Annual Report
2009

PNG Sustainable Development Program Ltd

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD
MISSION AND VALUES

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 the Company.

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

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

OUR ACTIONS

We will achieve these by:

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

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD
STRATEGIC OBJECTIVES & LONG TERM GOAL

PNGSDP'S STRATEGIC OBJECTIVES

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

PNGSDP'S LONG TERM GOAL

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

Front Cover: *Balimo Canoe Festival, Balimo, Western Province.*

LETTER FROM THE CHAIRMAN

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

6 APRIL, 2010

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 2009, covering the financial year ending 31 December 2009. 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 25 May 2010 at the Conference Room, Crowne Plaza Hotel, Port Moresby.

Sincerely,

ROSS GARNAUT AO
Chairman Board of Directors

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Dr Ross Garnaut AO - Chairman

The year under review saw good progress on PNGSDP's most important long term objectives.

The Global Financial Crisis turned out to have only a short and moderate impact on the Company, and on Papua New Guinea. The gold market remained strong through and after the crisis; the copper price, after falling to a third of its boom-time heights at the end of 2008, returned to exceptionally high levels in the second half of 2009. PNGSDP's dividends from Ok Tedi were the same US$182 million in 2009, as 2008.

Strong metal markets, and sustained rapid economic growth in large Asian economies, have combined with good outcomes from engineering studies to underpin a commercial opportunity for Ok Tedi mine life extension, at about three fifths of the current scale, until about 2022. Upon completion of feasibility studies in late 2010, which will include far-reaching studies of environmental impact, and decisions on approvals by affected communities and the regulatory authorities, Ok Tedi Mining Limited will be in a position to make informed decisions on the mine life extension.

PNGSDP has worked closely with Ok Tedi Mining Limited to study the implications of eventual mine closure on affected communities. PNGSDP has committed itself to using the Long Term Fund to maintain those parts of the infrastructure established and used by the Ok Tedi mine that are most valuable for the welfare of mine-affected communities and for economic development in the North Fly and Western Province. It has been working to establish alternative economic activities in Tabubil, to sustain infrastructure and employment after the scaling down and eventual closure of mining employment. Education will be the core industry of Tabubil in future. The Star Mountains Institute of Technology has been established, and a Director appointed, to provide a point of coordination of a wide range of education and training activities. PNGSDP is also contributing to work on sustainable governance arrangements for the town, to be introduced in the transition to mine closure, and to provide a basis for long term town management.

The Long Term Fund generated returns of 5.01% in 2009, a good result in a year that began in economic crisis. The weighted average return to investments in the Long Term Fund from its beginning in 2002 is now 5.4% percent through a period that covers the global financial crisis. These returns are in United States dollars. At the end of 2009, the Long Term Fund had a balance of US$817.9 million. It seems likely that the balance of the Long Term Fund will exceed $US one billion before the end of 2010. The Long Term Fund is managed cautiously, to ensure that its resources will be available to support essential services, infrastructure and development in mine-affected areas after eventual mine closure. . Directors judge that the Fund is likely to have a sufficiently large balance at early mine closure in 2013, if it should occur, to allow expenditure by PNGSDP for general and administrative purposes at the 2009 level in real terms forever. Mine Life Extension is likely to leave a larger Fund in real terms at eventual mine closure, and to support a larger real annual payment for general and development purposes.

The return to buoyant global commodity markets in the second half of 2009 supported the Company's efforts to encourage the establishment of some large-scale economic activities that can sustain government revenues from the province after mine closure. These activities hold promise of maintaining and improving transport and communications linkages to the rest of Papua New Guinea and the outside world. There has been good progress on studies and in discussions with commercial users of the proposed port at Daru and industrial areas at Daru and Oriomo, and of the infrastructure corridor linking Kiunga to Daru around to the east of Lake Murray. A new joint venture with Origin Energy Limited has made good progress on identifying large-scale renewable energy generation to support development in Western Province and Papua New Guinea. PNGSDP is also encouraged by the progress that it has made in establishing a model of commercially successful, large-scale sustainable forestry, with selective logging accompanied by replanting, and processing of all timber in Papua New Guinea. The established model is Cloudy Bay Sustainable Forestry Limited in Central Province. The Company looks forward to extending sustainable forestry activities to Western Province.

In Western Province there has been continued focus on village health; micro-finance; agriculture, forestry and

CHAIRMAN'S REPORT - A message from Ross Garnaut

Board of Directors - Annual Report Meeting June 2009

fisheries; electrification; telecommunications; and transport linkages to main ports. The strongest focus of village development has been on the North Fly, with significant activity elsewhere. The Community Sustainable Development Program continues to assist community institutions with records of achievement to expand their activities.

The Community Sustainable Development Program is also delivering high levels of services in the National Development Program. The rural roads programs providing counterpart funding for the World Bank have continued to be a highlight of the national programs. The large-scale generation of renewable energy in partnership with Origin Energy shows promise for the future.

I am grateful for the dedicated efforts of the management team led by David Sode over the busy year under review. Special thanks also to an effective Board of Directors which continues to provide support for the Company beyond the call of duty. The Chairman of the Investment Committee, Jacob Weiss, has accepted heavy responsibilities over the past year in negotiation of the departure of Inmet Mining Limited from the Ok Tedi share register. The departure of Inmet, expected to be completed soon after the PNGSDP Annual Report Meeting, paves the way for Ok Tedi's participation in Mine Life Extension and other Papua New Guinea activities.

Jim Carlton, who has been a Director since 2002, has advised the Board of Directors and BHPBilliton Limited that he will retire at the end of 2010. In addition to being a valuable Director, Jim has been a Member of the Company with special statutory responsibilities, an effective participant in the National and Western Province Development Committees, and has made immense contributions to good governance and management. I take this early opportunity to thank Jim for his work, and to express the Directors' intentions to keep closely in touch with Jim on the work of the Company in the years ahead.

The Company appreciates the strong support and partnership of the National Government in its work on transformative projects in Western Province and nationally. Thanks especially for support over the past year from the Prime Minister, Sir Michael Somare, the Deputy Prime Minister and Minister for Mines, Sir Puka Temu, the Minister for Public Enterprises, Arthur Somare, and the Minister for Treasury and Finance, Patrick Pruaitch. Thanks, too, to the member for North Fly and Deputy Governor, Boka Kondra, and the Governor, Bob Danaya, for cooperation during the year. Above all, we thank the communities in which we have been working in Western Province and more broadly in the country for the interest and support that make it all worthwhile.

CEO'S REPORT - A message from David Sode

David Sode - Chief Executive Officer

I am pleased to report that the year 2009 has seen PNG Sustainable Development Program Ltd putting in the required effort to deliver a range of small to large projects consistent with its 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 parallel to delivering projects we have had to continue to address the internal structuring and personnel of the Company so that it becomes a vehicle that has the required resources and capabilities to align with our mission.

Progress on 2009 stated priorities

In our 2008 Report I stated that we would prioritise certain activities for the ensuing year. Much progress has been made on each count.

- The Western Province infrastructure corridor leading to the Daru international deep sea water port is in a very advanced stage with several new joint ventures formed during the year with significant international partners aimed at securing the required throughput.
- The Western Province telecommunication towers project saw a lengthy tenders process close and a priority for construction in 2010.
- Significant delivery of nationwide infrastructure projects covering roads, airstrips and jetties, health and education facilities are reported herein. The intensity of project delivery will continue in 2010.

What we delivered in 2009

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

In Western Province

- A 23.5 kilometre road in the Western Province from Kiunga to Kokonda. This is the first major road construction project in the Western Province since 1983.
- The construction of 7 Kilometres of a 28 Kilometre road from Gre to Drimgas in the North Fly region.
- Rehabilitation of Telifomin airstrip with a start on 4 other rural airstrips in the Western Province.
- The enrolment of 12 Western Province students in Royal Melbourne Institute of Technology University, in Australia.
- In 2009 PNGSDP delivered 21 mini-grid electricity systems in the North Fly region of the Western Province which lit up 1,035 houses in the villages of Mimigre, Greosore, Ipoknai, Dande 1 and 2, Dmesuke, Bige, Kiwape, Miamrae, Sinamrae, Hopennai, Tope, Rarengre, Miamsomnai, Gre, Tiomnai, Gii, Gregas, Tmindemesuk, 7 Kona and Kikisrame thereby adding more than 6,000 people to consistent and affordable rural energy for the first time in their lives.
- We completed planting 1,600 hectares of rubber in the Lake Murray region of the Western Province engaging 1,246 families in the process.
- Established a joint commercial agriculture venture in developing a Waria Waria oil production plant in the South Fly District of the Western Province targeting 2,000 local families in 20 villages.
- Established an agarwood nursery at Kiunga with 20,000 seedlings imported from Vietnam for establishing a sustainable rural commercial eaglewood industry in the Western Province.
- Delivered a mental health office in association with Callan Services for the Disabled in Kiunga.
- Funded and witnessed completion of construction of an office, bakery, classroom, and workshop at the Emmaus Youth Farm outside Kiunga.
- Supported Awaba secondary school and Kiunga Montfort Technical Secondary school for improved water supplies project to the value of K473,500.
- Supported the training of 30 teachers under the Churches Education Program to teach in the rural areas of Western Province.
- Delivered material to build 10 health posts and 6 community primary schools with the Evangelical Church of PNG in the Middle Fly.
- Established One Lap Top per Child program in the North Fly and have since distributed 86 computers.
- Delivered funding of K127,400 for a Woman's centre at Manawete.
- The completion of a joint venture shipping service with the Fly River Provincial Government.

In Papua New Guinea

- Delivered 31 kilometres of road rehabilitation with other donor partners in the Central Province, Oro Province, West New Britain and East New Britain.

CEO'S REPORT - A message from David Sode

- Completed emergency road infrastructure rehabilitation and relief work in the Oro Province following the destruction of cyclone Guba.
- Identified 4 trial sites consisting of 30,000 hectares of grassland for aforestation in the Rigo District of the Central Province.
- Constructed 2 wards and an administration block in the Kompiam Rural Hospital in Enga.
- Supported refurbishment of the United Church Highlands Region Voluntary Counselling and Testing and drop in care centre in Tente, Mendi, Southern Highlands Province.
- Completed the building of a girls' dormitory at Notre Dame Secondary School in Western Highlands
- Supported City Mission and Anglicare Stop Aids Crisis Centre for Children affected by HIV and AIDS in Lae, Morobe Province.
- Saw the completion of the construction of a 2 storey building for vocational skills training and elementary education with Sisters of Charity of Saint Anne in Gerehu Stage 6, Port Moresby.
- Funded construction of a female student's dormitory for St Joseph's Vocational Training Centre in Kikori, Gulf Province.
- Commenced environment awareness and sustainability management with Research and Conservation Foundation with 10 communities in Henganofi District of Eastern Highlands.
- Funded a water supply project to the people of Minda in West New Britain for more than 400 rural people.
- Funded water and sanitation projects for 300 village people in the Gadaisu area of Milne Bay.
- Funded the delivery of clean water and sanitation facilities for 2,100 rural people of Malalamai communities of Madang and Isan community of Morobe.
- Delivered a significant water project with the local Provincial Government for the 5,000 rural people of Gihamu in Togoba area of Western Highlands.
- Completed construction of 5 staff houses at United Church's Tonu High school in Buin, Bougainville.
- Funded the construction of 2 staff houses and one dormitory and a technology centre benefiting 400 school children at Mabiri, Central Bougainville.
- Delivered a water project with the New Ireland Provincial Government and United Church to Mangai High school in New Ireland.

PNGSDP Staff and Structure

We saw the departure of Todd Clewett as the Chief Operating Officer and welcome Tamzin Wardley to fill in that role. Tamzin Wardley has an in-depth experience in PNG for 15 years. We thank Todd for his invaluable and critical contributions to the role of COO and the current restructuring of PNGSDP. We thank staff who have moved on in the year and wish the best for them, knowing that the PNGSDP experience will have added tremendous value to their future.

2009 saw the Company going through a restructure to achieve 3 main outcomes which can be read in this report which aims are:

- to refine our corporate vehicle to enable us to arrive at our mission,
- to accommodate the rapid growth of large emerging transformational projects,
- to decentralise our operations for a wider on-the-ground PNGSDP presence in the Western Province as we gear up for Ok Tedi mine closure.

Next Years Priorities

- Delivery of Daru International Airport Upgrade.
- Delivery of Daru Water and Sewage.
- Establishment of Western Province communication network.
- Progress all Daru Port and Infrastructure Corridor related ventures.
- Assist OK Tedi in mine closure and extension projects.
- Joint venture projects with CMCA co-operation.
- Improve Health Services in Western Province through partners
- Improve Agency Education Facilities

I thank the dedicated staff of PNGSDP who work tirelessly and many times beyond the call of duty to bring projects into fruition, at times in near impossible circumstances. I also thank my Board for giving me the privilege to lead such a valuable company and acknowledge their active roles in assisting the Company succeed. I offer my gratitude and well wishes to Director Jim Carlton who leave us at the end of this year after a term of distinguished service on the PNGSDP Board.

I also cannot pass thanking the Hon. Bob Danaya, Governor of Western Province who has supported me from the day I began in the role of CEO of PNGSDP. I also thank the three local MPs of the Western Province and the Administrators of FRPG with whom I have shared many occasions of interaction and guidance.

My gratitude also goes to Hon. Grand Chief Sir Michael T. Somare, GCL CCMG VH CF KStJ Prime Minister of Papua New Guinea, the Deputy Prime Minister, the Minister for Treasury and the National Executive Council and members of the National Parliament for the open doors of support they have afforded me and the encouragement to lead such a valuable company as PNGSDP.

I believe our success in PNGSDP also directly translates to success for Papua New Guinea.

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD STRATEGIC FRAMEWORK

PNGSDP was created to support sustainable development through projects and initiatives that will benefit the people of Papua New Guinea, especially those of Western Province. The strategic focus of the organisation leading up to 2013, the year that the OK Tedi Mine is currently planned to close is captured in our goals, our approach and our partnership model for delivery.

OUR GOALS

Improve the lives of the people of Papua New Guinea, especially those of Western Province.

PNGSDP will take on the challenge to improve the living standards, to build job opportunities, to improve the access to education and healthcare and clean water of the people of PNG, especially those in Western Province.

Reduce the impact of Mine Closure on communities.

The Ok Tedi mine has contributed significantly to the economy of PNG for nearly three decades.

The mine has provided jobs and brought many benefits to the people of Western Province, especially those in the areas surrounding and supporting the mine operation. Aside from the long-term royalty and compensation stream to affected families, the mine also provides employment and access to social services including health and education, essential infrastructure and transport such as roads and bridges, and town operating services such as shops, banks, food subsidies and housing.

Without the concerted support of PNGSDP and its partners there will be sharp declines in these benefits.

PNGSDP will therefore work hard to:

- sustain the infrastructure which has contributed to better lives for Western Province people;
- create new jobs and industries in Western Province;
- mitigate the social impacts caused by the damage to the Fly River; and
- support providers of social services such as health, education and water and sanitation.

OUR PROGRAM APPROACH

Plan and prepare for Mine Closure

PNGSDP is focused on minimising the impact of mine closure. The Company will address this by:

- working to develop a deep understanding of the impact on communities;
- ensuring that all projects supported by PNGSDP will be considered on a thorough understanding of the impacts that will flow from mine closure. The Company will work on the ground with the people whose lives will be most affected, and focus the Company's plans on projects and initiatives that will deliver the most positive results;
- planning to direct the Company's efforts almost exclusively to Western Province after mine closure; and
- Exploring a sustainable Tabubil after mine closure.

Enable national scale Transformational Projects

PNGSDP believes the lives of the people in Western Province will be improved most effectively by successful large scale investment in industry and infrastructure.

These projects take a long time to develop, and their benefits are often not easily seen by every local community. However, they are vital for long term sustainability. It is important that PNGSDP continue its efforts to attract the people and investments necessary to see these transformational projects succeed.

Delivery of Community Level Programs in Western Province and Nationally

PNGSDP will support industry, infrastructure and social projects that will have benefits on the ground before mine closure and complement the transformational projects strategy.

PNGSDP will do this through three strategic community scale project areas:

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD STRATEGIC FRAMEWORK

Industry:

PNGSDP will work to build long term sustainable industries that employ local people. The focus will be rubber, but will include Aquaculture, Forestry and Agriculture.

Infrastructure:

PNGSDP will build roads and airstrips and fund water transportation services that connect people to health and education services, markets and industry development opportunities.

PNGSDP will extend the transmission of power, and will build a communications network to provide the people of Western Province with access to mobile phones.

PNGSDP will continue to build and support Microfinance so that the less wealthy people of PNG have access to secure deposit and loans facilities.

Community and Social Investment:

PNGSDP will support partners to improve health and education service delivery including access to clean water and sanitation, and empower communities to develop themselves and direct their own development.

The Community and Social Investment Program model requires a partnership approach. PNGSDP contributes funding whilst project partners and communities contribute in cash and/or material and physical support to significantly increase the value of each project and its impact on communities.

PNGSDP will continue to support a wide range of small scale projects that build on, but do not replace, the work of individual communities and villages. These small grants will include areas as diverse as capacity building, leadership development, healthcare, water and sanitation and support of initiatives that promote gender equity.

A PARTNERSHIP MODEL FOR DELIVERY

The Company will deliver projects and programs in partnership with others. PNGSDP will support others to do what they do best.

PNGSDP therefore will find reputable firms and people, and will contract with them to deliver projects.

Government as partner

PNGSDP will work alongside all levels of government. The Company will work hard to deliver on joint priorities of PNGSDP and government. PNGSDP recognises and supports the legitimate mandate of the Provincial government to develop Western Province.

Community as partner

PNGSDP will work through NGOs and Churches to empower local communities to determine their own way forward. This will involve:

- Close collaboration with local communities to better understand their priorities and aspirations;
- Supporting, not replacing community efforts to improve their own lives.

Business as partner

PNGSDP recognises the importance of working alongside businesses. Business has the expertise and experience that will enable the delivery of projects more effectively and efficiently. The Company will:

- manage the contracting process and ensure accountability against agreed goals and timelines;
- work only with credible and respected organisations; those with whom we can work openly and confidently.

PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD HISTORY

PNG Sustainable Development Program Ltd is a unique organisation created as the result of agreement between the Independent State of Papua New Guinea (the State) and BHP Billiton.

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 the Company and reports to PNG Stakeholders annually.

The Company commenced operations in Port Moresby Papua New Guinea in November 2002.

Mandate

The objective for which PNGSDP was created is to support sustainable development through projects and initiatives to benefit the people of Papua New Guinea, especially the people of Western Province during the period after closure of the Ok Tedi Mine.

In addition to being a development agency, PNGSDP is a substantial PNG financial institution as well as a joint owner of the Ok Tedi Mine in Western Province.

Assurance and indemnification

As shareholder of Ok Tedi Mining Ltd. (OTML), through its Director to the Board of OTML, PNGSDP seeks to ensure sound commercial operations of OTML, responsible management of environmental and social issues, and seeks to sustain the excellent infrastructure established by OTML for broader social and economic development beyond mine closure.

