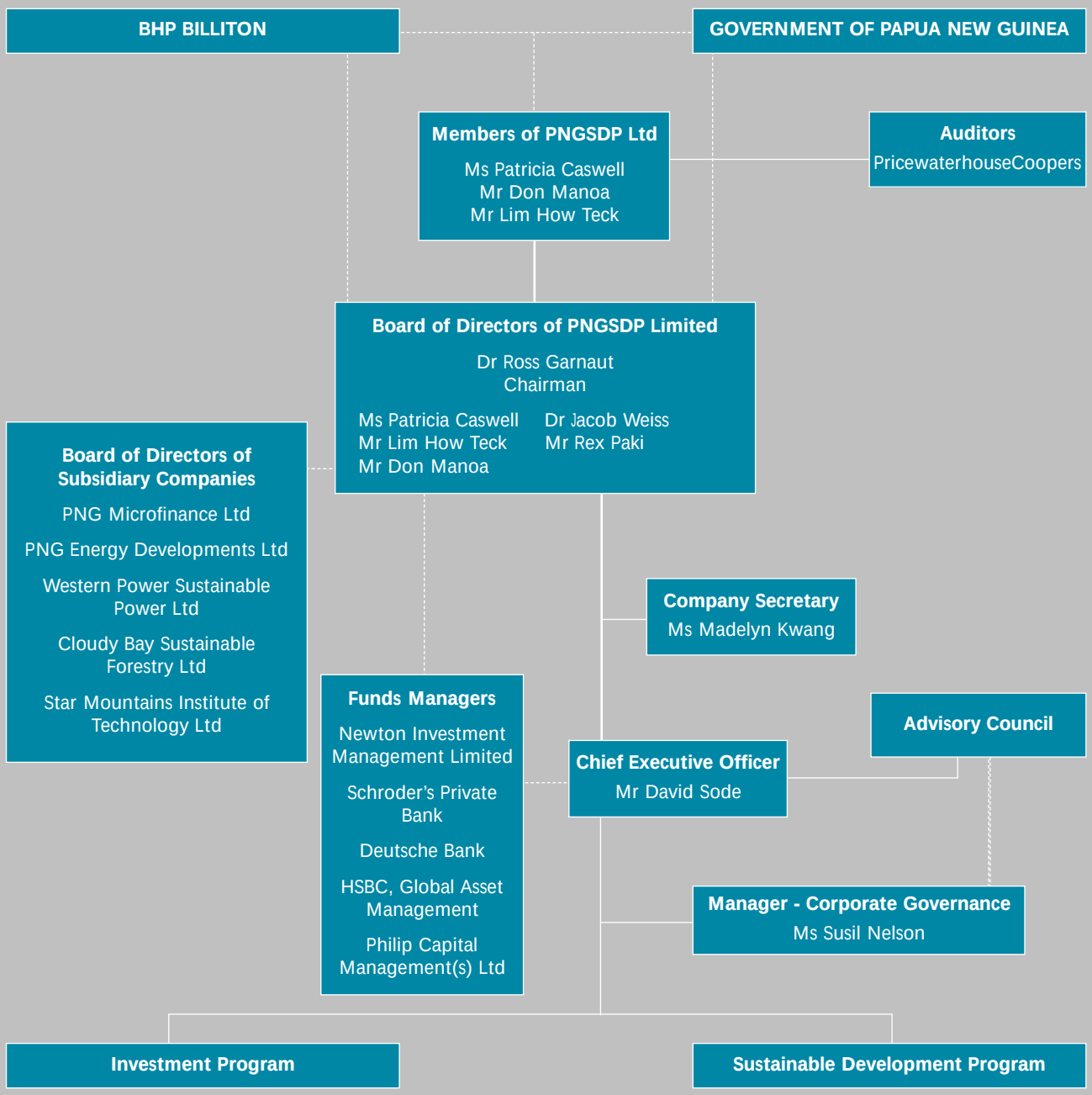
The PNGSDP-nominee Director reports to the CEO of PNGSDP on all matters discussed at Board level. The CEO of PNGSDP is responsible for reporting to the Board of PNGSDP on the activities of all five companies at each Board meeting.

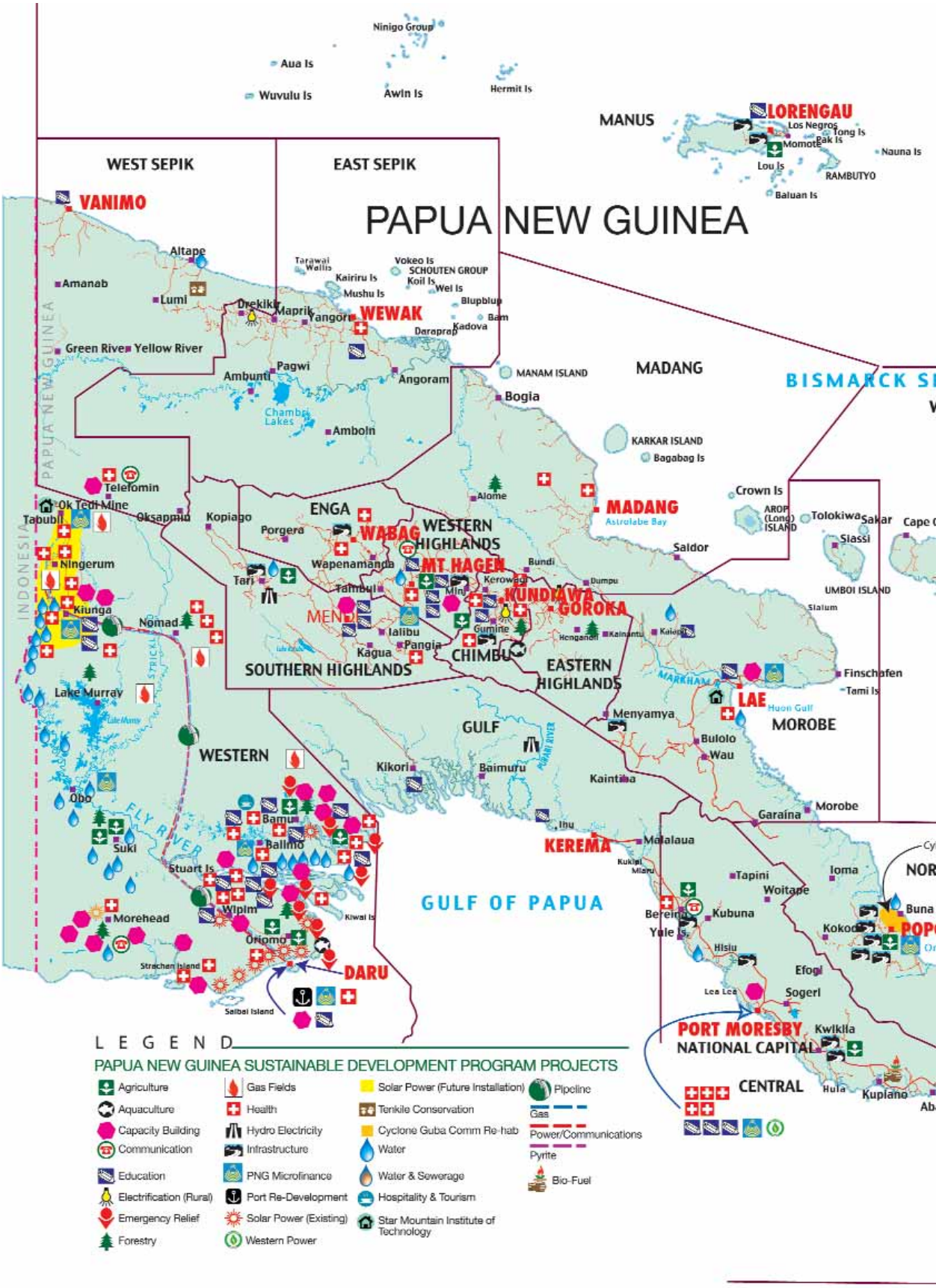
As previously noted, all five companies are implementing Sustainable Development Projects on behalf of PNGSDP under management services arrangements.

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.