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

Villagers returning home at sunset, Western Province.

OK TEDI MINE

Ok Tedi Mining Ltd Operations

OTML continued to be the largest business contributor to the PNG economy in 2009.

Increased metal prices coupled with strong mine performance saw significant distribution of dividends to shareholders in 2009. PNGSDP received US$182 million (K500.7 million) over the year.

Ok Tedi support for development

OTML, through the Ok Tedi Fly River Development Program (OTFRDP), delivers development projects and administers nine Community Trusts. It is also responsible for development and implementation of a Community and Regional Development Strategy for Western Province, which places particular emphasis on the mine impacted communities.

2013 Mine closure planning

Based on the current mine plan, Ok Tedi Mine closure is scheduled for 2013. It is well recognised that cessation of production at Ok Tedi will have an enormous impact on the economy of PNG, Western Province and the livelihood of many people including nearly 2000 OTML employees from all over PNG.

OTML submitted the 2013 Mine Closure Plan to the State in December 2009. This incorporated the Decommissioning and Infrastructure Plan, the Mine Area Rehabilitation Plan and Social and Economic Report. PNGSDP was represented on the steering committee, mine closure planning committee and working groups for each Plan.

Mine Life Extension

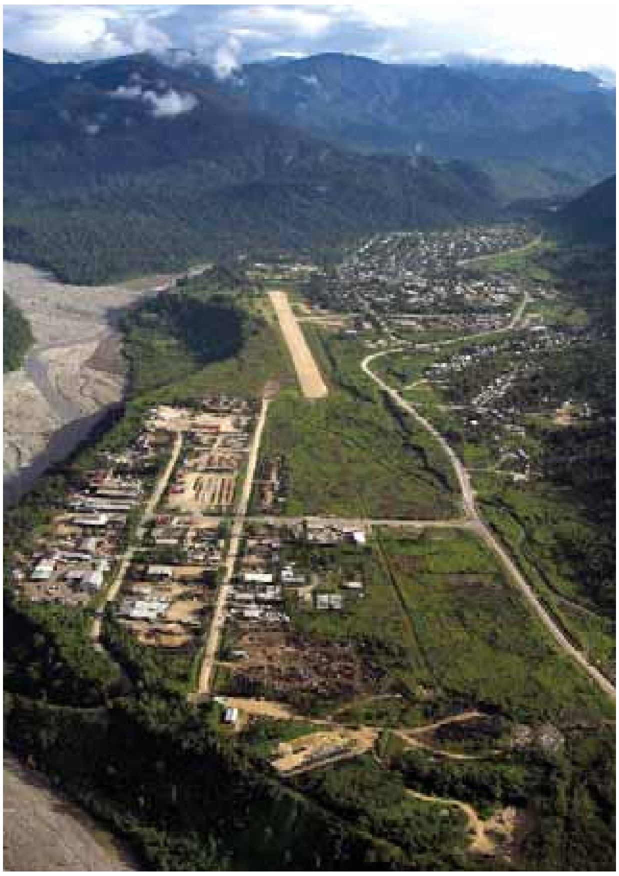
OTML is conducting a feasibility study to determine whether mine life extension beyond 2013 is economically, socially and environmentally viable. The study is being supported by PNGSDP and results of the work are expected in late 2010.

Community Mine Continuation Agreements

In 2001 communities affected by the mine provided their consent to the mine continuing its operations on the basis of establishing Community Mine Continuation Agreements (CMCA).

A formal review of the CMCA's in 2006 resulted in the establishment of the 2007 CMCA Memorandum of Agreement (MOA). This MOA commits a compensation package of K1.1 billion to the CMCA Trusts from OTML, PNGSDP and the State, including PNG Government's Tax Credit Scheme.

Implementation of the CMCA strengthened in 2009 with the formation of the Ok Tedi Fly River Development Program (OTFRDP), which is responsible for the facilitation of CMCA projects from the beginning of 2010. OTFRDP will coordinate the application for funds from each of the CMCA Trusts to each party to the agreement. PNGSDP holds one of the four shares in the OTFRDP.



Tabubil town, home of Ok Tedi Mine.

Ten percent of all funds committed are specifically assigned to activities for the benefit of women and children. The CMCA Women led the development of the Women and Children Action Plans for each of the nine CMCA Trusts which were launched on 5 December 2008. PNGSDP is committed to implementing the CMCA Action Plans in collaboration with the OTFRDP and the CMCA Trusts.

PNGSDP's contribution to the CMCA is K21.5 million per annum or two percent of dividends which ever is greater, and must align with the Company Rules.

The Company is committed to supporting the implementation of the OTFRDP Business Plan, endorsed by the CMCA Trusts, which is scheduled for launch during 2010.

FINANCIAL MANAGEMENT

Funds Status

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

Under its Constitution, the Company may do all such things to achieve the objects 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 2009 amounted to US$1.058 billion (K2.8 billion). In accordance with the Rules of PNGSDP the assets of the Company are represented by the Members' Subscription, the Long Term Fund, the Development Fund and the General Fund as documented in the table below.

PNGSDP is party to a number of agreements, dated 11 December 2001, which confer both actual and contingent liabilities on the Company. Obligations arising under these agreements are secured by an equitable charge over the dividend stream attached to PNGSDP's shares in OTML. This charge is held by a security trustee, Insinger Trust (Singapore) Ltd.

The PNGSDP Group also includes subsidiaries and joint ventures of the Company, namely OTML, PNG Microfinance Ltd, PNG Sustainable Energy Ltd, PNG Energy Development Ltd, Western Province Sustainable Power Ltd, and Cloudy Bay Sustainable Forestry Ltd. OTML is accounted for as an investment in a jointly controlled entity by the Company.

Contractual Obligations

PNGSDP has contractual obligations arising out of a number of agreements dated 11 December 2001, with implications for the balance sheet of the Company.

Under the Deed of Indemnity with BHP Billiton, PNGSDP has agreed to indemnify BHP Billiton against any liability under claims for both environmental damage arising out of the operation of the mine after 7 February 2002, and breach of environmental laws in relation to mine operations before 7 February 2002.

Under the Deed of Indemnity with the State, PNGSDP has agreed to indemnify the State against all liability arising under a claim for environmental damage caused by the operation of the mine before 7 February 2002 resulting from an act or omission by BHP Billiton in breach of its obligations under its management agreement or in breach of environmental law.

Under the Option Deed, the Company has agreed at the request of OTML to indemnify the independent Directors of OTML in respects of claims against them arising out of their acting as such directors, to the extent that appropriate insurance is not available on commercial terms.

Open pit mine, Ok Tedi, Tabubil, Western Province.

Total Net Assets of PNGSDP in 2009

	USD	PNG Kina
Current Assets	380,242,005	1,025,187,396
Non Current Assets	686,360,964	1,850,528,345
Liabilities	-8,095,859	-21,827,606
Net Assets	**1,058,507,110**	**2,853,888,135**

Representation of PNGSDP Assets

	USD	PNG Kina
Members Subscription	17	46
General Fund	2,903,581	7,828,474
Long Term Fund	817,890,515	2,205,151,025
Development Fund	237,712,997	640,908,590
Total Funds	**1,058,507,110**	**2,853,888,135**

FINANCIAL MANAGEMENT

Fund Income & Expenditure

	Gen Fund USD	Long Term Fund USD	Dev-Nat USD	Dev-W.P. USD	Total USD
Opening balance as at 01/01/09	2,903,598	677,772,696	136,794,277	84,108,674	901,579,245
Income					
Dividend from OTML Gross	182,000,000				
Dividend withholding Tax	(18,200,000)				
Net Dividend after tax	163,800,000				
Less Administrative costs	(8,181,077)				
Net Dividend Income for Distribution to Funds	155,618,923				
Less Net Dividend Transferred to LTF & Dev F	(155,618,923)	103,745,949	34,581,983	17,290,991	155,618,923
Other investment income		38,518,479	4,070,235	2,034,713	44,623,427
Less Investment costs		(2,146,609)	(144,054)	(44,949)	(2,335,611)
Net Income for the Year		36,371,870	3,926,181	1,989,764	42,287,816
Development Costs			(29,623,617)	(11,355,256)	(40,978,873)
Balance as at 31st December 2009	2,903,598	817,890,515	145,678,825	92,034,173	1,058,507,111

Expenditure

The Company spent US$40.9 million (K112.7 million) on project expenditure under the Development Programs in 2009.

The Company spent US$10.1 million (K27.8 million) on Administration during 2009, comprising exchange losses US$3.3 million, staff costs, travel, insurance, financial expenses, professional services and information services, amongst other costs.

The Company spent US$1.5 million (K4.1 million) on governance in 2009. This comprised of Directors' fees, Board administration, the annual report and stakeholder meetings, the company audit, the Advisory Council 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.

EXPENDITURE IN 2009

	USD	PNG Kina
Governance	1,512,610	4,161,238
Adminstration	10,101,545	27,789,670
Contractual Obligation	76,382	210,129
Investment Program Costs	2,335,610	6,425,337
Development Program Costs	40,978,874	112,734,179
	55,005,021	**151,320,553**

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$182 million (K500.7 million) from OTML during 2009, the same as 2008.

Total investment income from funds invested amounted to US$48.7 million (K134.1 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$18.2 million (K50.1 million) was deducted in respect of dividend income from OTML and paid to the PNG Internal Revenue Commission during 2009. No Singapore income tax is payable on the basis that none of the Company's dividend or interest income is remitted to Singapore.

INCOME IN 2009

	USD	PNG Kina
Dividend OTML	182,000,000	500,687,758
Investment Income	48,729,134	134,055,403
	230,729,134	634,743,161

FUNDS MANAGEMENT

Investment funds of the Program Company

Long Term Fund

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 Company relating to the application of the income received. Under the Rules of the Company, funds from the Long Term Fund must be invested in 'low risk' investments.

The primary objective of the investment program of PNGSDP is to increase the size of the Long Term Fund through interest earnings, dividend income, capital gains and foreign exchange gains. As the size of the LTF builds up before mine closure, annual investment income will ideally increase to the point where investment earnings can meet the annual expenditure requirements of the Company without materially reducing real capital of the Fund.

Development Fund

The Board of Directors has established an Investment and Finance Committee to oversee the Company's Investment Policy and Guidelines.

In 2009, the Long Term Fund increased from US$677.8 million (K1.8 billion) to US$817.9 million (K2.2 billion) mainly due to dividend received from Ok Tedi Mine in 2009.

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.

Value of the Long Term Fund (US$ millions)

	2004	2005	2006	2007	2008	2009
Value at the end of financial year	79.4	175.5	376.6	594.2	677.8	817.9
Annual rate of return	2.14%	4.44%	7.80%	14.08%	-2.62%	5.01%

Rate of Return

The weighted annual rate of return for the LTF in 2009 was 5.01%, while the weighted average rate of return over the life of the fund is 5.4%.

The weighted annual rate of return for the Development Fund in 2009 was 2.98% while the weighted average rate of return over the life of the fund is 2.85%.

Given the collapse in the equity markets in 2008, and the very low returns on cash instruments and fixed return investments in 2008 and 2009, this is a good result.

Tutuwe Mini Grid Project, Rural Electrification, Gregas Village, Western Province.

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 one third of dividend income from OTML after deducting operating expenses, contractual and other legal obligations. Between now and current mine closure in 2013, one third of the Development Fund is allocated to the Western Province Program and two thirds is allocated to the National Program. 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 40 years or more after mine closure.

For each Board approved project, PNGSDP management must execute a Project Funding Agreement with project partners in order for financial resources to be released for implementation of the project.

Development Fund project allocations and expenditures in 2009

New projects approved in 2009 amounted to K132.1 million. This is lower than the K176.7 million of new projects approved during 2008.

Actual disbursement was slightly higher in 2009 with K111.5 million disbursed compared to K97.1 million in 2008.

The balance remaining against approved project funding at the end of 2009 was K20.6 million which represents a number of sizable projects that have been approved and are now in the initial phase of the project cycle.

Cumulative approved project funding

Since inception in 2002, cumulative approved project funding from the Development Fund amounts to over K531.2 million. Cumulative disbursements on Western Province and National Projects have been roughly consistent with the 1/3, 2/3 split that determines the size of the respective funds. Cumulative approved project funding for Western Province is about half the value of the National Fund. This reflects the priority that the Company continues to place on supporting sustainable development in Western Province.

Project Funding Approvals and Disbursements

2008	K	US$
New Approved Project Funding	176.7m	66.2m
Disbursements	91.7m	36.7m
Balance remaining against Approved Project Funding	79.6m	29.5m

2009	K	US$
New Approved Project Funding	132.1m	48.9m
Disbursements	111.5m	40.9m
Balance remaining against Approved Project Funding	20.6m	8.0m

Project funding Approvals and Disbursements since inception

	K	US$
Cumulative Approved Project Funding 2002-2009	531.2m	199.5m
National Fund	246.5m	92.4m
Western Province Fund	284.7m	107.1m
Total Cumulative Disbursements 2002-2009	346.1m	129.5m
National Fund	260.9m	97.7m
Western Province Fund	85.2m	31.8m

MINE CLOSURE

PREPARE AND PLAN FOR MINE CLOSURE

PNGSDP's long term presence and investment in Western Province seeks to provide an alternative economy after the closure of the Ok Tedi Mine. In addition, the Company has a strong focus on issues related to proper environmental management and monitoring.

PNGSDP participation in OTML Mine Closure Planning

The Company is a participant in OTML's mine closure planning process as provided under the Mining (Ok Tedi (Ninth Supplemental) Agreement) Act 2001, for mine closure in 2013 under the current mine plan. PNGSDP actively contributed to the planning discussions and working groups on the 2013 Mine Closure Plan that was submitted to the State in December 2009.

The Company also participated, along with government representatives, in the community consultations on mine closure led by OTML during June 2009. The consultations were held in those areas that are under OTML mining and related tenements.

PNGSDP's active engagement has improved the Company's appreciation of the needs and implications of a post mine economy.

Mine Life Extension

OTML is conducting a feasibility study to determine whether mine life extension beyond 2013 is economically, socially and environmentally viable. The study is being supported by PNGSDP and results of the work are expected in late 2010.

Tabubil

As part of PNGSDP's goal to reduce the impact of mine closure PNGSDP is looking into different mixed use options for the town of Tabubil as the mine reduces in size and eventually closes.

Socioeconomic Urban Survey (SEUS)

The first major demographic survey of the urban areas within the impacted corridor of Western Province was completed by PNGSDP and the National Statistics Office.

A major part of this assessment was a survey of a representative sample of households and residents of the five urban centres of Tabubil as well as Ningerum, Kiunga, Balimo, and Daru to obtain details of core socioeconomic indicators including demographic features, living conditions, use of selected community services, employment status, and income and expenditure. In addition the Survey asked a number of questions which were specific to mine closure issues.

The information generated for the North Fly region will be used to assist the Company's understanding of the future of Tabubil.

Tabubil Futures

An extensive study entitled Tabubil Futures was scoped during the year and will be undertaken throughout 2010 by PNGSDP contractors working with OTML to assess the nine areas of health, education, transport, utilities, settlements, town governance, commercial usage, security, and urban planning within the town. The results of this study will inform PNGSDP's planning for a future Tabubil without the mine.

Star Mountains Institute of Technology (SMIT)

The Company anticipates developing a number of initiatives to drive economic development in post mine Tabubil. The first of these is to develop Tabubil as a major centre of education and training. The Star Mountain Institute of Technology has been developed to provide an umbrella for a range of educational activities. The first employees joined SMIT in late 2009 to set up the Institute in Tabubil. As a first step SMIT will work alongside OTML to develop an international standard educational facility that focuses on trade related training.

Small Scale Mining

Small-scale mining (SSM) is a low barrier-to-entry economic activity, which is rapidly growing in the Tabubil and Lower Ok Tedi regions, in particular around Ningerum.

PNGSDP is supporting a proposal that has been developed between the Mineral Resources Authority, OTML, landowners and their formal associations for a pilot project for the development of SSM in the Lower Ok Tedi. This pilot project paves the way for a new approach to the development of small-scale mining in proximity to large-scale mining operations. The project will emphasize the importance of landowner rights and responsibilities in regulating the activity, whilst utilising new technology to improve productivity and yields.

The project will provide invaluable experience for the support and development of SSM in the Tabubil and Mine Lease Areas post mine closure.

ENABLE NATIONAL SCALE TRANSFORMATIONAL PROJECTS

PNGSDP believes the lives of the people in Western Province will be improved most effectively by successful large scale investment in industry and infrastructure. To this end the Transformational Projects Unit was set up during the year. The unit has prioritized two major projects for development in the province.

Daru Port

Final planning for the port design was completed in 2009. PNGSDP is now actively marketing the port development and following discussions with a number of potential commercial port users has redesigned the scope for the project. The port development now encompasses a 1,700 hectare area of reclaimed land attached to the island of Daru by a causeway. The facility will offer berthing for multiple ships up to 64,000 tonnage, storage and transshipment facilities.

Preliminary geo-technical investigations will be carried out during 2010 based on the new designs. Work will also commence on the land sites with project offices and basic services and infrastructure to be constructed.

Infrastructure Corridor, Western Province

Commercial explorations of oil and gas continue in Western Province. PNGSDP is liaising with all these individual interests to ensure any future activity has a focus on sustainable development for the province. The Company anticipates that sustainability will only be achieved by harnessing the combined interests of different parties in order to create a compelling incentive for investment. Ongoing infrastructure development of roads, electricity provision and the communications tower projects are being coordinated to create an infrastructure corridor from Kiunga to Daru that will best attract these individual commercial interests.

Unsealed road leading to Daru Wharf, Daru, Western Province.

Grading and laying of bitumen for Daru Wharf road access.

Sealed road access to Daru Wharf.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

OVERVIEW

About the Western Province

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, Southern Highlands Province and Gulf Province.

The official population of Western Province, according to the 2000 census, was 153,304 (3% of the total official PNG population). Population density in Western Province is less than two persons per square kilometre, reflecting limited availability of arable land.

PNGSDP activity in Western Province in 2009

In order to improve the delivery of development projects and services to the communities, PNGSDP expanded its operations and increased its presence in Western Province in 2009. This was made possible in partnership with the Fly River Provincial Government, communities, Churches, NGOs and its various subsidiary companies.

PNGSDP has continued to improve the capacity of its Regional Office in Kiunga, and in 2010 will secure offices in Tabubil and Daru to service the communities of the three Fly River Districts more equitably. During the year 2009 the Company disbursed K32.1 million under the Western Province Program, with a cumulative disbursement of K85.2 million since 2002.

PNGSDP continued closer consultation and liaison with the women leaders of the impacted communities on funding and implementation of the CMCA 10% Women and Childrens' Action Plans.

Existing tower to be refurbished in Communications Tower Project, Sibidiri Village, South Fly District, Western Province.