CORPORATE GOVERNANCE REPORT

Organisational Chart




PAPUA NEW GUINEA
WEST SEPIK
EAST SEPIK
VANIMO
WEWAK
LORENGAU
MANUS
MADANG
MADANG
WABAG
MT HAGEN
KUNDIAWA
GOROKA
MENDI
CHIMBU
LAE
KEREMA
DARU
PORT MORESBY
NATIONAL CAPITAL
ENGA
WESTERN HIGHLANDS
SOUTHERN HIGHLANDS
EASTERN HIGHLANDS
WESTERN
GULF
MOROBE
CENTRAL
BISMARCK SEA
GULF OF PAPUA
INDONESIA
PAPUA NEW GUINEA
Ninigo Group
Aua Is
Wuvulu Is
Awin Is
Hermit Is
Los Negros
Momote
Lou Is
RAMBUTYO
Baluan Is
Nauna Is
Altape
Amanab
Lumi
Green River
Yellow River
Pagwi
Ambunti
Angoram
Chambri Lakes
Amboin
Bogia
MANAM ISLAND
KARKAR ISLAND
Bagabag Is
Crown Is
Tolokiwa
Sakar
Siassi
UMBOI ISLAND
Telefomin
Ok Tedi Mine
Tabubil
Oksapmin
Kopiago
Porgera
Ningerum
Kiunga
Nomad
Lake Murray
Tari
Wapenamanda
Tambul
Mt Hagen
Kundiawa
Goroka
Mendi
Lae
Finschhafen
Menyamya
Bulolo
Wau
Morobe
Garaina
Kikori
Baimuru
Kaintiba
Ihu
Malalaua
Tapini
Woitape
Kubuna
Ioma
Kokoda
Efogi
Sogeri
Kwikila
Kupiano
Obo
Suki
Bamu
Balimo
Stuart Is
Wipim
Morehead
Oriomo
Strachan Island
Saibai Island
Kiwai Is
Fly River
Markham
Sepik
Kaiapit
Dumpu
Bundi
Kerowagi
Gumine
Kainantu
Henganofi
Alotau
Tamu Is
Kuriai
Misiu
Hisiu
Yule Is
Lea Lea
Hula
Kupiano
Ninigo Group
Aua Is
Wuvulu Is
Awin Is
Hermit Is
Los Negros
Momote
Lou Is
RAMBUTYO
Baluan Is
Nauna Is
Altape
Amanab
Lumi
Green River
Yellow River
Pagwi
Ambunti
Angoram
Chambri Lakes
Amboin
Bogia
MANAM ISLAND
KARKAR ISLAND
Bagabag Is
Crown Is
Tolokiwa
Sakar
Siassi
UMBOI ISLAND
Telefomin
Ok Tedi Mine
Tabubil
Oksapmin
Kopiago
Porgera
Ningerum
Kiunga
Nomad
Lake Murray
Tari
Wapenamanda
Tambul
Mt Hagen
Kundiawa
Goroka
Mendi
Lae
Finschhafen
Menyamya
Bulolo
Wau
Morobe
Garaina
Kikori
Baimuru
Kaintiba
Ihu
Malalaua
Tapini
Woitape
Kubuna
Ioma
Kokoda
Efogi
Sogeri
Kwikila
Kupiano
Obo
Suki