INFRASTRUCTURE

PROGRAM APPROACH

- PNGSDP will extend the transmission of power and will build a communications network to provide the people of Western Province with access to power and mobile phones.
- PNGSDP will build roads and airstrips and fund water transportation services that connect people to health and education services, markets and industry development opportunities.
- PNGSDP will continue to build and support microfinance services so that the less wealthy people of PNG have access to secure deposit and loans facilities.

Western Province Communication Towers

The objective of this project is to provide mobile phone communication to over 90% of the population of Western Province.

A desk top study on the viability of a communication tower network was carried out in early 2009. The study used satellite imagery supplied by the University of Papua New Guinea to identify population clusters and nominate tower sites close to these clusters. A proposed network plan was established. PNGSDP approved an initial budget allocation of K29 million for the project. Preparation of the Engineering Procurement Construction (EPC) type tender was undertaken in 2009.

The project will involve the construction of 57 towers with supply of power to allow for mobile phone companies to install equipment on the towers to provide telecommunication and data services to the population of Western Province.

Part of the proposed sites for Towers Project, Morehead Station, Western Province.

WESTERN PROVINCE PROGRAM

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Kiunga to Kokonda Road

December 2009 saw the completion of the Kiunga to Kokonda Road.

In 2005, PNGSDP board approved 100% funding for the construction of Kiunga to Kokonda Road. However, due to non-performance by the contractor the original contract awarded in 2007 was terminated.

A revised contract was awarded to LOTIC/GLOBAL Construction Joint Venture, "TRIMAR Construction JV" commencing in March 2008 and costing K12.7 Million.

Communities along the road corridor and from the west bank of the Ok Tedi River can now make daily travels to Kiunga. The Road is also encouraging the development of economic activities such as rubber planting, sawmilling and subsistence agriculture along the road corridor.

Gre to Drimgas Road

PNGSDP committed 100% funding for the construction of the 28 kilometres Gre to Drimgas Road at a budgeted cost of K35 million. TRIMAR Construction JV won the contract and construction work on the road commenced on 26 January 2009. Construction is scheduled to be completed by mid 2010.

Rehabilitation of Airstrips

In 2009, PNGSDP provided K5.5 million for the rehabilitation of five airstrips in the Mine preferred areas at Bak, Oksapmin, Golgobip, Eliptamin and Telefomin. Implementation was coordinated by the OTML's Engineering Division during 2009.

Energy and Rural Electrification

PNGSDP's total financial assistance for rural electrification in Western Province in 2009 was K4 million, making a cumulative total since 2005 (year of rural power project commencement) of K31 million.

Six mini-grids previously implemented in Western Province have been operating continuously through 2009 by PNGSDP's new subsidiary Western Power. In 2009 the focus was on the development of the Tutuwe mini-grid project which is the second phase of Western Province Rural Electrification funded by PNGSDP.

Official opening of Kiunga to Kokonda Road, September 2009, Western Province.

Microfinance

In 2009, PNG Microfinance Ltd (PNGMFL) continued to operate and expand financial outreach from its five Western Province branches and opened a new service center at Lake Murray. Due to the economic constraints and a lack of lending demand, Obo and Tabubil will be converted in 2010 into service centers that will focus on savings mobilization.

Lending declined in 2009 while savings mobilisation tapered off to 2007 levels. The decline in savings accounts was partially due to the migration to the new management information system (MIS), which has the capability to differentiate between operative and inoperative accounts. A service fee on all personal savings accounts also contributed to the decline.

Hand held devices were introduced at all Western Province branches to allow PNGMFL staff to collect savings and loan repayments in the field. This added service is hoped to retain existing clients and capture new ones. The new MIS system greatly improved the CMCA payment system by allowing PNGMFL to pass payments to customer's accounts through an automated process.

Summary of Savings Services - Western Province

	2007		2008		2009	
	NO. OF DEPOSITORS	VALUE OF DEPOSITS	NO. OF DEPOSITORS	VALUE OF DEPOSITS	NO. OF DEPOSITORS	VALUE OF DEPOSITS
TOTAL	45,183	K12,269,200	47,995	K15,862,149	31,747	K12,499,935

Summary of Lending Services - Western Province

	2007		2008		2009	
	LOANS APPROVED	VALUE OF LOANS	LOANS APPROVED	VALUE OF LOANS	LOANS APPROVED	VALUE OF LOANS
TOTAL	3,493	K6,901,756	1,482	K3,709,979	609	K1,537,672

DELIVERY OF COMMUNITY LEVEL PROGRAMS

INDUSTRY

PROGRAM APPROACH

- PNGSDP will work to build long term sustainable industries that employ local people. The focus will be rubber, but it will include Aquaculture, Forestry and Agriculture.

Agriculture Development Program

Lake Murray Village Rubber Project

By the end of 2009 the Lake Murray Village Rubber Project had completed planting 1,598 ha of rubber and exceeded the goal of 840 growers by engaging 1,246 families. In 2009 PNGSDP agreed to extend the rubber project to 2013, with the provision of an extra K2.7 million.

The rubber project commenced in 2005 as a partnership between PNGSDP as the grant funder of the project; North Fly Rubber Limited as the implementer of the development component; and PNG Microfinance as the lender of rubber extension loans to farmers.

The rollout of sustenance loans continues to be challenged with logistical and administrative capacity problems, but despite this to September 2009 PNGMFL funded over K2 million in sustenance loans to growers.

The project is progressing towards achieving its targeted goal of delivering 2,200 ha of rubber planted by December 2010. The development component implemented by North Fly Rubber Limited is progressing well. The lower number of hectares of rubber planted per grower, is being compensated for by increased numbers of farmers entering the project.

The findings from the Project audit undertaken in November 2009 delivered some important lessons that PNGSDP will respond to including that:

- The effectiveness of economic development is improved with a multi-sector approach;
- Communications with implementing partners needs to be responsive and flexible;
- Disciplined project evaluation and review is essential from both an operational and technical perspective;
- Active integration of HIV prevention into all activities is essential;
- The agriculture project makes possible parallel health, community awareness, education, banking and local enterprise initiatives; and
- The delivery of services, and the addressing of specific health and education issues will be served well by partnerships with government and civil society organisations.

Inspection of rubber trees, Lake Murray, Western Province.

BUSINESS AS PARTNER

PNGSDP recognises the importance of working alongside businesses. Business has the expertise and experience that will enable the delivery of projects more effectively and efficiently.

Accumulated key milestones achieved to end of 2009			
Hectares of rubber planted	Development Funds expended	Loan Funds Expended	No of participating grower families
1,598 ha	K5,293,285	K2,067,176	1,246 families

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Waria Waria Oil Production in South Fly

In 2009 PNGSDP formed a Joint Venture (JV) company Waria Waria Oil Company Ltd (WWOL) with Prime Management Services Ltd (PMSL) of Australia to develop an indigenous essential oil industry in South Fly District of Western Province.

PNGSDP has invested K1 million capital into the company for 40 percent of the shares which are held in trust for the resource owners until the business becomes profitable. PMSL who hold the remaining 60 percent of the shares has also been engaged to manage the business.

Tests performed on the Waria Waria Oil have proven it to have a similar consistency to tea tree oil. The Waria Waria Oil resource is estimated to cover an area of 470,600 hectares in the South Fly district. The World Wildlife Fund who manage the Tonda Wildlife Management Area is supportive of this project and would like to see the local people benefit from the development of this resource.

The business will focus on twenty villages around the Morehead area, initially harvesting from the wild and moving onto plantation development in the second year. Approximately twenty villages with a population of some 2,000 families will benefit directly from the project through various engagements in the oil industry though the harvesting of their own waria waria trees and approximately thirty local full time jobs will be created through the oil processing and handling. The average family income from harvesting will range from K2,500 per year with potentially higher incomes through profit sharing. This compares with a current average per capita income of less than K100 per annum in the area.

PNGSDP has allocated an additional K1 million to support social and economic infrastructure, maintenance and development to support the business, which will be drawn down from 2010. PNG Microfinance is opening a branch in Morehead to handle the inflow of large funds and provide financial services to the community.

Sustainable Forestry Program

Investigations into sustainable forestry opportunities in Western Province continue for a commercial forestry plantation at Aramia Basin. PNGSDP is currently pursuing a project partner to be responsible for project implementation and management with rural communities. PNGSDP in collaboration with the University of PNG Biology Faculty is investigating the environmental concerns associated with the ecologically sensitive Aramia Basin region.

PNGSDP Directors inspecting eaglewood seedlings at Kiunga Catholic Diocese Emmaus Farm, Kiunga, Western Province.

Sustainable Eaglewood Industry

In 2009, significant progress was made in relation to the development of a sustainable Eaglewood industry in PNG. Eaglewood is produced from agarwood and products include oil, woodchips and incense which are used for cultural, religious and medical purposes.

2009 delivered key results from PNGSDP's investigative efforts to commercialise and sustain the Eaglewood Industry as an income generating opportunity for rural communities in Western Province.

Completion of a fifteen month inoculation trial of selected trees in December 2009 demonstrated that the cultivated agarwood inoculation technology (i.e. CA Kit) can produce suitable quantities of agarwood from existing wild trees- the first time this has occurred in PNG.

In mid 2009, PNGSDP imported agarwood seeds from Vietnam for its seed supply and nursery program. This resulted in 20,000 seedlings being planted at the Daru Kiunga Catholic Diocese's Emmaus Farm and Samagos Department of Primary Industry Station in Kiunga, and at PNG Forest Authority's Kuriva Forest Station, outside of Port Moresby.

PNGSDP is now the recognized licensee and distributor of CA Kits in PNG for use on both wild trees of suitable size and nursery trees.

The success of these activities from 2009 will lead to the development of a sustainable business model for Eaglewood from 2010.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Environment and Fisheries Development Program

Sustainable Aquaculture Project

With the completion of civil works in 2009, a K7 million contract was signed with Yatala Property Developers to construct a barramundi hatchery, housing, storage and an administration facility on Daru Island. All five Middle Fly and four South Fly pontoon trial farming sites and mooring of all sixteen cages at the respective sites were completed. World class bio-filtration, aeration and water supply equipment was customised to the hatcheries production needs of up to 500,000 fingerlings per annum and the latest technology Coded Wire Tagging equipment was received from North West Marine Technology in the United States for the restocking project. All hatchery equipment was sourced through and installed by leading Australasian supplier, Aquasonic.

The hatchery building was completed by the end of 2009 with remaining works expected to be finished in 2010, paving the way for a historic first crop of barramundi fingerlings. The Middle Fly feed trial facility at Obo was also completed with all equipment installed and commissioned. A first batch of pelletised feed was successfully manufactured from fresh Fly River herring. The project continues to work in consultation with the Australian Centre for International Agricultural Research (ACIAR) and stakeholders including the Ok Tedi Development Foundation and the Fly River Provincial Government.

Barramundi Habitat Conservation Project

In 2009 a partnership was formed with The Nature Conservancy (TNC) to recognise the importance of the habitat conservation project. Adopting the organisations' proven community consultation approach TNC engaged stakeholders throughout the Pahoturi Watershed visiting all five landowner villages of Buzi, Sigabadu, Mabudawan, Baranap and Ngao.

PNGSDP's aim is to enable local communities to use their own environmental laws to establish a management plan to protect their barramundi spawning, breeding and nursery areas.

COMMUNITY AS PARTNER

PNGSDP will work through NGOs and Churches to empower local communities to determine their own way forward.

COMMUNITY and SOCIAL INVESTMENT PROGRAM

PROGRAM APPROACH

PNGSDP will support partners to improve health and education service delivery including access to clean water and sanitation, and will empower communities to develop themselves and direct their own development.

The Community and Social Investment Program model requires partners to bring their own material and financial resources to the project. PNGSDP contributes funding provided project partners and communities contribute cash and/or material and physical support to significantly increase the value of each project.

PNGSDP will continue to support a wide range of small scale projects that build on, but do not replace, the work of individual communities and villages. These small grants will include areas as diverse as capacity building, leadership development, healthcare, water and sanitation and support of initiatives that promote gender equity.

The scope of development activities in Western Province supported under the Company's Community and Social Investment Program (CSIP) covers:

- Community Sustainable Development Program (Small Grants);
- Water Supply and Sanitation;
- Western Province Scholarships;
- Education and Capacity Building;
- Western Province Health and Education Improvement Program;
- Health Working Group;
- One Laptop Per Child Program; and
- CMCA 10% Women and Childrens' Fund.

Community Sustainable Development Program

K2 million is allocated annually specifically for Community Sustainable Development Program (CSDP) projects in Western Province. The churches, Ok Tedi Development Foundation, the CMCA trusts and the Provincial Government continue to be the main partners in development activities in the province. To date funding under this program has been granted to 42 community projects, with a total of K9.5 million provided since 2004.

CSDP projects are mainly involved with the provision of health and basic needs or provide support for education and skills training; however, requests for assistance to income generating activities, particularly in agriculture, are also supported.

2009 saw the completion of a mental health office associated with Callan Services for the Disabled in Kiunga and infrastructure at the Emmaus Youth Farm outside Kiunga. Approval was given for funding support for transport and maintenance support at the Mougulu health and education facilities with a tractor, slasher and trailer to be made available to this Middle Fly outpost in 2010.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Water Supply and Sanitation

Safe water supplies and improved sanitation for the communities of Western Province have been priorities of the Company since it commenced. 2009 saw further advances on this with agreement to support, in partnership with CMCA trusts, water projects in five of the CMCA communities at a cost of K2.6 million. The CMCA trusts involved are Middle Fly, Suki Fly Gogo, Manawete, Kiwaba and Dudi. Awaba Secondary School and the Kiunga Montfort Technical Secondary School have also received support totaling K475,000 for improved water supplies and the Daru Montfort Primary School commenced a sanitation improvement program with K160,000 from PNGSDP. The Company continues to encourage community organizations to present plans and partnership proposals for improved water supplies in all areas.

Western Province Scholarships Program

2009 closed with the Company providing scholarships for the top male and female student from each secondary school in Western Province. Six Western Province students from the 2009 school leavers program were selected for tertiary education scholarships at the Royal Melbourne Institute of Technology. These students along with the six Western Province students selected from 2008, departed for studies at RMIT on 4 January 2010.

Education and Capacity Building

Under the Church Education Program and in response to concerns of lack of teachers in remote schools PNGSDP is providing further funding to support efforts by the United and Catholic Churches to recruit 30 suitably qualified people from rural communities to undertake teacher training programs and return to their villages as teachers. Ten of the students were selected to commence study at Gaulim Teachers College in East New Britain and 20 at Sacred Heart Teachers' College in Bomana in 2010.

In 2009 PNGSDP extended its investment development of the future generations with support of the University of Papua New Guinea Fly River Students Association by operating a Students Computer Lab for Western Province students attending University of PNG.

Manawete women celebrating their Resource Centre, Western Province.

PNGSDP staff Sam Tupou inspecting construction of school, Kiunga Montford Secondary, Western Province.

Opening of water supply at Minda, West New Britain Province.

Western Province Church Agency Program, St. Johns School, Daru.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Western Province Health and Education Program

The Western Province Health and Education Program provides a total of K23.5 million to selected church agencies to identify priority areas for improvement and receive funding to support the implementation of their plans over a three year period.

PNGSDP has also responded favourably to support the Kiunga Hospital with the purchase of sterilization and incineration equipment.

In consultation with the provincial authorities and in line with the development strategies of the Provincial Government the church agencies have opportunities to propose projects for funding. 2009 saw materials supplied to ten health posts and six community or primary schools of the Evangelical Church of PNG with buildings now completed in various Middle Fly locations. The United Church identified teacher training as a priority under its program and is also developing strategies to maximize the impact of K3 million made available to its schools.

One Laptop Per Child Program, Rumginae, North Fly District, Western Province.

In response to the issues facing Western Province when the Ok Tedi mine closes the board of PNGSDP has agreed to consider additional support to sustainable health programs. The Company is well aware that the extensive programs of support across all areas of development are already contributing to improved health outcomes in the province.

For instance:

- its support to the operations of MV Danaya as a passenger vessel in coastal and river areas;
- improved water supplies along the Fly River and in some of the schools;
- the availability of an aircraft provided by PNGSDP for medical service;
- mobile telephone communications planned to become available to 90% of the population; and
- roads, cash crops, airport improvement and wharves will all be major contributors to improved community health.

Western Province Health Working Group

The Company has brought together provincial health authorities, representatives of the churches and others with direct involvement in health to examine opportunities for PNGSDP to contribute. Sponsored by PNGSDP a Health Working Group has been established, chaired by the Provincial Health Advisor and is meeting regularly, in consultation with the National Department of Health and other health related programs - Global Fund, Asian Development Bank, WHO.

One Laptop Per Child Program

The One Laptop Per Child Program being introduced in North Fly, commenced in November, at Callan Services for the Disabled with a training program led by Divine Word University staff. This will continue as the computers and associated equipment become available for the seven trial schools in early 2010. This program will see whole grades in the selected schools equipped with laptops for each child and teacher.

CMCA 10% Women and Childrens' Fund

In 2009 PNGSDP funded Manawete Trust Women's Resource Centre for K127,400 and committed K1.8 million to the CMCA Regional Women's Development - Leadership Capacity Building Project.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

OVERVIEW

Two thirds of the Company's Development Fund is allocated to projects throughout PNG which are reported on here, and the remaining one third is allocated to projects in the Western Province reported in the previous section.

PNGSDP's activity nationally in 2009

During the year, the Company disbursed K79.4 million under the National Program with a cumulative disbursement of K260.9 million since 2002. Under the Community Sustainable Development Program, K6.7 million was disbursed in 2009 and K20.7 million cumulatively for National projects since 2002.

INFRASTRUCTURE

PROGRAM APPROACH

- PNGSDP will build roads and airstrips, and fund water transportation services and rural electrification projects that connect people to services, markets and industry development opportunities, and facilitate suitable maintenance arrangement with partners.
- PNGSDP will continue to build and support microfinance so that the less wealthy people of PNG have access to secure deposit and loans facilities.

National Road Maintenance Rehabilitation Project (RMRP)

The Company extended its support of the National Road Maintenance Rehabilitation Project Phase II at the beginning of 2009 by approving an additional K20 million to the K27 million previously provided in support of Phase I of the project. This national roads project is funded on behalf of the National Government of PNG in partnership with the World Bank and the project has supported the upgrade of National and Provincial Roads in various provinces throughout the country.

In 2009 the project completed the rehabilitation and sealing of the Magi Highway from Ormond to Bukuku Village, Central Province and made significant progress rehabilitating and reconstructing the following roads which are on schedule to be completed by the end of 2010:

- Northern Highway from Girua Bridge to Oro Bay, Oro Province;
- New Britain Highway from Bilomi to Koriri Bridge and from Kokoi Bridge to Balaha culvert, West New Britain;
- Baliora Rd from Baliora junction to Tokorongan junction, East New Britain; and
- Hiritano Highway from Aropokina to Buioto culverts, Central Province

The following roads are under contract negotiation:

- East West Highway from Tingou to Mundrau, Manus
- Hiritano Highway from Kepamai to Uamai, Gulf Province
- Magi Highway from Alepa to Ormond, Buioto culvert to Inawabui village, and installation of multiple culverts at Kwikila bridges, Central Province

Magi Highway Rehabilitation, Central Province

In addition to the RMRP, PNGSDP also prepared for further rehabilitation of the Magi Highway from Bukuku to Upulima in Central Province in 2009. Contracts are on schedule to be awarded in January 2010 for the project to commence.

Kokopo Town Roads, East New Britain

Rehabilitation of the Kokopo Town Roads was completed in November 2009 in partnership with the National and East New Britain Provincial Governments. PNGSDP provided K13.2 million and the result has significantly improved the standard of the road and traffic flow within the Kokopo Town.

The Company has partnered with the National Government by providing counterpart funding assistance for donor aid projects from organisations such as the World Bank.

PROGRAM REPORT

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Energy and Electrification Program

In Bougainville preparation was undertaken on the Togarao Rural Electrification Project in Tuitu river comprising a 1.2MW hydro at Togarao and connection of a number of villages totaling some 10,000 people in the Togarao-Wakunai corridor. Investigations have also been carried out for rural electrification projects at Watarais and Okapa in Eastern Highlands Province, in the Cloudy Bay area of Central Province and the rehabilitation of Sohun Hydro Power Station in Namatanai in New Ireland Province.

On behalf of the Global Environment Facility, World Bank and PNGSDP, Western Power has been managing the Teachers Solar Lighting Program (TSLP). After some initial issues, this project is now ready to be rolled out in a new format in 2010 and will be incorporated into the Pacific wide successor to the TSLP, the Sustainable Energy Financing Project (SEFP).

The SEFP was launched and trialed in Port Moresby early 2009. A number of key project design issues were identified from the pilot and following amendments the project was successfully launched nationally in late 2009 under the banner of “Solar Power Loans”. The project is presently on track and offering finance for investments in small solar, hydro and biofuel technologies through a number of local financial institutions.

Microfinance

Savings and lending services continued to be offered through the nine branches located throughout PNG including Koki, Popondetta, Kimbe, Alotau, and six in Western Province at Kiunga, Tabubil, Daru, Obo, Lake Murray and Balimo.

In Tubusereia a service center branch was piloted. The service center offers savings services with low overhead expenditure. A Doorstop banking model was also introduced and piloted in Port Moresby to increase outreach. PNGML plans to use the lessons learned from both pilots to improve the delivery of financial services to underserved areas.

Family trade store using loans from PNG Microfinance.

Summary of Savings Services - National (excluding Western Province)

	2007		2008		2009	
	NO. OF DEPOSITORS	VALUE OF DEPOSITS	NO. OF DEPOSITORS	VALUE OF DEPOSITS	NO. OF DEPOSITORS	VALUE OF DEPOSITS
TOTAL	82,666	K14,781,998	72,140	K16,498,145	45,604	K24,041,366

Summary of Lending Services - National (excluding Western Province)

	2007		2008		2009	
	LOANS APPROVED	VALUE OF LOANS	LOANS APPROVED	VALUE OF LOANS	LOANS APPROVED	VALUE OF LOANS
TOTAL	5,651	K12,166,466	3,108	K7,599,303	1889	K4,801,318

DELIVERY OF COMMUNITY LEVEL PROGRAMS

INDUSTRY

PROGRAM APPROACH

- PNGSDP will work to build long term sustainable industries that employ local people, primarily in Forestry and Agriculture.

Agriculture Development Program

Smallholder Agricultural Development Project - Oil Palm

The Smallholder Agricultural Development Project (SADP) is a collaboration between the National Government of PNG, International Development Agency of the World Bank, and PNGSDP. The project aims to increase oil palm smallholder production in Oro and West New Britain Provinces through the establishment of a credit facility for planning new blocks on existing feeder roads. Increased rehabilitation and utilization of existing roads will raise overall production and reduce transportation costs to smallholders.

The Company's support is channelled through three components of the Project:

(1) Oro Province Road Construction and Rehabilitation

2009 resulted in completion of emergency work to smallholder roads, an emergency culvert and river crossing repairs required after cyclone Guba in 2007. 650 block holders have benefited from improved road access.

105km of smallholder feeder roads are now the focus for upgrade and maintenance to link orphan planted blocks with the road network. This will benefit over 1,000 growers and is scheduled to commence mid to late 2010 after the World Bank and OPIC signed the final implementation agreement.

K7.8 million has been committed for the Oro Province Road Construction and Rehabilitation, plus K2 million for emergency rehabilitation required after cyclone Guba.

(2) Sustainable Road Maintenance

PNGSDP has pledged K2.97 million seed capital towards a sustainable road maintenance program for the smallholder oil palm sector. Commitment is pending the results of a study being commissioned by OPIC to design a trust fund arrangement whereby road users and government ensure regular road maintenance.

(3) Smallholder Credit Facility

A payment of K8.9 million was made to PNG Microfinance Ltd in September 2009 for the establishment of a credit facility for planting of new blocks on existing feeder roads.

Sustainable Forestry Program

Sustainable forestry practices and preparing to linking into the future carbon credit market are key environmental and economic strategic priorities for the Company.

Cloudy Bay Sustainable Forestry Ltd

In 2009 Cloudy Bay Sustainable Forestry Ltd (CBSFL) implemented best practice across its business to support sustainable forestry, and applied for Forest Stewardship Council certification for the forestry operation in Cloudy Bay.

A new automated timber docking line and moulding machine has enabled CBSFL to produce timber products to best quality standards, and has already led to big improvements in wood recoveries and reduced wastage. In late 2009 a new pressure treatment plant was installed to allow CBSFL to treat timber with preservatives for all internal and external duties and this will be commissioned in early 2010.

Afforestation of grassland areas

The Afforestation Project aims to develop a sustainable supply of timber, and create supply for a future carbon credit market.

In 2009, PNGSDP identified four sites with varying grassland conditions within Rigo District (20,000 hectares), and embarked on a series of trials to match suitable tree species across the sites.

Commencement of the trial was pending agreement from the incorporated landowner groups which was eventually attained as a result of extensive consultations during 2009.

The plantation trial is on schedule to be completed by mid 2011 and will plant a total of 40,000 seedlings, including Acacias, Eucalyptus and Teak species.

Twelve months after planting, results will provide the baseline information for the most appropriate types of trees for planting in Rigo District for a sustainable forestry industry in PNG.

GOVERNMENT AND DONOR PARTNERS

PNGSDP will work alongside all levels of government and its donors. The Company will work hard to deliver on joint priorities of PNGSDP and government.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

COMMUNITY and SOCIAL INVESTMENT PROGRAM

PROGRAM APPROACH

PNGSDP will support partners to improve health and education service delivery including access to clean water and sanitation, and will empower communities to develop themselves and direct their own development.

The Community and Social Investment Program model requires partners to bring their own material and financial resources to the project. PNGSDP contributes funding provided project partners and communities contribute cash and/or material and physical support to significantly increase the value of each project.

PNGSDP will continue to support a wide range of small scale projects that build on, but do not replace, the work of individual communities and villages. These small grants will include areas as diverse as capacity building, leadership development, healthcare, water and sanitation and support of initiatives that promote gender equity.

The scope of development activities supported under the Company's Community and Social Investment Program (CSIP) National Program covers:

- Community Sustainable Development Program (Small Grants);
- Bougainville Health and Education Rehabilitation Program; and
- HIV and Development.

School children at Injed Primary School, Southern Highlands.

Community Sustainable Development Program

K4 million is allocated annually specifically for Community Sustainable Development Program (CSDP) projects nationally across PNG. Since 2002 a total of over K45.8 million has been committed in support of CSDP National projects with K4.4 million committed to projects in 2009. Support was provided in a range of sectors including: health infrastructure, education and capacity building, agriculture, water supply and sanitation, capacity building, eco-forestry, HIV infrastructure and community road improvement projects.

Health and HIV

Several health related projects were approved in 2009 valued at over K580,000 including the Polga Sub-Health Centre Staff House Project which constructed a staff duplex for community health workers in Anglimp South Wahgi District of Western Highlands Province.

Other projects included the:

- construction of the pediatric ward and kitchen of the Kompiam Rural Hospital Redevelopment, Western Highlands, and Enga Province;
- relocation of the Fatima Sub-Health Centre, North Wahgi District, Western Highlands;
- rehabilitation of the aid post at the Sogeri National High School in partnership with the India Association;
- refurbishment of United Church Highlands Region VCT and drop-in care centre; and
- support to the City Mission and Anglicare StopAIDS Crisis Centre for Children affected by HIV and AIDS.

Building the Capacity of young Papua New Guineans

PNGSDP is now participating in the PNG Careers in Development Program along with 22 other development agencies including AusAID, NZAid, World Vision, Save the Children and the UN. The partnership is a 20 month program which trains 27 young Papua New Guineans in management and leadership skills, and provides each cadet the opportunity to undertake three six month placements with different agencies operating in the development industry. Each of the cadets that PNGSDP has hosted, have each been enthusiastic and talented individuals who added significant value during their placement.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Education and Capacity Building

PNGSDP's support for the annual scholarship program through the PNG Business and Professional Women's Club contributed to the club providing partial fee sponsorship to 133 young women continuing their education at high school, secondary, tertiary and vocational institutions in 2009. PNGSDP is committed to supporting the club for five years.

2009 also resulted in:

- the Sisters of Charity of Saint Anne constructing a two storey building for vocational skills training and elementary education in Gerehu stage 6, Port Moresby;
- support for the first project in Manus Province to construct a music centre at Maria Molnar Training Centre;
- construction of a female students' dormitory for St Joseph's Vocational Training Centre;
- delivery of a broadband wireless education network to secondary school students and leavers living in remote locations in Milne Bay;
- approval to support four staff houses for the Sacred Heart Teachers College of Bomana; and
- assistance to Transparency International PNG to run an annual training seminar, the Mike Manning Youth Democracy Camp, for five years.

During the year several other projects to support human development were funded including refurbishment of the St. Arnold Janssen Human Development Centre in Mingende, Simbu Province, support for the Community Services Network Women's National Conference, Hoops 4 the Pacific, and the National Research Institute Community Transformation Conference.

Agriculture and Forestry

2009 resulted in the support of projects that specifically enabled communities to sustain and strengthen their own livelihoods, in particular support of the:

- Lutheran Development Service Yangpela Didiman Morobe Province Program that trains young men and women in vocational and agriculture skills including soil management, natural resource management, food security, vegetable farming, cash crop farming, livestock rearing and meat production, post harvest activities, book keeping, food processing and marketing, fish farming, human nutrition, and health and hygiene.
- A food security project to rear goats for milk and meat in partnership with Child Fund for the remote Ormand Villages in Central Province.
- Environmental awareness and sustainability management project with Research and Conservation Foundation to undertake reforestation with ten communities in the Henganofi District of Eastern Highlands Province.

Water Supply and Sanitation

2009 saw further advances on PNGSDP's commitment to support improvements in safe water supplies and improved sanitation for the communities throughout the country, including the delivery of:

- water supply project for the people of Minda in West New Britain;
- hand pumps, lined water wells, water tanks and sanitation facilities for 300 people in a remote community in Milne Bay;
- improved health via clean water and sanitation facilities for 2,100 people of the Malalamai community in Madang and the Isan community in Morobe; and
- rehabilitation of water supply to prevent women and children carrying 25 kg containers of water for two kilometres in Taurama village.

Opening of St. Anne Elementary and Vocational Skills Training Centre, Gerehu Stage 6, Port Moresby.

DELIVERY OF COMMUNITY LEVEL PROGRAMS

Community Roads

PNGSDP contributed to initiatives by two local communities to upgrade community roads to have improved and safer access to goods and services.

The Homaria community in the Margarima District of the Southern Highlands and the 3,800 people of the Ambullua parish in the Jimi District in Western Highlands were the beneficiaries of this project.

Bougainville Health and Education Rehabilitation Program

In mid 2008, PNGSDP committed K4 million towards rehabilitating schools and health centres in Bougainville in partnership with the United and Catholic Churches. Since the commencement of the program K1.2 million has been utilised to upgrade the Mabiri and Tonu High Schools and the Tarlena Secondary School, and K1.18 million for the rehabilitation of 11 health centres across the province.

HIV and Development

PNGSDP has adopted a general principle that it should support communities as they achieve their goals rather than imposing external goals. The Company agrees that rural communities need to be able to discuss their cultural norms and practices in conjunction with understanding 'what the driving forces' of HIV are. It is clear that some of the driving forces are critical issues that will be appreciated only through open and meaningful dialogue in communities where communal decisions are made about what needs to change if they want to survive the impact of the HIV epidemic.

The PNGSDP HIV and Development Team has been supporting the structured Community Conversations approach in an ongoing and evolving process through eight different partner organisations around the country. Under the eight organisations are 19 trained Community Conversations teams working in 27

PNGSDP staff Jennifer Krimbu facilitating a training workshop for Community Conversations Initiative.

different communities in Western Province and around PNG. The program has been fortunate to receive support from partner organisations including Caritas Australia.

As with all other HIV and community based programs, the Community Conversations Initiative has its share of challenges. A documentation, monitoring and evaluation (DME) system to measure the outcome and impact of this approach has been developed by the HIV and Development Team in an effort to assess the effect of this community response to HIV in encouraging the fundamental behavioural adjustments needed in societies if they are to protect themselves against infection.

Observations of the process as it has been applied progressively in parts of Western Province and other parts of the country indicate that it is a powerful tool in the hands of communities supported by experienced and dedicated individuals encouraging them to seek solutions and take control of their particular situations.

Cloudy Bay Sustainable Forestry Ltd

In 2009 Cloudy Bay Sustainable Forestry Ltd (CBSFL) commenced the first year of a three year implementation of new management and operations systems to bring it in line with Forestry Best Practice.

This program has led to significant changes in the way the company operates and they now have the equipment and infrastructure to operate as a model forestry company. The business systems installed for operational process control and business control include a new computer business system for accounts, procurement, logistics, sales, human resources and inventory. In addition a new GIS Computer was installed for forestry planning and mapping along with a relational GPS system for capturing of terrestrial (terrain) data within the concession.

"Best Operating Practices" for the 56 different operations processes were developed during the year in order for CBSFL to apply for Forest Stewardship Council certification for the forestry operation in Cloudy Bay.

Upgrades were undertaken at 9 Mile Wood Processing Centre with a new automated timber docking line and moulding machine which has given CBSFL the ability to compete on the international market for machined timber products. This new processing equipment has already led to big improvements in wood recoveries and has reduced wastage. In late 2009 a new pressure treatment plant was installed to allow CBSFL to treat timber with preservatives for all internal and external requirements and this will be commissioned in early 2010.

Extensive staff training was also undertaken in 2009 in the fields of harvesting for Reduced Impact Logging, forest road construction, environmental, health and safety, forest planning, driver training, and operator training for all the new installed plant and equipment.

In 2009 the Health Centre in Cloudy Bay treated approximately 7,000 patients from the surrounding villages and since it opened in 2007, 32 babies have been delivered in the Centre.

The volume of logs harvested was below the contractual minimum as a result of landownership disputes and consequently the old Saw Mill was stood down for three months during the year. These issues are receiving ongoing attention from management and the National Forest Service, and are gradually being resolved.

Logging of Cloudy Bay timber, Cloudy Bay, Abau District, Central Province.

Stockpiling timber at 9 Mile, Port Moresby.

Director Jim Carlton (first right), CEO Sode (third right) and Deputy Prime Minister, Dr. Sir Puka Temu (fourth right) inspecting cabinet made from Cloudy Bay timber.

SUBSIDIARY REPORT

Western Province Sustainable Power Ltd

PNGSDP is focused on developing investment in electrification projects and small urban and rural energy projects in Western Province, along with the development of alternative renewable energy projects for electrification of remote communities and villages.

In pursuit of PNGSDP's mission, electricity infrastructure is critical to underpinning socioeconomic development across PNG. In 2009 PNGSDP established Western Province Sustainable Power Limited (WPSPL) as 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.

Licenses to be involved in generation, transmission and distribution of electricity have been granted by the relevant Government authorities. Western Power is the only non-statutory organisation in PNG to hold such licenses.

Erection of electricity poles for the Tutuwe Project, Rumginae, Western Province.

Step-up transformer at Rumginae Station connecting power to nearby villages, North Fly District, Western Province.

PNG Energy Development Ltd

In August 2009 PNGSDP established a Joint Venture in conjunction with Origin Ltd., a major, public listed, regional energy company. The JV is called PNG Energy Development Ltd (PNGEDL). Its major purpose is to undertake feasibility studies for the establishment of sustainable energy projects in PNG to provide the badly needed power for towns, cities and major projects being developed in PNG.

Since its establishment it has signed formal agreements with PNG Power Ltd and the Independent Public Business Corporation Ltd to work very closely with PPL and IPBC and the PNG government more widely to determine the priorities for electric power generation projects over 10MW, the transmission and distribution links from those projects and the feasibility of extending and adding to PNG's existing hydro-electricity capacity.

Already extensive work has been done on a new power station on the Ramu River below the Yonki Dam and extensive geological, technical, social, operational and financial investigations have commenced on other sites including Brown River, Anga Banga, Purari and a number of sites in Western Province.

PNGEDL is very conscious of the urgent demand for increased supplies of power and far greater reliability in transmission and distribution and maximum effort is being made to conclude the feasibility studies as quickly as practicable. It is anticipated the first results will be available prior to December 2010.

Investigation of Ok Tarim River Hydro, North Fly District, Western Province.

ASSOCIATES REPORT

PNG Microfinance Ltd

PNG Microfinance Ltd (PNGMFL) offers a range of deposit facilities, business loans for micro business operators, working capital loans for small and medium business operators, asset purchase loans for small and medium business operators and agri-business loans for farmers and business operators involved in agricultural-support type businesses.

Many changes occurred in 2009 that improved the operational efficiency of PNGMFL. In the early part of the year new policies and procedural guidelines for underwriting and loan recovery were introduced. A new operations manual was adopted under which staff were trained. Audit staff were also trained using a new audit manual. The software platform Banksoft was stabilized through the newly introduced help desk department. Accounting training took place for all branches and a new accounting manual was introduced.

Emphasis in the beginning of 2009 was given to improving the quality of the loan portfolio and subsequently the Portfolio at Risk ratio saw a reduction from around 16% in January to around 8% in December. Introduction of the new Fast Track Loan and an emphasis on Small and Medium Enterprise lending contributed to over one million Kina worth of growth in the loan portfolio. Losses for the year were cut in half in comparison with 2008 and loan volumes exceeded targets despite a large portfolio write off at the end of 2008. PNGMFL plans to achieve financial sustainability by the end of 2010.

In November the founding CEO announced his resignation and a new COO joined the staff. The new interim CEO was recruited after an international search and joined PNGMFL in the third week of March 2010.

Microfinance staff providing information on their services to potential clients.

Launch of Microfinance sustenance loans for small holders of oil palm, Kimbe, West New Britain Province.