Bamu
Balimo
Stuart Is
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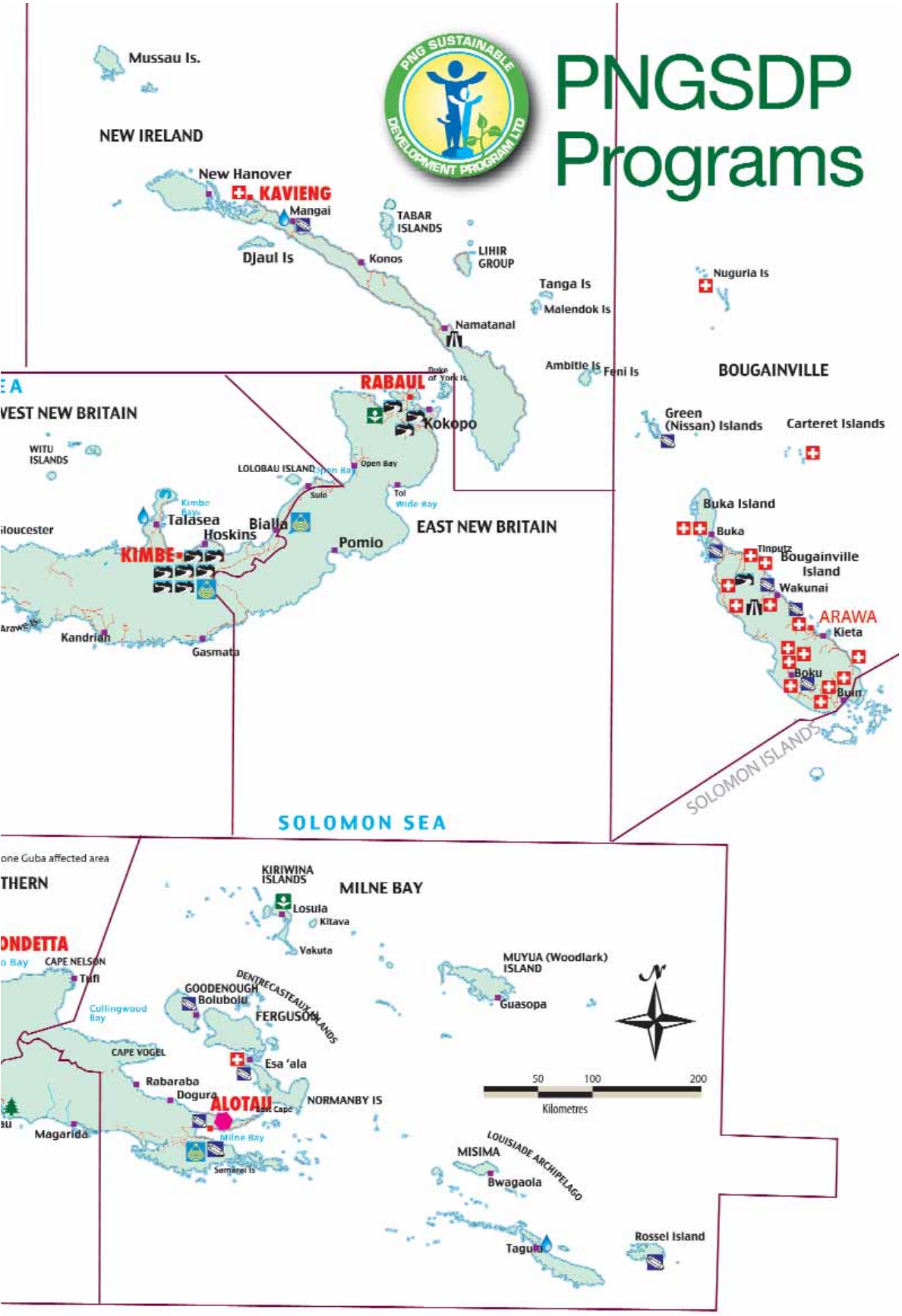
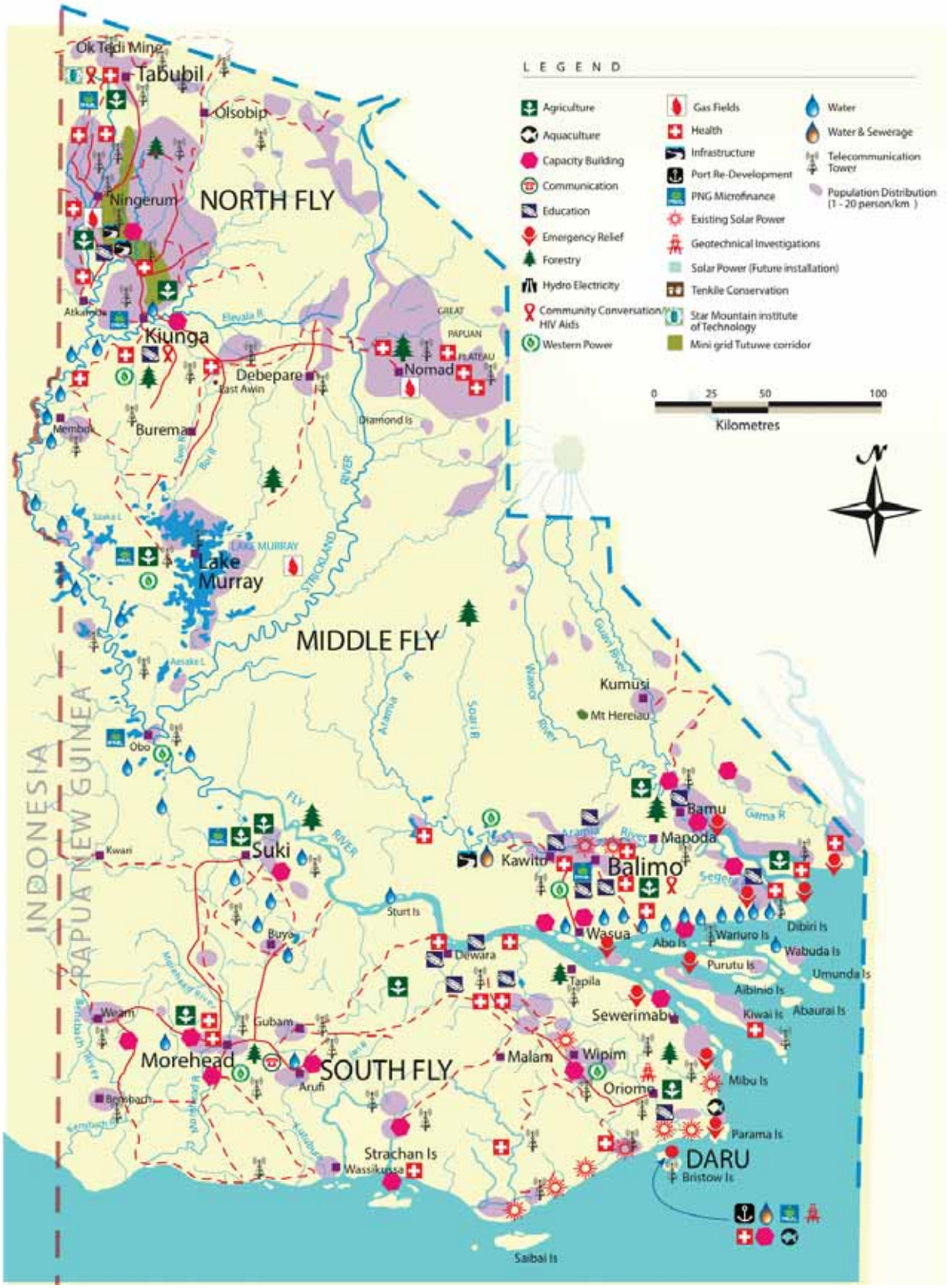
Morehead
Oriomo
Strachan Island
Saibai Island
Kiwai Is
Fly River
Markham
Sepik
Kaiapit
Dumpu
Bundi
Kerowagi
Gumine
Kainantu
Henganofi
Alotau
Tamu Is
Kuriai
Misiu
Hisiu
Yule Is
Lea Lea
Hula
Kupiano
LEGEND
PAPUA NEW GUINEA SUSTAINABLE DEVELOPMENT PROGRAM PROJECTS
Agriculture
Aquaculture
Capacity Building
Communication
Education
Electrification (Rural)
Emergency Relief
Forestry
Gas Fields
Health
Hydro Electricity
Infrastructure
PNG Microfinance
Port Re-Development
Solar Power (Existing)
Western Power
Solar Power (Future Installation)
Tenkile Conservation
Cyclone Guba Comm Re-hab
Water
Water & Sewerage
Hospitality & Tourism
Star Mountain Institute of Technology
Pipeline
Gas
Power/Communications
Pyrite
Bio-Fuel