MANAGEMENT REPORT

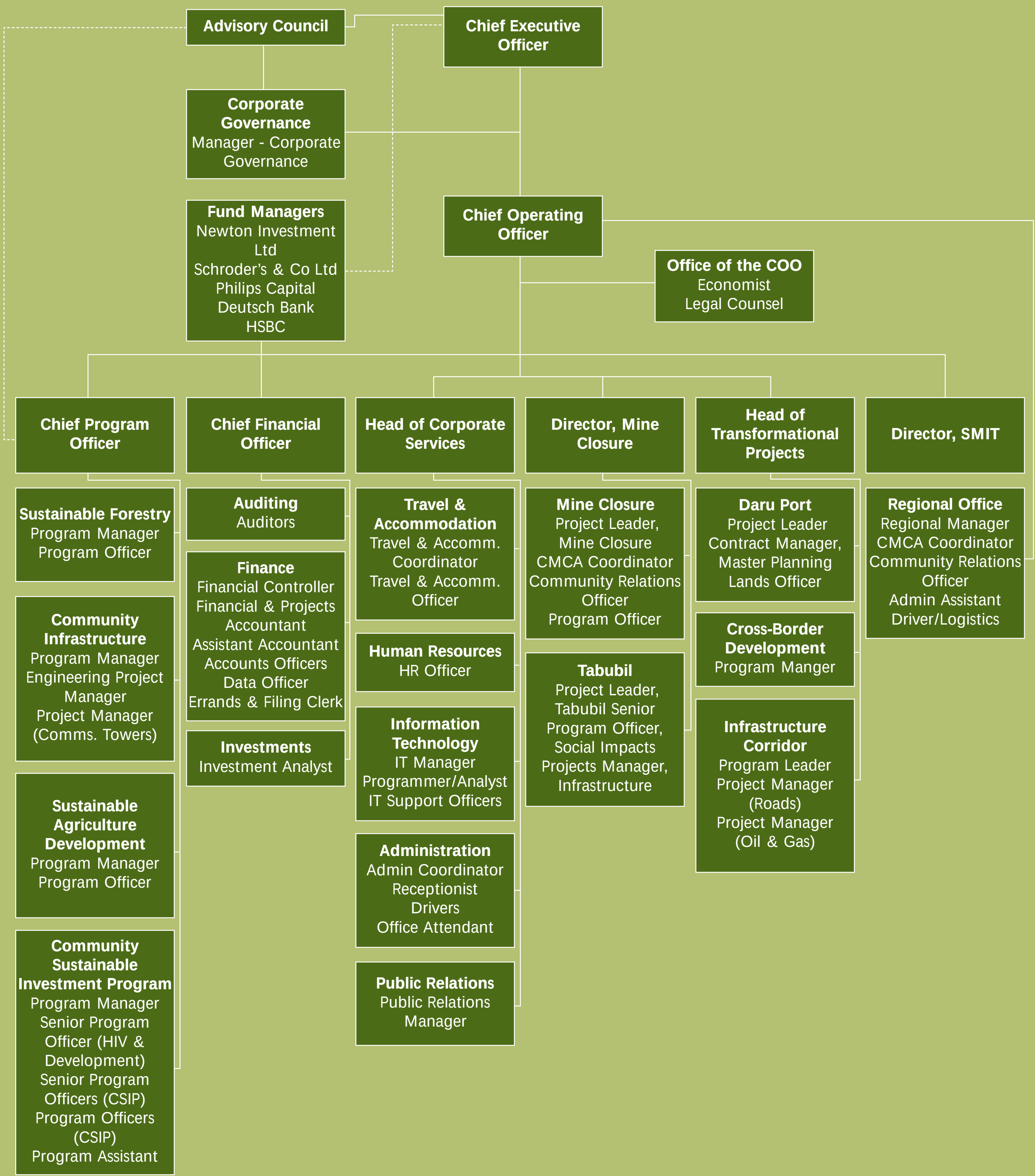
Several changes were implemented during 2009 across the Company, including those relating to human resources.

- New business strategy was developed by management resulting in an organisation restructure. Three new divisions were created to align operational resources and the strategy: Corporate Services, Transformational Projects and Mine Closure. Star Mountain Institute of Technology was created from project work to establish a training institute in Western Province.
- Mr. Todd Clewett was appointed as Acting Chief Operating Officer following the restructure. The Company farewelled Dr. Alo Ghosh, Advisor Strategic Investments who left the company in May 2009.
- Total number of staff in December 2009 was 59.
- 18 staff members left in 2009 including six from the Strategic Investment Group (who oversaw the Daru Port Project).
- A total of 16 new staff members were hired in 2009 including employees for Finance (3); Programs (CSIP) (4); Corporate Services (1); Office of the COO (2); SMIT (1); Regional Office (1); Western Province Sustainable Aquaculture (4).
- Information Technology facilitated software upgrades of PayGlobal Human Resource/Payroll system and the Great Plains Accounting system to version 10.
- Staff attended a number of seminars and workshops run by external organisations and individuals.

New staff of PNGSDP. *Standing (L-R): Kelly Kila (Finance), Murthy Srinivasa (Finance), Bernard Tokuau (HR), Bob Ande (CSIP), Garry Laka (CSIP). Seated (L-R): Evelyn Smith (Finance), Sally Luff (Corporate Services), Rita Maripa (CSIP), Tina Timothy (Corporate Services).*

PNGSDP MANAGEMENT CHART

Management Organisational Structure



ADVISORY COUNCIL REPORT

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.

The members of the Council are:

Member	Background
• Dr. Betty Lovai (Chairperson)	Academic, Social Work, Education, From Western Province
• Ms. Felecia Dobunaba OBE	Social Planning, Public Policy formulation, Development and implementation
• Reverend Samson Lowa	Education, Pastoral and Community Development, Moderator of the United Church
• Mr. Paul Songo	Education, Public Sector Reform, Capacity Building, Performance Monitoring of Provincial Administration & Local Level Government
• Mr. Blassius Iwik	Landowner Representative Western Province, Education, Pastoral & Community Development
• Mr. Shadrach Himata	Dept of Mining Nominee, Deputy Secretary Department of Mineral Policy & Geohazards Management

Members of the Council represent key sectors of the wider community and provide the Company with access to independent monitoring and advisory support. Two members, Dr. Betty Lovai and Mr. Blassius Iwik, are from Western Province, ensuring that the Company maintains its special focus on the province. Ms. Susil Nelson is the Secretary to the Advisory Council.

MANAGEMENT

Advisory Council members: LR Front - Dr. Betty Lovai (Chairperson), Mr. Blassius Iwik, Ms. Felecia Dobunaba. LR Back – Mr. Paul Songo, Mr. Shadrach Himata, Rev. Samson Lowa.

The Advisory Council and its Responsibilities

The Advisory Council provides the CEO with strategic advice on the development and implementation of the Sustainable Development Program, including advice on the integration of the Company's initiatives with overall development objectives of PNG.

The Advisory Council also provides assistance with sharing and disseminating information about the Sustainable Development Program to Project Partners and Stakeholders.

Two additional functions of the Advisory Council are to provide feedback on particular project proposals and to assist in monitoring and reviewing projects that are supported by the Company.

The Advisory Council meets quarterly to consider papers presented by Management.

Board of Directors

Dr Ross Garnaut, AO

Chairman, Non-Executive Director

BA, PhD, FASSA

Skills, experience and expertise

Dr. Garnaut is Vice Chancellor's fellow and Professional fellow in Economics at the University of Melbourne. He is also Distinguished Professor of Economics at the Australian National School of Pacific and Asia Studies, Australian National University, where he has also previously held the positions of Head of the Department of Economics and Director of the Asia Pacific School of Economics and Management.

He also brings to his role as Chairman significant experience in the Commonwealth Government as Senior Economic Advisor to the Australian Prime Minster Robert Hawke and diplomatic skills 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, as well as significant reports for the Australian Federal Government.

Dr Garnaut is the author of the 'Garnaut Climate Change Review' (for the Australian Prime Minister and State Premiers). His most recent book is the 'Great Crash of 2008' (Melbourne University Press).

Dr Garnaut is the Chairman of Lihir Gold Ltd and the Chairman of the International Food Policy Research Institute in Washington DC, USA.

Residence: Melbourne, Australia

Mr Lawrence Acanufa, OBE

Non-Executive Director

Skills, experience and expertise

Mr Acanufa, a lawyer, has extensive legal and business experience both within PNG and overseas.

Mr Acanufa was the principal lawyer and owner of the Law firm Acanufa & Associate Lawyers which had offices based in Port Moresby, Goroka and Madang. His company specialises in matters relating to the provision of legal consultancy to the Government of Papua New Guinea.

Aside from his legal experience, Mr Acanufa also brings to his role of Director many years business development experience in Papua New Guinea. Prior to establishing his legal business he held the roles of Executive Director Corporate Affairs with the Collins and Leahy Group and Company Secretary for Air Nuigini. During this time Mr Acanufa established himself as a strong leader capable of achieving significant business transformation and expansion activities. Mr Acanufa has also worked for Gadens Solicitors both in Port Moresby and Sydney, Australia.

Mr Acanufa has served on the Boards of Turner Davy Electrical Company, Avis-Rent-A-Car, Mitre Hardware, Goroka Home and Community Television, Laga Industries, East/West Transport, Hevilift Helicopters, Markham Farming and the Bird of Paradise Hotel.

Residence: Goroka, Eastern Highlands and Port Moresby, Papua New Guinea

Board of Directors

Honourable Jim Carlton, AO

Non-Executive Director

BSc

Skills, experience and expertise

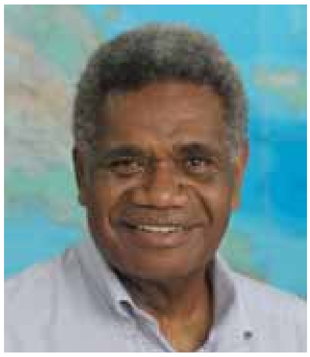
Mr. Carlton's expertise spans leadership roles in manufacturing industry, management consulting, government and the non-profit sector. Currently he is a Senior Adviser to the Boston Consulting Group.

Mr. Carlton has served as Chairman of the Australian Innovation Association, a Council Member of the Australian Strategic Policy Institute and a Board Member of the Australia and New Zealand School of Government.

Mr. Carlton was a Member of the Federal Parliament in Australia, serving as Minister for Health, and Minister Assisting the Minister for National Development and Energy. He also held a number of Shadow Ministry positions in Opposition, including Treasury, Defence and Sustainable Development & Environment, and has completed the Senior Managers in Government Program at the John F. Kennedy School of Government, Harvard University.

He also brings to his role as Director extensive experience in international development, serving as a Commonwealth observer at the return of Zambia to democracy, on the Australian Foreign Minister's Aid Advisory Council, and on the Australian National Advisory Council on Peace and Disarmament. Mr Carlton has also had experience in the non-profit sector, including seven years as Secretary General of the Australian Red Cross. He has also served on the Australian National Commission for UNESCO, and as Chairman of the Advisory Council of the National Archives of Australia.

Residence: Melbourne, Australia



Mr. Donald Manoa, MBE

Non-Executive Director; Chairman National Committee

Skills, experience and expertise

Mr Manoa has a broad range of expertise and skills in Industry as a Director. He is currently Chairman of New Guinea Islands Produce Company Limited/Agmark Group of Companies, and currently a member of the Board of Directors of First Investments Finance Ltd and Kina Fund Management.

Mr Manoa brings to his role as director many years of Business experience in Papua New Guinea. He was General Manager of the PNG Electricity Commission now PNG Power Ltd, General Manager of Shell PNG Ltd and has been Chairman and member of Board of Directors of other commercial institutions and ANZ Bank in PNG.

He has also contributed in a number of community and voluntary services.

He has also served as the Honorary Counsel for the Netherlands.

Residence: East New Britain, Papua New Guinea

Board of Directors

Ms. Patricia Caswell

Non-Executive Director

BA(Hons), BEd

Skills, Experience & expertise

Tricia Caswell is Founder and CEO of Tricia Caswell and Associates, specialising in sustainability expertise for business and industry with environmental, social, economic and governance dimensions.

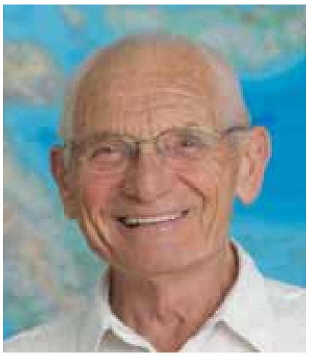
Tricia is involved in sustainable development outside Australia. As well as her role as a Board Director of PNG Sustainable Development Program Ltd she is a Director of KeeptheHabitat, a new company involved in reforestation and carbon in Indonesia. She has a number of sustainability related projects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

Tricia has long standing experience, commitment and expertise in sustainability as it relates to mining, forestry, financial institutions, building/property development, and renewable energy, the arts, as well as education and training.

Tricia has been a leader, Executive Director or CEO of a number of organizations: The Technical Teachers' Union of Victoria, the ACTU Executive, the Australian Conservation Foundation, Plan International Australia, Global Sustainability at RMIT University, and The Victorian Association of Forest Industries.

Over the past decades, Tricia has been a representative on many 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 Republics.

Residence: Ramat Hasharon, Israel

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, Chairman of ARA-CWT Trust Management (Cache) Ltd and Deputy Chairman of Tuas Power Ltd. He is also a Board Director of IFS Capital Ltd, Phillip Resources Fund Special Purpose Company, Jurong Port Pte Ltd, Lasseters International Holdings Ltd, C20 Holdings Ltd, Horsburg maritime Holding Ltd, Rickmers Maritime, Mermaid Maritime PCL, ARA Asset Management Ltd, Accusr Technolgies Ltd, ACAL 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 20 Raffles Place #09-01, Ocean Towers, Singapore and has a Company Secretary operating at that address. The Company's management office is located in Port Moresby, Papua New Guinea.

This report reflects PNGSDP's corporate governance practices as at 31 December 2009.

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 seven 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, 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 2009, the Board consisted of:

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

Honourable J Carlton, Non-Executive Director appointed by BHP

Ms T Caswell, Non-Executive Director appointed by BHP

Mr Lawrence Acanufa, Non-Executive Director appointed by the Minister of 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.

CORPORATE GOVERNANCE REPORT

MANAGEMENT

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 2009, the Board had five scheduled meetings in Singapore and a varying number of Board Committee meetings during the period to 31 December 2009. 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. The Board continued its policy to visit Papua New Guinea every three months prior to its scheduled meetings. Details of attendance are contained later in the Corporate Governance Statement.

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 National Program Committee and the Western Province Program Committee.

The Board appoints the Chairman of the Committee who cannot also be the Chairman of the Board.

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 2009 - 31 December 2009

Audit	Investment & Finance	National Program	Western Province Program
Lim How Teck (C)	Jacob Weiss (C)	Donald Manoa (C)	Donald Manoa (Acting C)
Jim Carlton	Ross Garnaut	Jim Carlton	Jim Carlton
Jacob Weiss	Lim How Teck	Patricia Caswell	Patricia Caswell
Lawrence Acanufa		Lawrence Acanufa	Ross Garnaut (ex-Officio)
		Ross Garnaut (ex-Officio)	

C - Chairman

Directors' meetings in 2009

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	National Committee	Western Province Committee
Ms Patricia Caswell	5/5	-/-	-/-	4/4	4/4
Hon Jim Carlton	5/5	-/-	-/-	4/4	4/4
Dr Ross Garnaut	5/5	5/5	5/5	4/4	4/4
Mr Lim How Teck	5/5	5/5	5/5	4/4	4/4
Mr Donald Manoa	5/5	-/-	-/-	4/4	4/4
Mr Lawrence Acanufa	5/5	-/-	-/-	4/4	4/4
Dr Jakob Weiss	5/5	5/5	5/5	4/4	4/4

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 1 May 2009 in order to adopt the 2008 Directors' Report and Accounts. Representatives of the Company's auditor for 2009, PriceWaterhouseCoopers, were present at the meeting.

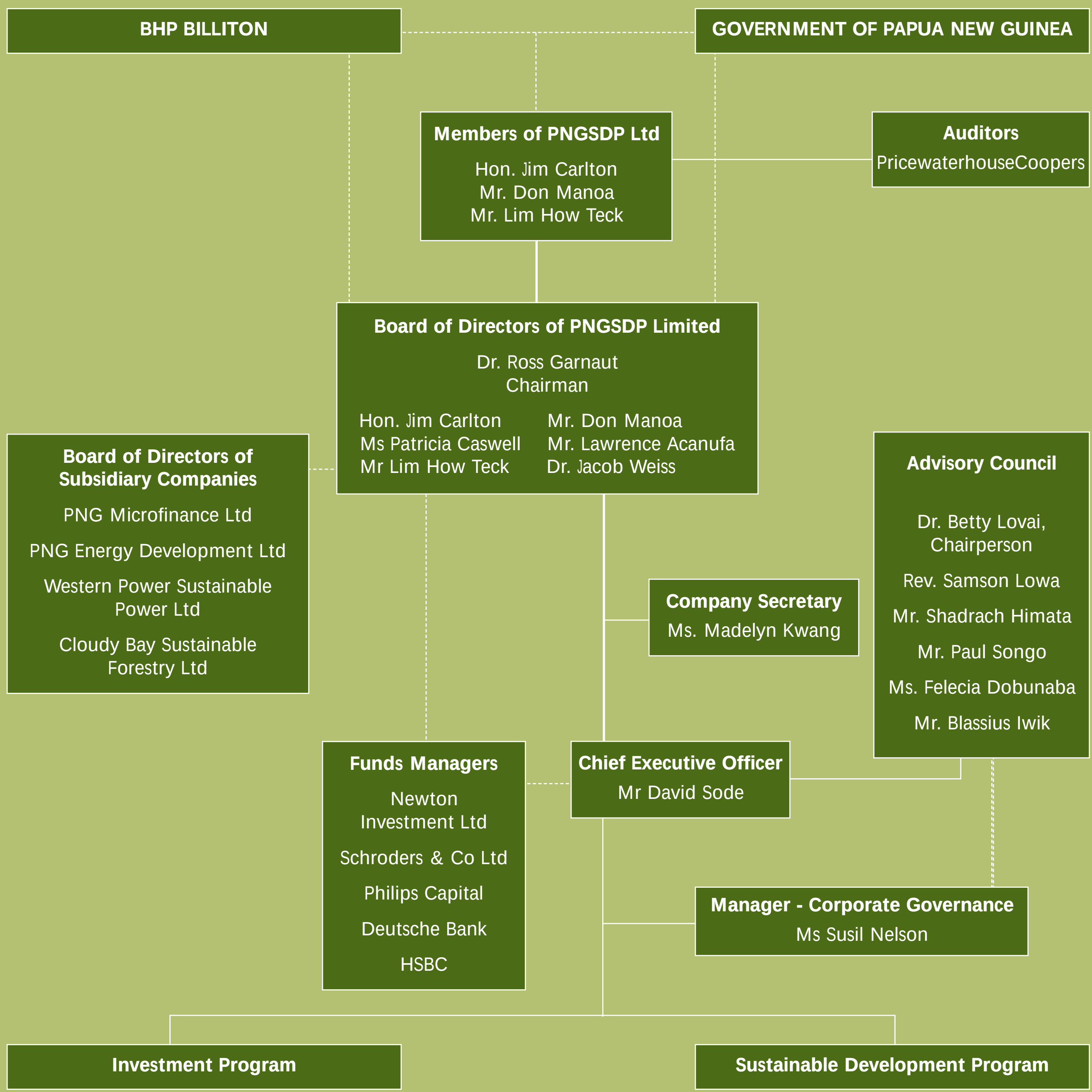
No extraordinary meetings were held during this period by the Members of the Company.

Under the Rules, the Company must hold an Annual Report Meeting every year. The 2008 Annual Report was presented at the seventh PNGSDP Annual Report Meeting convened at the Crowne Plaza Conference Room in Port Moresby on 2 June 2009. The Meeting was officially opened by the Minister for Finance and Treasury, Hon. Patrick Pruaitch and 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.

Organisational Chart



PNGSDP's SUBSIDIARIES & 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 52% shareholding in OTML, however it does not have absolute control over the investment in OTML but shares control with the two other shareholders - The State and INMET.

PNGSDP has established four 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 Development Ltd and Western Province Sustainable Power Ltd.

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 Sustainable Energy Ltd was a PNGSDP joint venture with Snowy Mountains Engineering Corporation (SMEC). During May 2009, the joint venture ceased to exist and the company is now dormant.

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.

Western Province Sustainable Power Limited is 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 48.65% owned associate of PNGSDP. The Bank South Pacific also holds 32% of the company and International Finance Corporation holds 19.35%. It was established as a vehicle to provide financial services to low income households and village communities throughout Papua New Guina. PNGMFL was one of the Company's first major investment initiatives that pioneered PNGSDP's sustainable development business model.

Cloudy Bay Sustainable Forestry Ltd 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.

These companies are subsidiaries of PNGSDP where 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 four companies at each Board meeting.

As previously noted, all four 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.

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 2009 and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company for the financial year ended 31 December 2009.

Directors

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

Ross Gregory Garnaut
Jakob Weiss
James Joseph Carlton
Patricia Joy Caswell
Donald Wabirao Manoa
Lim How Teck
Lawrence Samogoto Acanufa (appointed on 12 March 2009)

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)

6 April 2010

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 48-102 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 2009 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)

6 April 2010

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

We have audited the accompanying financial statements of PNG Sustainable Development Program Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48-102, which comprise the balance sheets of the Company and of the Group as at 31 December 2009, the statement of comprehensive income, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act (Cap. 50) (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

a) devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and 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;

b) selecting and applying appropriate accounting policies; and

c) making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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,

(a) 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 2009 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

(b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS LLP

Public Accountants and Certified Public Accountants

Singapore, 6 April 2010

PNGSDP LTD FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

STATEMENTS OF COMPREHENSIVE INCOME

	Note	The Group		The Company	
		2009 US$	2008 US$	2009 US$	2008 US$
Revenue					
Dividends from investment in a joint venture	4	-	-	**182,000,000**	182,000,000
Sale of goods	4	**2,879,563**	1,607,404	-	-
Other investment income/(loss)	4	**47,479,134**	(18,267,139)	**48,729,134**	(18,267,139)
		50,358,697	(16,659,735)	**230,729,134**	163,732,861
Expenses					
Governance	5	**(1,512,610)**	(1,677,601)	**(1,512,610)**	(1,677,601)
Administration	5	**(25,496,709)**	(31,589,937)	**(10,101,545)**	(7,235,454)
Contractual obligation	5	**(76,382)**	(474,843)	**(76,382)**	(474,843)
Investment program costs	5	**(2,335,610)**	(1,081,509)	**(2,335,610)**	(1,081,509)
Development program costs	5	**(46,428,875)**	(38,851,352)	**(40,978,874)**	(55,781,992)
Operating (deficit)/surplus from operations		**(25,491,489)**	(90,334,977)	**175,724,113**	97,481,462
Share of results of joint ventures	12	**295,239,643**	239,451,225	-	-
Share of results of associates	14	-	-	-	-
Surplus before income tax		**269,748,154**	149,116,248	**175,724,113**	97,481,462
Income tax expense	7	**(30,099,280)**	(43,113,981)	**(18,796,248)**	(18,847,974)
Surplus from operations		**239,648,874**	106,002,267	**156,927,865**	78,633,488
Other comprehensive income:					
Currency translation difference arising on consolidation		**(170,968,503)**	(174,389,894)	-	-
Share of hedge reserve in joint venture		**4,303,204**	19,541,060	-	-
		(166,665,299)	(154,848,834)	-	-
Total comprehensive income:		**72,983,575**	**(48,846,567)**	**156,927,865**	**78,633,488**
Surplus from operations attributable to:					
The Company		**240,659,409**	106,565,854	**156,927,865**	78,633,488
Minority interests		**(1,010,535)**	(563,587)	-	-
		239,648,874	106,002,267	**156,927,865**	78,633,488
Total comprehensive income attributable to:					
The Company		**73,865,372**	(45,503,472)	**156,927,865**	78,633,488
Minority interests		**(881,797)**	(3,343,095)	-	-
		72,983,575	(48,846,567)	**156,927,865**	78,633,488

FINANCIAL REPORT

BALANCE SHEETS

		The Group		The Company	
	Note	**2009 US$**	**2008 US$**	**2009 US$**	**2008 US$**
ASSETS					
Current assets					
Cash and cash equivalents	8	**209,818,616**	315,942,510	**208,111,297**	315,942,512
Financial assets, at fair value through profit or loss	9	**150,212,179**	91,646,619	**150,212,179**	91,646,619
Finance lease receivable	11	**1,340,015**	1,231,881	**-**	-
Other receivables	10	**10,086,313**	1,204,185	**21,918,529**	5,410,810
Inventory		**1,192,427**	796,112	**-**	-
		372,649,550	410,821,307	**380,242,005**	412,999,941
Non-current assets					
Financial assets at fair value through profit or loss	9	**602,070,476**	480,970,985	**602,070,476**	480,970,985
Financial assets available-for-sale	22	**6,000,000**	5,000,000	**6,000,000**	5,000,000
Finance lease receivable	11	**3,909,586**	5,570,747	**-**	-
Other receivables	10	**50,000,000**	-	**69,723,864**	5,032,200
Investment in joint ventures	12	**119,375,217**	181,087,573	**2,903,581**	2,903,581
Investment in associates	14	**-**	-	**-**	-
Investments in subsidiaries	13	**-**	-	**5,450,001**	1
Property, plant and equipment	15	**12,167,225**	410,583	**213,042**	410,583
Intangible asset	16	**-**	-	**-**	-
Goodwill on consolidation	21	**-**	-	**-**	-
		793,522,504	673,039,888	**686,360,964**	494,317,350
Total assets		**1,166,172,054**	1,083,861,195	**1,066,602,969**	907,317,291
LIABILITIES					
Current liabilities					
Sundry creditors and accruals	18	**4,249,248**	5,505,029	**7,869,370**	4,537,810
Provisions for employee benefit costs		**269,933**	304,694	**226,489**	304,694
Bank overdraft	8	**-**	685,206	**-**	895,542
		4,519,181	6,494,929	**8,095,859**	5,738,046
Non Current liabilities					
Deferred income tax liability	17	**35,569,040**	24,266,008	**-**	-
Total liabilities		**40,088,221**	30,760,937	**8,095,859**	5,738,046
NET ASSETS		**1,126,083,833**	1,053,100,258	**1,058,507,110**	901,579,245
CAPITAL EMPLOYED AND RESERVES					
Members' subscriptions	19	**17**	17	**17**	17
Funds, comprises of:		**1,411,775,420**	1,171,116,011	**-**	-
- General Fund	20			**2,903,581**	2,903,581
- Long Term Fund	20			**817,890,515**	677,772,696
- Development Fund	20			**237,712,997**	220,902,951
Share of hedge reserve of a joint venture - Ok Tedi Mining Limited		**11,294,929**	6,991,725	**-**	-
Foreign currency translation reserve		**(296,104,736)**	(125,007,495)	**-**	-
		1,126,965,630	1,053,100,258	**1,058,507,110**	901,579,245
Minority interest		**(881,797)**	-	**-**	-
Total equity		**1,126,083,833**	1,053,100,258	**1,058,507,110**	901,579,245

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group

	Attributable to the Company						
	Members subscription US$	Total funds US$	Share of hedge reserve of joint venture - Ok Tedi Mining Limited US$	Foreign currency translation reserve US$	Total US$	Minority interests US$	Total equity US$
2009							
Beginning of financial year	**17**	**1,171,116,011**	**6,991,725**	**(125,007,495)**	**1,053,100,258**	**-**	**1,053,100,258**
Total comprehensive income for the year	**-**	**240,659,409**	**4,303,204**	**(171,097,241)**	**73,865,372**	**(881,797)**	**72,983,575**
End of financial year	**17**	**1,411,775,420**	**11,294,929**	**(296,104,736)**	**1,126,965,630**	**(881,797)**	**1,126,083,833**
2008							
Beginning of financial year	17	1,064,550,157	(12,549,335)	46,602,891	1,098,603,730	3,343,095	1,101,946,825
Total comprehensive income for the year	-	106,565,854	19,541,060	(171,610,386)	(45,503,472)	(3,343,095)	(48,846,567)
End of financial year	17	1,171,116,011	6,991,725	(125,007,495)	1,053,100,258	-	1,053,100,258

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Company	Note	Members' subscription US$	General fund US$	Long term fund US$	Development fund US$	Total US$
2009						
Beginning of financial year		**17**	**2,903,581**	**677,772,696**	**220,902,951**	**901,579,245**
Net surplus - total recognised gains	**20**	**-**	**155,618,923**	**36,371,870**	**(35,062,928)***	**156,927,865**
Transfer from General Fund	**20**	**-**	**(155,618,923)**	**103,745,949**	**51,872,974**	**-**
End of financial year		**17**	**2,903,581**	**817,890,515**	**237,712,997**	**1,058,507,110**
2008						
Beginning of financial year		17	2,903,581	594,167,011	225,875,148	822,945,757
Net surplus - total recognised gains	20	-	153,764,127	(18,903,733)	(56,226,906)*	78,633,488
Transfer from General Fund	20	-	(153,764,127)	102,509,418	51,254,709	-
End of financial year		17	2,903,581	677,772,696	220,902,951	901,579,245

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 2.1.16].

* This relates mainly to investment and development expenses incurred during the year.

PNGSDP LTD FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2009 US$	2008 US$
Cash flows from operating activities			
Surplus from operations		**239,648,874**	106,002,267
Adjustments for:			
Income tax expense		**30,099,280**	43,113,981
Depreciation		**935,571**	1,451,712
Amortisation - intangibles		**-**	263,404
Amortisation - inscribed stock premium		**42,812**	44,167
Impairment of intangible asset		**-**	12,027,692
Impairment of property, plant and equipment		**-**	4,207,111
Fair value (gains)/losses on financial assets at fair value through profit or loss		**(30,503,562)**	36,542,448
Interest income		**(15,485,892)**	(15,262,328)
Share of results of joint ventures		**(295,239,643)**	(239,451,225)
Loss on re-measurement of subsidiary		**1,250,000**	-
Other dividend income		**(2,739,680)**	(3,012,981)
Operating cash flow before working capital changes		**(71,992,240)**	(54,073,752)
Change in working capital			
Other receivables and finance lease receivables		**(7,329,101)**	(3,826,244)
Sundry creditors and accruals		**(1,290,542)**	(14,404,855)
Inventory		**(396,320)**	320,648
Cash used in operations		**(81,008,203)**	(71,984,203)
Interest received		**3,021,722**	6,942,071
Dividends received		**182,000,000**	182,000,000
Withholding tax paid on dividends received		**(18,200,000)**	(18,200,000)
Net cash provided by operating activities		**85,813,519**	98,757,868
Cash flows from investing activities			
Purchases of financial asset at fair value through profit and loss		**(784,252,461)**	(1,185,762,632)
Purchase of available for sale financial asset		**(1,000,000)**	(5,000,000)
Loans to a third party		**(50,000,000)**	-
Payment on finance lease arrangement		**-**	(7,000,000)
Proceeds from repayment on finance lease arrangement		**-**	197,372
Acquisition of a subsidiary (net of cash acquired)	8	**(5,142,853)**	-
Interest received		**-**	13,491,082
Other dividend received		**2,739,680**	3,012,981
Withholding tax paid on dividends received		**(596,248)**	(647,974)
Proceeds from sale of financial asset at fair value through profit or loss		**654,521,876**	995,300,166
Proceeds from sale of intangible assets		**5,450,000**	-
Purchases of property, plant and equipment		**(12,972,201)**	(1,119,006)
Net cash used in investing activities		**(191,252,207)**	(187,528,011)
Net increase in cash and cash equivalents		**(105,438,688)**	(88,770,143)
Cash and cash equivalents at the beginning of financial year	8	**315,257,304**	404,027,447
Cash and cash equivalents at the end of financial year	8	**209,818,616**	315,257,304

FINANCIAL REPORT

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 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 20 Raffles Place, #09-01 Ocean Towers, Singapore 048620.

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

The principal activities of the subsidiaries are stated in Note 13.

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 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. 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 2009

On 1 January 2009, 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 following are the new or revised FRS and INT FRS that are relevant to the Group:

- FRS 1 (revised), Presentation of financial statements (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has chosen to adopt the former alternative. Where comparative information is restated or reclassified, a restated balance sheet is required to be presented as at the beginning comparative period. There is no restatement of the balance sheet as at 1 January 2008 in the current financial year.

- Amendment to FRS 107 Improving Disclosures about Financial Statements (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy (see note 25). The adoption of the amendment results in additional disclosures but does not have an impact on the accounting policies and measurement bases adopted by the Group.

2.1 Significant accounting policies (continued)

2.1.1 Basis of preparation (continued)

The following new standards, amendments and interpretations to existing standards which are applicable after 1 January 2010 or later periods have been early adopted for the purpose of these financial statements. The early adoption of these standards did not have a material impact on these financial statements.

- FRS 27 (revised) Consolidated and Separate Financial Statements. FRS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

- FRS 103 (revised) Business Combinations. FRS 103 (revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The Group has early adopted this standard and has chosen to measure the non-controlling interest at fair value.

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 activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

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

(a) Dividend income

Dividend income are 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 income statement. Gains or losses arising from changes in fair value of investment in securities [note 2.1.18] 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 mill and sell 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 collectibility of the related receivables is reasonably assured.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are 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 either at fair value or at the non-controlling interest's proportionate share of the acquiree's net 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 Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit and loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Please refer to Note 2.1.6 “Investments in subsidiaries, joint ventures and associated companies” for the accounting policy on investments in joint ventures in the separate financial statements of the company.

(b) Transactions with minority interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the incremental share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of interest in subsidiaries to non-controlling interests that do not result in loss of control in the subsidiaries are also recorded in equity.

(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.

2.1 Significant accounting policies (continued)

2.1.3 Group accounting (continued)

(c) Joint ventures (continued)

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 provides 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 2.1.6 "Investments in subsidiaries, joint ventures and associated companies" for the accounting policy on investments in joint ventures in the separate financial statements of the company.

(d) Associated companies

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

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.

In applying the equity method, the Group's share of its associated companies post-acquisition profits or losses are recognised in the income statement and its share of post-acquisition movements in reserves is recognised directly in equity. These post-acquisition movements 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, the Group does not recognise further losses, unless it has incurred obligations or 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. Accounting policies of associated companies have been changed where necessary to ensure consistency of accounting policies with those of the Group.

Dilution gains and losses arising from investments in associated companies are recognised in the income statement.

Please refer to Note 2.1.6 "Investments in subsidiaries, joint ventures and associated companies" for the accounting policy on investments in associated companies in the separate financial statements of the Company.

2.1 Significant accounting policies (continued)

2.1.4 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.

(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 income statement 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 cost of the item can be measured reliably. All other repair and maintenance expense are recognised in the income statement 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 the income statement.

2.1 Significant accounting policies (continued)

2.1.5 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 the income statement on disposal.

(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 the income statement using the straight-line method over the shorter of the estimated useful lives or period of contractual rights.

2.1.6 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 the income statement.

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 the income statement and is not reversed in a subsequent period.

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

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 the income statement, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease. Please refer to Note 2.1.4 "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.

A reversal of impairment loss for an asset other than goodwill is recognised in the income statement, 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 the income statement, a reversal of that impairment is also recognised in the income statement.

2.1.8 Leases

(a) When the Group is the lessee:

The Group leases motor vehicles, office space and warehouses under operating leases from non-related parties.

(i) Lessee - Finance leases

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 income statement on a basis that reflects a constant periodic rate of interest on the finance lease liability.

2.1 Significant accounting policies (continued)

2.1.8 Leases (continued)

(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 the income statement on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in the income statement when incurred.

(b) When the Group is the lessor:

The Group leases aircraft under finance leases to non-related parties.

(i) Lessor - Finance leases

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 the income statement 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 the income statement over the lease term on the same basis as the lease income.

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.

2.1 Significant accounting policies (continued)

2.1.10 Income taxes (continued)

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 expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

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

2.1.11 Provisions

Provisions are recognised when the Group 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.

2.1.12 Employee compensation or Employee Renumeration

The Group'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 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 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 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$").

2.1 Significant accounting policies (continued)

2.1.14 Currency translation (continued)

(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 the income statement, 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 the income statement 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.

2.1.15 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.

2.1.16 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.

2.1 Significant accounting policies (continued)

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

Long Term Fund (continued)

(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

(b) 2/3 of these funds to be used in accordance with the Objects of the Articles of Association of the Company and at the discretion of the Board for the benefit of the people of Papua New Guinea.

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

General Fund

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

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

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

2.1 Significant accounting policies (continued)

2.1.17 Grants

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

2.1.18 Financial assets

(a) Classification

The Group 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 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.

(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 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 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 income statement. Any amount in the fair value reserve relating to that asset is transferred to the income statement.

2.1 Significant accounting policies (continued)

2.1.18 Financial assets (continued)

(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 the income statement.

(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 the income statement when the changes arise.

Interest and dividend income on financial assets, available-for-sale are recognised separately in the income statement. 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 the income statement 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 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.

(i) Loans and receivables

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 the income statement.

The allowance for impairment loss account is reduced through the income statement 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.

2.1 Significant accounting policies (continued)

2.1.18 Financial assets (continued)

(e) Impairment (continued)

(ii) Financial assets, available-for-sale (continued)

The cumulative loss that was recognised in the fair value reserve is transferred to the income statement. 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 the income statement on debt securities. The impairment losses recognised in the income statement on equity securities are not reversed through the income statement.

2.1.19 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.

3. Critical accounting estimates, assumptions and judgement

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.