PNGSDP Programs



MAPS


LEGEND
Agriculture
Aquaculture
Capacity Building
Communication
Education
Emergency Relief
Forestry
Hydro Electricity
Community Conversation/HIV Aids
Western Power
Gas Fields
Health
Infrastructure
Port Re-Development
PNG Microfinance
Existing Solar Power
Geotechnical Investigations
Solar Power (Future installation)
Tenkile Conservation
Star Mountain institute of Technology
Mini grid Tutuwe corridor
Water
Water & Sewerage
Telecommunication Tower
Population Distribution (1 - 20 person/km)
0 25 50 100
Kilometres
N
Ok Tedi Mine
Tabubil
Olsobip
Ningerum
NORTH FLY
Kiunga
Debepare
East Awin
Nomad
Buremai
Lake Murray
MIDDLE FLY
Kumusi
Mt Hereiau
Obo
Suki
Kawito
Balimo
Bamu
Mapoda
Wasua
Dewara
Tapila
Sewerimabu
Malam
Wipim
Oriomo
Morehead
SOUTH FLY
Arufi
Strachan Is
Wassikussa
DARU
Bristow Is
Parama Is
Mibu Is
Abo Is
Wariuro Is
Dibiri Is
Wabuda Is
Purutu Is
Umunda Is
Albinio Is
Kiwai Is
Abaurai Is
Sturt Is
Saibai Is
INDONESIA
PAPUA NEW GUINEA
FLY RIVER
STRICKLAND RIVER
GREAT PAPUAN PLATEAU
Diamond Is

GLOSSARY OF ABBREVIATIONS

ATProjects	Appropriate Technologies Projects
CBSFL	Cloudy Bay Sustainable Forestry Ltd
CEO	Chief Executive Officer
CMCA	Community Mine Consultation Agreement
CSDP	Community Sustainable Development Program
CSIP	Community Social Investment Program
DWU	Divine Word University
GoPNG	Government of Papua New Guinea
ECPNG	Evangelical Church of PNG
FRPG	Fly River Provincial Government
IFC	International Finance Corporation
JV	Joint Venture
LTF	Long Term Fund
MIU	Mine Impact Unit
MOA/U	Memorandum of Agreement/Understanding
MLE	Mine Life Extension
N	National
NAC	National Airports Corporation
NFRL	North Fly Rubber Ltd
NI	National Impact
NGO	Non-Government Organisation
OLPC	One Laptop Per Child
OTDF	Ok Tedi Development Foundation
OTFRDP	Ok Tedi Fly River Development Program
OTML	Ok Tedi Mining Ltd
PFA	Program Funding Agreement
PGK	Papua New Guinea Kina
PNG	Papua New Guinea
PNGEDL	PNG Energy Developments Ltd
PNGSDP	PNG Sustainable Development Program Ltd
PML	PNG Microfinance Ltd
RMRPII	Road Maintenance and Rehabilitation Project – Stage Two
SADP	Smallholder Agriculture Development Program
SMIT	Star Mountains Institute of Technology
SNRM	Sustainable Natural Resource Management
VCT	Voluntary Counselling and Testing
WP	Western Province
WPRDP	Western Province Rubber Development Program
WPSPL	Western Province Sustainable Power Ltd (Western Power)

NOTES

CORPORATE DIRECTORY

HEAD OFFICE

PNG Sustainable Development Program Ltd
7th Floor, Pacific Place
PO Box 1786, Port Moresby
Papua New Guinea

Tel (675) 320 3844
(675) 320 3845

Fax (675) 320 3855

WESTERN PROVINCE OFFICES

KIUNGA

PNGSDP Regional Office
Post Office Kiunga
Western Province

Tel (675) 649 1222
Fax (675) 649 1223

TABUBIL

PNGSDP Office
Pitalok Centre
PO Box 24 Tabubil
Western Province

Tel (675) 649 4600

REGISTERED OFFICE

Drew Corp Services Pte Ltd
10 Collyer Quay #10-01
Ocean Financial Centre
Singapore 049315

Tel (65) 6531 4187
(65) 6531 2266

Fax (65) 6533 1542
(65) 6533 7649

Photo Front Cover: The communication towers project delivers mobile phone communication access to over 90% of the population of Western Province. Man in traditional dress at the official launch of the communication tower in Telefomin, Sandaun Province.

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD

www.pngsdp.com