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

The Group 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 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) Fair value estimation of available for sale financial assets

The Group has an investment in an unlisted equity security that is classified as available for sale amounting to US$6million. The Group has made a judgement that the fair value of this security approximates its carrying value. In making this judgement the Group has taken into consideration the cost to the Group, the timing of the acquisition of the investment and the outlook of the investee.

4. Revenue

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Dividends from investment in joint ventures	**-**	-	**182,000,000**	182,000,000
Sale of goods	**2,879,563**	1,607,404	**-**	-
	2,879,563	1,607,404	**182,000,000**	182,000,000
Other investment income/(losses)				
Other dividends	**2,739,680**	3,012,981	**2,739,680**	3,012,981
Fair value gains/(loss) on financial assets through profit or loss	**30,503,562**	(36,542,448)	**30,503,562**	(36,542,448)
Interest income from commercial papers, certificates of deposits, bonds and cash balances	**15,485,892**	15,262,328	**15,485,892**	15,262,328
Loss on re-measurement of equity interest	**(1,250,000)**	-	**-**	-
	47,479,134	(18,267,139)	**48,729,134**	(18,267,139)
Total revenue/(loss)	**50,358,697**	(16,659,735)	**230,729,134**	163,732,861

The Company received gross dividend income of US$182,000,000 (2008: US$182,000,000) from its investment in a joint venture, OK Tedi Mining Limited, during the financial year. A 10% dividend withholding tax of US$18,200,000 (2008: US$18,200,000) was deducted in respect of this dividend income and paid to the PNG Internal Revenue Commission during the financial year (see note 7).

5. Expenses

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Governance				
Board of director fees	**595,168**	548,185	**595,168**	548,185
Board administration	**389,075**	548,232	**389,075**	548,232
Advisory council	**7,869**	37,087	**7,869**	37,087
Annual report	**135,451**	195,838	**135,451**	195,838
Annual report meeting expenses	**63,133**	101,107	**63,133**	101,107
Audit	**286,806**	158,302	**286,806**	158,302
Company secretary	**35,108**	88,850	**35,108**	88,850
	1,512,610	1,677,601	**1,512,610**	1,677,601
Administration				
Professional services	**2,538,595**	809,476	**1,638,316**	555,587
Employee compensation	**6,166,351**	4,157,902	**2,896,257**	3,042,437
Depreciation	**935,571**	1,451,712	**285,746**	262,397
Information services	**330,063**	298,785	**243,623**	228,226
Office rent	**398,617**	185,418	**216,294**	185,418
Insurance	**472,129**	484,249	**260,083**	247,784
Travel	**794,162**	584,264	**526,366**	499,863
Net foreign exchange loss	**2,512,987**	1,039,954	**3,335,863**	1,195,181
Amortisation - premium on inscribed stock	**42,812**	44,167	**42,812**	44,167
Amortisation - intangible assets	**-**	263,404	**-**	-
Motor vehicle expenses	**212,709**	282,135	**132,929**	282,135
Advertising and promotion	**78,853**	72,085	**72,612**	64,017
Impairment of goodwill	**-**	119,785	**-**	-
Impairment of property, plant and equipment	**-**	4,087,326	**-**	-
Impairment of intangible asset	**-**	12,027,692	**-**	-
Others	**11,013,860**	5,681,583	**450,644**	628,242
	25,496,709	31,589,937	**10,101,545**	7,235,454
Contractual obligation	**76,382**	474,843	**76,382**	474,843
Investment program costs	**2,335,610**	1,081,509	**2,335,610**	1,081,509
Development program costs				
Western province	**13,659,625**	10,171,699	**13,659,625**	10,171,699
National	**32,769,250**	28,679,653	**27,319,249**	45,610,293
	46,428,875	38,851,352	**40,978,874**	55,781,992
Total Expenses	**75,850,186**	73,675,242	**55,005,021**	66,251,399

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6. Employee compensation

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Wages and salaries	**4,596,393**	3,242,530	**2,406,143**	2,383,904
Other employee benefits and costs	**1,300,721**	747,672	**374,194**	562,957
Employer's contribution to defined contribution plans	**269,237**	167,700	**115,920**	95,576
	6,166,351	4,157,902	**2,896,257**	3,042,437

Key management remuneration is disclosed in Note 26(b).

7. Income taxes

Income tax expense

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Tax expense attributable to the operating surplus is made up of:				
Current income tax - Foreign	**18,796,248**	18,847,973	**18,796,248**	18,847,974
Deferred income tax	**11,303,032**	24,266,008	**-**	-
	30,099,280	43,113,981	**18,796,248**	18,847,974

The foreign tax is comprised of;

- US$18,200,000 (2008: US$18,200,000) dividend withholding tax deducted from the dividend income that the Company received from its investment in a joint venture (Ok Tedi Mining Limited);
- dividend withholding tax on the retained earnings of Ok Tedi Mining Limited of US$11,303,032 (2008: US$24,266,008), representing withholding tax on the expected future dividends from retaining earnings;
- US$438,176 (2008: US$129,725) dividend withholding taxes deducted from Papua New Guinea equity investments; and
- US$158,072 (2008: US$518,248) interest withholdings taxes deducted from Bank of Papua New Guinea Inscribed Stocks.

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

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	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Surplus before tax	**269,748,154**	149,116,248	**175,724,113**	97,481,462
Tax calculated at Singapore rate applicable to surplus in Papua New Guinea at 17% (2008: 18%)	**45,857,186**	26,840,925	**29,873,099**	17,546,663
Effect of different tax rates in other countries	**18,926,750**	18,817,843	**(12,609,498)**	(14,590,129)
Income not subject to tax	**(7,818,207)**	3,541,089	**(7,818,207)**	3,830,421
Expenses not deductible for tax purpose	**12,021,258**	12,749,337	**9,350,854**	12,061,019
Tax calculated on share of results of jointly controlled entities	**(50,190,739)**	(43,101,221)	**-**	-
Tax recognised on retained earnings of joint venture	**11,303,032**	24,266,008	**-**	-
Tax charge	**30,099,280**	43,113,981	**18,796,248**	18,847,974
Comprising of:				
Dividend/interest withholding tax paid to the Internal Revenue Commission (Papua New Guinea)	**18,796,248**	18,847,973	**18,796,248**	18,847,974
Tax recognised on retained earnings of joint venture	**11,303,032**	24,266,008	**-**	-
	30,099,280	43,113,981	**18,796,248**	18,847,974

During the financial year, the Singapore corporate tax rate was reduced from 18% to 17% for the years of assessment 2010 and after.

8. Cash and cash equivalents

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Cash and bank balances	**44,297,465**	201,599,719	**42,590,146**	201,599,721
Funds under management:				
Cash held in investment funds	**159,522,508**	97,898,368	**159,522,508**	97,898,368
Commercial papers and certificates of deposit	**5,998,643**	16,444,423	**5,998,643**	16,444,423
	165,521,151	114,342,791	**165,521,151**	114,342,791
	209,818,616	315,942,510	**208,111,297**	315,942,512

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

	The Group	
	2009 US$	**2008 US$**
Cash and bank balances (as above)	**209,818,616**	315,942,510
Less: Bank overdraft	**-**	(685,206)
	209,818,616	315,257,304

In 2008, bank overdraft of the Group and the Company is unsecured and bears interest of 12% per annum.

8. Cash and cash equivalents (continued)

Acquisition of a subsidiary

On 10 August 2009, the Group acquired the share capital of PNG Sustainable Energy Limited, resulting in PNG Sustainable Energy Limited becoming a wholly-owned subsidiary. Prior to this acquisition, PNG Sustainable Energy Limited was jointly controlled by the Company and Snowy Mountain Engineering Corporation (SMEC). The effects of the acquisition on the cash flows of the Group were:

	The Group Acquisition	
	At fair values US$	**Carrying amounts in acquiree's books US$**
Identifiable assets and liabilities		
Cash and cash equivalents	307,147	307,147
Trade and other receivables	1,490,101	1,490,101
Inventories	9,613	9,613
Property, plant and equipment	389,313	389,313
Intangible assets	5,450,000	-
Total assets	7,646,174	2,196,174
Trade and other payables	2,132,901	2,132,901
Provisions for other liabilities and charges	63,273	63,273
Total liabilities	2,196,174	2,196,174
Identifiable net assets acquired	5,450,000	
Cash consideration paid	5,450,000	
Less: Cash and cash equivalents in subsidiary acquired	307,147	
Net cash outflow on acquisition	5,142,853	

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9. Financial assets at fair value through profit or loss

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Current				
Funds under management:				
Bonds (quoted)	**119,696,664**	72,198,571	**119,696,664**	72,198,571
Commercial papers and certificates of deposit	**29,479,561**	18,913,788	**29,479,561**	18,913,788
Accrued interest	**1,035,954**	534,260	**1,035,954**	534,260
Total Current	**150,212,179**	91,646,619	**150,212,179**	91,646,619
Non-current				
Funds under management:				
Bonds (quoted)	**320,177,351**	214,831,319	**320,177,351**	214,831,319
Equity securities (quoted)	**59,529,124**	41,953,491	**59,529,124**	41,953,491
Fund of Hedge funds	**78,593,025**	86,603,578	**78,593,025**	86,603,578
Commercial papers/Commodities	**-**	10,608,423	**-**	10,608,424
Accrued interest	**2,838,992**	1,599,578	**2,838,992**	1,599,577
	461,138,492	355,596,389	**461,138,492**	355,596,389
Inhouse Managed Funds:				
Bonds (quoted)	**9,971,062**	10,125,444	**9,971,062**	10,125,444
Equity securities (quoted)*	**130,960,922**	115,249,152	**130,960,922**	115,249,152
	140,931,984	125,374,596	**140,931,984**	125,374,596
Total Non Current	**602,070,476**	480,970,985	**602,070,476**	480,970,985
Total	**752,282,655**	572,617,604	**752,282,655**	572,617,604

* Investments in locally 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.

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10. Other receivables

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Current				
Trade receivables	**-**	-	**-**	38,821
Deposits	**-**	-	**-**	32,876
Loan receivable from subsidiaries	**-**	-	**5,468,113**	5,035,844
Other debtors	**10,086,313**	1,204,185	**16,450,416**	303,269
	10,086,313	1,204,185	**21,918,529**	5,410,810
Non Current				
Loan receivable	**50,000,000**	-	**50,000,000**	-
Loan receivable from subsidiaries	**-**	-	**19,723,864**	5,032,200
	50,000,000	-	**69,723,864**	5,032,200

Trade receivables and other debtors (excluding prepayments and interest receivable) are denominated in PNG Kina.

The carrying amounts of trade receivables, interest receivable, deposits and other debtors approximated their fair values.

Loan receivable from subsidiaries

	The Company		
	2009	**2008**	
	Amount		**Interest Rate**
	US$	**US$**	**%**
Current			
Loan receivable from subsidiaries:			
- Champion 34 (fixed rate loan)	**5,468,113**	5,035,844	6.75
- Cloudy Bay Sustainable Forestry (interest-free)	**-**	-	-
	5,468,113	5,035,844	
Non-Current			
Loan receivable from subsidiaries:			
- Champion 34 (fixed rate loan)	**-**	5,032,200	6.75
- Cloudy Bay Sustainable Forestry (interest-free)	**19,723,864**	-	-
	19,723,864	5,032,200	

10. Other receivables (continued)

Loan receivable

The Company entered into a Facility Agreement with Lihir Gold Limited, a global gold mining company, on 11 September 2009 for a five year term. The agreed funding of US$50 million was drawn down fully on 7 October 2009. The Company charges 7% p.a. interest paid quarterly and the principal is to be paid as a lump sum at the end of the term of the Facility Agreement on 5 October 2014.

11. Finance lease receivables

The Group leases an aircraft to a non-related party under a finance lease arrangement. The agreement terminates in 2013.

	The Group	
	2009	**2008**
	US$	**US$**
Gross receivables due		
- Not later than one year	**1,653,411**	1,653,410
- Later than one year but within five years	**4,684,663**	6,338,074
Total	**6,338,074**	7,991,484
Less: Unearned finance income	**1,088,473**	1,188,856
Net investment in finance leases	**5,249,601**	6,802,628

The net investment in finance leases is analysed as follows:

	The Group	
	2009	**2008**
	US$	**US$**
Not later than one year	**1,340,015**	1,231,881
Later than one year		
- Between one and five years	**3,909,586**	5,570,747
	5,249,601	6,802,628

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12. Investment in joint ventures

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Investment in OTML at cost			2,903,581	2,903,581
Investment in PNGSEL at cost			5,029,913	3,779,913
Additional investment in PNGSEL			-	1,250,000
Impairment of investments in PNGSEL			(5,029,913)	(5,029,913)
Investment in PNGEDL, at cost			-*	-
Total Investment			2,903,581	2,903,581
At the beginning of the financial year	**181,087,573**	273,011,250		
Investment in PNGSEL at cost	**-**	1,250,000		
Investment in PNGEDL at cost	**-***	-		
Disposal of investment in PNGSEL	**(1,250,000)**	-		
Share of results after tax	**295,239,643**	239,451,225		
Share of hedge reserve	**4,303,204**	19,541,060		
Dividends received	**(182,000,000)**	(182,000,000)		
Foreign currency translation differences	**(178,005,203)**	(170,165,962)		
At the end of the financial year	**119,375,217**	181,087,573		

*Less than US$1.

The summarised financial information of joint ventures are as follows:

	2009	2008
- Assets	**1,438,924,846**	1,150,859,559
- Liabilities	**522,444,563**	436,301,865
- Revenues	**1,459,062,919**	1,447,308,586
- Net results	**567,765,409**	458,621,448
Share of contingent liabilities incurred jointly with other investors	**-**	145,600

On 10 August 2009, the Company acquired 50% of Snowy Mountains Engineering Corporation (SMEC) share in PNGSEL, resulting in PNGSEL becoming a wholly owned subsidiary of the Group.

On 25 August 2009, the Company entered into a joint venture arrangement with Origin Limited. The joint venture is operated through PNG Energy Developments Ltd ("PNGEDL"), a company in which the Group has a 50% interest. Under the arrangement, the Group will provide the joint venture with access to and use of its Intellectual Property, acquired from PNGSEL. The Group's initial investment in PNGEDL was K450.

12. Investment in joint ventures (continued)

Ok Tedi Mining Limited

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. Under the Singapore Companies Act, a company is a legal subsidiary of another company if the latter owns more than 50% of the equity interest of the former. However, this legal subsidiary is not consolidated because it does not meet the definition of subsidiaries under FRS 27: "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" as the Company does not have control in this legal subsidiary independent from other shareholders.

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

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

The joint venture was transferred by BHP Minerals Holdings Proprietary Limited to the Company for nil consideration on 7 February 2002 and this gave rise to a discount on acquisition of US$105,785,694. The discount on acquisition has been taken to revenue reserve.

PNG Energy Development Limited

Pursuant to a shareholders agreement, PNG Energy Development Limited is to be equally owned by PNG Sustainable Development Program Limited and Origin Energy Ltd, following a subscription of shares.

According to the shareholder agreement dated 25 August 2009, all significant and key management decisions require the unanimous agreement of the shareholders. Furthermore, the two shareholders of PNG Energy Development Limited are equally represented on the Board.

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

In 2009, management and board of PNGSDP took the decision to buy-off SMEC Developments Power Pty Ltd, 50% share of PNG Sustainable Energy Limited. Hence, PNG Sustainable Development Limited becomes a wholly owned subsidiary of the company.

Sunset Shipping Limited

Pursuant to a shareholders agreement, Sunset Shipping Limited is to be equally owned by PNG Sustainable Development Program Limited and the Fly River Provincial Government.

Sunset Shipping Limited has been established to own and operate a shipping business from Port Moresby and other parts of Papua New Guinea to Western Province. The joint venture's operations commenced in December 2009.

12. Investment in joint ventures (continued)

Contingent liabilities

The Company has incurred the following contingent liabilities in relation to its interests in joint ventures:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Bank guarantees	**-**	145,600	-	-

Capital commitments

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

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Capital expenditure	**-**	36,921,560	-	-

13. Investment in subsidiaries

	The Company	
	2009	**2008**
	US$	**US$**
Investments (unquoted at cost)		
Cloudy Bay Sustainable Forestry Limited	**16,930,639**	16,930,639
Impairment of Cloudy Bay	**(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**	-
Champion No. 34 Limited	**1**	1
Western Province Sustainable Power Limited	-	-
	5,450,001	1

Cloudy Bay Sustainable Forestry Limited

Cloudy Bay Sustainable Forestry Limited is an 80% owned subsidiary. The principal activity of the subsidiary is to harvest, mill and sell timber products and also promote sustainable forestry practices.

Investments in Cloudy Bay Sustainable Forestry Limited before impairment consists of US$12,913,200 investment cost and US$4,017,439 of unsecured loans which is interest-free and repayable on demand.

Investments in Cloudy Bay Sustainable Forestry Limited were fully impaired in 2008.

PNG Sustainable Infrastructure Limited

PNG Sustainable Infrastructure Limited, a wholly owned subsidiary of the Company, was incorporated on 3 January 2007. The subsidiary's principal activities are to develop and construct infrastructure projects in Papua New Guinea. The board of this company was dissolved in February 2008.

13. Investment in subsidiaries (continued)

PNG Sustainable Energy Limited

PNGSEL, a 50% joint venture company, became a wholly owned subsidiary of PNGSDP in August 2009. This came about as a result of SMEC exiting from PNGSEL as a joint venture shareholder. PNGSDP paid US$5.45m to SMEC to acquire its 50% equity interest in PNGSEL. The Share Sale Agreement signed was dated 10 August 2009.

The purchase price represented the value of intellectual assets (research and development expenditures on various sustainable power projects).

Champion No.34 Limited

Champion No.34 Limited is a wholly-owned subsidiary of the Company. The subsidiary's principal activity is the leasing of aircraft to Air Niugini Limited.

Western Province Sustainable Power Limited

Western Province Sustainable Power Limited, is a wholly owned subsidiary of PNG Sustainable Energy Limited. As a result of the change in shareholding in PNG Sustainable Energy Limited from a 50% Joint Venture to a 100% held subsidiary in 2009, Western Province Sustainable Power Limited became a 100% held subsidiary. The subsidiary's principal activities are to implement and manage electricity projects in the Western Province.

14. Investment in associated companies

	The Company	
	2009	**2008**
	US$	**US$**
Investments (unquoted at cost)		
PNG Microfinance Limited	**1,904,887**	1,904,887
Impairment of PNG Microfinance Limited	**(1,904,887)**	(1,904,887)
	-	-

	The Group	
	2009	**2008**
	US$	**US$**
At the beginning of the financial year	**-**	-
Share of results after tax	**-**	-
At the end of the financial year	**-**	-

The summarised financial information of associated companies are as follows:

	2009	**2008**
	US$	**US$**
- Assets	**14,959,187**	14,469,937
- Liabilities	**13,921,172**	13,103,937
- Revenues	**2,139,525**	1,669,901
- Net loss	**1,204,499**	1,109,536

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14. Investment in associated companies (continued)

The principal activity of the associated company is to provide financial services designed to meet the needs of low income households and small business operators across Papua New Guinea. The investment in the company was fully impaired in 2007.

The Group has not recognised its share of losses of the associated company amounting to US$585,387 (2008: US$539,235) because the Group's cumulative share of the loss exceeds its interest in that entity and the Group has no obligation in respect of those losses. The cumulative unrecognised losses amount to US$2,483,591 (2008: US$1,898,205) at the balance sheet date.

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 progress US$	Total US$
2009									
Cost									
Beginning of financial year	894,180	662,222	3,863,024	3,551,057	97,995	2,943,134	5,239,870	-	17,251,482
Additions	395,816	219,152	375,055	4,650,850	107,491	-	457,376	6,766,461	12,972,201
Write-offs	(208,379)	(456,883)	(3,462,607)	(3,551,057)	-	-	(5,239,870)	-	(15,861,930)
End of financial year	1,081,617	424,491	775,472	4,650,850	205,486	2,943,134	457,376	6,766,461	14,361,753
Accumulated depreciation/Impairment									
Beginning of financial year	779,292	531,879	3,736,908	3,551,057	58,759	2,943,134	5,239,870	-	16,840,899
Depreciation charge	259,553	38,344	140,868	451,666	42,758	-	2,382	-	935,571
Write-offs	(49,787)	(456,715)	(3,436,418)	(3,493,632)	37,565	-	(5,239,821)	-	(15,581,942)
End of financial year	989,058	113,508	441,358	509,091	139,082	2,943,134	2,431	-	2,194,528
Net book value									
End of financial year	**92,559**	**310,983**	**334,114**	**4,141,759**	**66,404**	**-**	**454,945**	**6,766,461**	**12,167,225**

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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$	Total US$
2008								
Cost								
Beginning of financial year	1,241,619	722,491	3,811,808	3,071,352	88,359	2,943,134	3,925,450	15,804,213
Additions	236,841	355,185	51,216	479,705	9,636	-	1,314,420	2,447,003
Write-offs	(584,280)	(415,454)	-	-	-	-	-	(999,734)
End of financial year	894,180	662,222	3,863,024	3,551,057	97,995	2,943,134	5,239,870	17,251,482
Accumulated depreciation/Impairment								
Beginning of financial year	506,488	230,459	684,872	2,009,192	38,587	58,863	82,345	3,610,806
Depreciation charge	171,546	91,507	66,749	1,016,069	23,239	-	82,602	1,451,712
Impairment charge	101,258	209,913	2,985,287	525,796	-	2,884,271	5,074,923	11,781,448
Write-offs	-	-	-	-	(3,067)	-	-	(3,067)
End of financial year	779,292	531,879	3,736,908	3,551,057	58,759	2,943,134	5,239,870	16,840,899
Net book value								
End of financial year	**114,888**	**130,343**	**126,116**	**-**	**39,236**	**-**	**-**	**410,583**

15. Property, plant and equipment (continued)

The Company

	Computers and computer software US$	Motor vehicles US$	Office furniture and equipment US$	Leasehold Improvements US$	Total US$
2009					
Cost					
Beginning of financial year	685,802	205,340	400,416	97,998	1,389,556
Additions	67,088	18,820	2,297	-	88,205
End of financial year	752,890	224,160	402,713	97,998	1,477,761
Accumulated depreciation					
Beginning of financial year	570,914	74,997	274,303	58,759	978,973
Depreciation charge	165,010	30,100	64,327	26,309	285,746
End of financial year	735,924	105,097	338,630	85,068	1,264,719
Net book value					
End of financial year	**16,966**	**119,063**	**64,083**	**12,930**	**213,042**
2008					
Cost					
Beginning of financial year	488,459	54,810	353,142	75,434	971,845
Additions	197,343	150,530	47,274	22,564	417,711
End of financial year	685,802	205,340	400,416	97,998	1,389,556
Accumulated depreciation					
Beginning of financial year	418,823	54,810	207,554	35,389	716,576
Depreciation charge	152,091	20,187	66,749	23,370	262,397
End of financial year	570,914	74,997	274,303	58,759	978,973
Net book value					
End of financial year	**114,888**	**130,343**	**126,113**	**39,239**	**410,583**

16. Intangible assets

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

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Beginning of financial year	**-**	12,291,096	-	-
Acquisition of subsidiary	**5,450,000**	-	-	-
Amortisation	**-**	(263,404)		
Impairment	**-**	(12,027,692)	-	-
Disposal	**(5,450,000)**	-		
End of financial year	**-**	-	-	-
Cost	**5,450,000**	12,554,500	-	-
Accumulated amortisation	**-**	(526,808)		
Impairment	**-**	(12,027,692)	-	-
Disposal	**(5,450,000)**	-		
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.

The intangible assets in 2009 relate to research and development and intellectual property intangibles acquired through the acquisition of PNG Sustainable Energy Limited ("PNGSEL"). Immediately following acquisition these intangibles were disposed to PNG Energy Developments Limited.

17. Deferred income tax

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	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Deferred income tax liabilities:				
- to be settled within one year	**-**	-	**-**	-
- to be settled after one year	**35,569,040**	24,266,008	**-**	-
	35,569,040	24,266,008	**-**	-

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.

18. Sundry creditors and accruals

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Amounts due to:				
- Joint ventures	**-**	1,558,035	**-**	1,558,033
- Subsidiaries (non-trade)	**-**	-	**5,450,000**	222,709
- Non-related parties	**4,249,248**	3,946,994	**2,419,370**	2,757,068
	4,249,248	5,505,029	**7,869,370**	4,537,810

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

19. Members' subscriptions

As a Company “limited by guarantee”, the Company does not have any issued shares or shareholders. At 31 December 2009, there were 3 members of the Company (2008: 3).

20. General, long term and development funds

General fund

The general fund is accounted for in accordance with the policy set out in note 2.1.16.

	2009 US$	2008 US$
At the beginning of the financial year	**2,903,581**	2,903,581
Dividends from OTML	**182,000,000**	182,000,000
Governance and administrative expenses	**(8,181,077)**	(9,387,899)
10% Withholding tax paid to IRC Papua New Guinea	**(18,200,000)**	(18,847,974)
Transfer to long term and development funds	**(155,618,923)**	(153,764,127)
At the 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 2.1.16.

	2009 US$	2008 US$
At the beginning of the financial year	**677,772,696**	594,167,011
Investment income/(loss) for the year	**42,624,186**	(17,987,204)
Investment expenses	**(2,146,609)**	(916,529)
Withholding tax paid to IRC Papua New Guinea	**(596,248)**	-
Administration expenses	**(3,509,459)**	-
Transfer from General Fund	**103,745,949**	102,509,418
At the end of the financial year	**817,890,515**	677,772,696

The weighted average rate of return on investment for the long term fund for the year was 5.01% (2008: -2.62%)

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 2.1.16, and is allocated between the Western Province Program Fund and the National Program Fund as follows:

	Western Province Program Fund 2009 US$	National Program Fund 2009 US$	Program 2009 US$	Program 2008 US$
At the beginning of the financial year	84,108,674	136,794,277	**220,902,951**	225,875,148
Investment income/ (loss) for the year	2,034,713	4,070,235	**6,104,948**	(279,935)
Investment & Development expenses	(11,400,205)	(29,767,671)	**(41,167,876)**	(55,946,971)
Transfer from General Fund	17,290,991	34,581,983	**51,872,974**	51,254,709
At the end of the financial year	92,034,173	145,678,824	**237,712,997**	220,902,951

The weighted average rate of return on short term investments for the development fund for the year was 2.98 % (2008: -0.15%).

21. Goodwill on consolidation

	The Group	
	2009 US$	**2008 US$**
Cost		
Beginning of financial year	-	119,785
Impairment of goodwill	-	(119,785)
Net book value	-	-

In 2007, PNGSDP acquired an 80% controlling interest in Cloudy Bay Timber Products PNG Limited (renamed Cloudy Bay Sustainable Forest Limited herein referred to as Cloudy Bay) for a cash consideration of K36 million (US$12.9 million). Carrying value of identifiable net assets, equal to its share of the net assets acquired, amounted to K35.63 million (US$12.79 million) resulting in provisional goodwill on acquisition of US$119,795.

In 2008, the preliminary purchase price allocation of the acquisition and the allocation of goodwill of the cash generating units were re-assessed. The value of the provisional goodwill was impaired because it could not realistically be determined to be attributable to the future profits expected to be derived after the acquisition.

22. Financial assets, available-for-sale

	Group		Company	
	2009 **US$**	**2008** **US$**	**2009** **US$**	**2008** **US$**
Beginning of financial year	**5,000,000**	-	**5,000,000**	-
Additions	**1,000,000**	5,000,000	**1,000,000**	5,000,000
End of financial year	**6,000,000**	5,000,000	**6,000,000**	5,000,000

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

	Group		Company	
	2009 **US$**	**2008** **US$**	**2009** **US$**	**2008** **US$**
Unlisted securities	**6,000,000**	5,000,000	**6,000,000**	5,000,000

The Company acquired 10% interest in a telecommunication carrier in Papua New Guinea at a cost of US$6,000,000 (2008: US$5,000,000 on 3 November 2008). The fair value of the unlisted security approximates the carrying value.

23. 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	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Not later than 1 year	**230,501**	275,949	**230,501**	275,949
Later than 1 year but not later than 5 years	**230,292**	339,337	**230,292**	339,337
	460,793	615,286	**460,793**	615,286

(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	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Western Province	**10,295,942**	5,912,401	**10,295,942**	5,912,401
National	**7,335,675**	1,748,899	**7,335,675**	1,748,899
	17,631,617	7,661,300	**17,631,617**	7,661,300

(c) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investments in associated companies (Note 14) and investment in a joint venture (Note 12), are as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Property, plant and equipment	**1,192,913**	1,380,396	**-**	-
	1,192,913	1,380,396	**-**	-

(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.

24. Contingencies

Contingent liabilities

The Shareholder Agreement between PNGSDP, PNGMFL and International Finance Corporation (IFC) was amended and restated on 22 May 2006 to cater for a subscription agreement between PNGMFL and International Finance Corporation (IFC) dated 24 June 2005. IFC has agreed on the terms and conditions set out therein and subscribe for approximately 2,900,000 shares ("option shares") of PNGMFL during the year. As a condition for investing in PNGMFL 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 PNGMFL with any of its respective obligations, or any misrepresentation or breach of warranty by PNGSDP or PNGMFL under the Shareholders Agreement.

25. Financial risk management

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

The Board of Directors is responsible for setting the objectives and the underlying principles of financial risk management for the Group. The Investment and Finance committee then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits, and in accordance with the objectives and underlying principles that are approved by the Board of Directors.

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

(a) Market risk

(i) Currency risk

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

25. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

	PGK US$	EUR US$	USD US$	Other US$	Total US$
At 31 December 2009					
Financial assets					
Cash and cash equivalents	1,680,680	226,139	200,886,640	7,025,157	209,818,616
Financial assets at fair value through profit or loss	140,931,984	16,455,102	543,457,925	51,437,644	752,282,655
Financial assets available-for-sale	-	-	6,000,000	-	6,000,000
Other receivables and finance lease receivable	17,286,313	-	48,049,601	-	65,335,914
	159,898,977	16,681,241	798,394,166	58,462,801	1,033,437,185
Financial liabilities					
Sundry creditors and accruals	4,249,248	-	-	-	4,249,248
Net financial assets	155,649,729	16,681,241	798,394,166	58,462,801	1,029,187,937
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	-	-	(798,394,166)	-	(798,394,166)
Currency exposure	155,649,729	16,681,241	-	58,462,801	230,793,771

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25. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

	PGK US$	EUR US$	USD US$	Other US$	Total US$
At 31 December 2008					
Financial assets					
Cash and cash equivalents	-	16,444,423	299,498,087	-	315,942,510
Financial assets at fair value through profit or loss	125,374,596	11,104,604	381,877,243	54,261,161	572,617,604
Financial assets available-for-sale	-	-	5,000,000	-	5,000,000
Other receivables and finance lease receivable	1,204,185	-	6,802,628	-	8,006,813
	126,578,781	27,549,027	693,177,958	54,261,161	901,566,927
Financial liabilities					
Sundry creditors and accruals	5,505,029	-	-	-	5,505,029
Bank overdraft	685,206	-	-	-	685,206
	6,190,235	-	-	-	6,190,235
Net financial assets	120,388,546	27,549,027	693,177,958	54,261,161	895,376,692
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	-	-	(693,177,958)	-	(693,177,958)
Currency exposure	120,388,546	27,549,027	-	54,261,161	202,198,734

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25. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

2009	PGK US$	EUR US$	USD US$	Other US$	Total US$
Financial assets					
Cash and cash equivalents	-	226,139	200,860,001	7,025,157	208,111,297
Financial assets at fair value through profit or loss	140,931,984	16,455,102	543,457,925	51,437,644	752,282,655
Financial assets available-for-sale	-	-	6,000,000	-	6,000,000
Other receivables	36,174,280	-	55,468,113	-	91,642,393
	177,106,264	16,681,241	805,786,039	58,462,801	1,058,036,345
Financial Liabilities					
Sundry creditors and accruals	7,869,369	-	-	-	7,869,370
Net financial assets	169,236,895	16,681,241	805,786,040	58,462,801	1,050,166,975
Less: Net financial liabilities/(assets) denominated in the Company's functional currency	-	-	(805,786,040)	-	(805,786,040)
Currency exposure	169,236,895	16,681,241	-	58,462,801	244,380,935

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25. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

2008	PGK US$	EUR US$	USD US$	Other US$	Total US$
Financial assets					
Cash and cash equivalents	-	16,444,423	299,498,089	-	315,942,512
Financial assets at fair value through profit or loss	125,374,596	11,104,604	381,877,243	54,261,161	572,617,604
Financial assets available-for-sale	-	-	5,000,000	-	5,000,000
Other receivables	10,443,011	-	-	-	10,443,010
	135,817,607	27,549,027	686,375,332	54,261,161	904,003,126
Financial Liabilities					
Sundry creditors and accruals	4,537,810	-	-	-	4,537,810
Bank overdraft	895,542	-	-	-	895,542
	5,433,352	-	-	-	5,433,352
Net financial assets	130,384,255	27,549,027	686,375,332	54,261,161	898,569,774
	-	-	-	-	-
Less: Net financial liabilities/(assets) denominated in the Company's functional currency	-	-	(686,375,332)	-	(686,375,332)
	-	-	-	-	-
Currency exposure	130,384,255	27,549,027	-	54,261,161	212,194,442

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25. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If the PGK changes against the USD by 5% (2008: 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:

	2009	2008
	Increase/(Decrease)	
	Profit after tax US$	Profit after tax US$
Group		
PGK against USD		
- strengthened	**6,383,913**	5,119,427
- weakened	**(6,383,913)**	(5,119,427)
Company		
PGK against USD		
- strengthened	**6,383,913**	6,519,213
- weakened	**(6,383,913)**	(6,519,213)

If the EUR changes against the USD by 2% (2008: 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:

	2009	2008
	Increase/(Decrease)	
	Profit after tax US$	Profit after tax US$
Group		
EUR against USD		
- strengthened	**(333,717)**	(540,177)
- weakened	**333,717**	540,177
Company		
EUR against USD		
- strengthened	**(333,717)**	(540,177)
- weakened	**333,717**	540,177

(ii) Price risk

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

25. Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

If prices for equity securities reported by the Fund Managers and listed in PNG change by 25% (2008: 25%) with all other variables including tax rate being held constant, the effects on profit after tax will be:

	2009	2008
	Increase/(Decrease)	
	Profit after tax US$	Profit after tax US$
Group		
Listed per Fund Managers		
- increased by	**14,882,281**	10,488,373
- decreased by	**(14,882,281)**	(10,488,373)
Listed managed in-house		
- increased by	**29,743,131**	28,812,288
- decreased by	**(29,743,131)**	(28,812,288)
Company		
Listed per Fund Managers		
- increased by	**14,882,281**	10,488,373
- decreased by	**(14,882,281)**	(10,488,373)
Listed managed in-house		
- increased by	**29,743,131**	28,812,288
- decreased by	**(29,743,131)**	(28,812,288)

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25. Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk

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

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

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are cash and bank balances, receivables and financial instruments. For trade receivables, the Group 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 adopts the policy of dealing only with high credit quality counterparties.

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.

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.

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.

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

(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 companies with a good collection track record with the Group.

The Group's and Company's other receivables not past due include receivables amounting to US$182,194 (2008: US$71,264) and US$66,136 (2008: US$38,821) respectively that would have been past due or impaired if the terms were not re-negotiated during the financial year.

25. Financial risk management (continued)

(b) Credit risk (continued)

(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:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	US$	**US$**	**US$**	**US$**
Past due < 3 months	**248,330**	110,187	**-**	-
Past due 3 to 6 months	**26,059**	11,707	**-**	-
	274,389	121,894	**-**	-

(c) Liquidity risk

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

(d) Capital risk

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.

(e) Fair value measurements

Effective 1 January 2009 the Group 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 (is as prices) or indirectly (ie 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).

25. Financial risk management (continued)

(e) Fair value measurements (continued)

The following table presents the assets and liabilities measured at fair value at 31 December 2009.

	Level 1 US$	Level 2 US$	Level 3 US$	Level 4 US$
Group				
Assets				
Financial assets at fair value through profit or loss				
- Bonds	449,845,077	-	-	449,845,077
- Equity securities	190,490,046	-	-	190,490,046
- Commercial papers and certificates of deposits and accrued interest	-	33,354,507	-	33,354,507
- Fund of hedge funds	-	78,593,025	-	78,593,025
	640,335,123	111,947,532	-	752,282,655
Available-for-sale financial assets				
- Equity securities	-	-	6,000,000	6,000,000
Total assets	640,335,123	111,947,532	6,000,000	758,282,655
Company				
Assets				
Financial assets at fair value through profit or loss				
- Bonds	449,845,077	-	-	449,845,077
- Equity securities	190,490,046		-	190,490,046
- Commercial papers and certificates of deposits and accrued interest	-	33,354,507	-	33,354,507
- Fund of hedge funds	-	78,593,025	-	78,593,025
	640,335,123	111,947,532	-	752,282,655
Available-for-sale financial assets				
- Equity securities	-	-	6,000,000	6,000,000
Total assets	640,335,123	111,947,532	6,000,000	758,282,655

25. Financial risk management (continued)

(e) Fair value measurements (continued)

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. In infrequent circumstances, where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in Level 3.

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.

26. Related party transactions

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

(a) Commitment fees paid

Commitment fees of US$nil (2008: US$373,683) were paid to a joint venture in accordance with Clause 2.2 of the Subsidy Deed between the Company and Ok Tedi Mining Limited signed on 11 December 2001 and are non-refundable.

26. Related party transactions (continued)

(b) Key management personnel compensation

The key management personnel compensation is analysed as follows:

	The Group		The Company	
	2009 US$	**2008 US$**	**2009 US$**	**2008 US$**
Directors - fees	**887,477**	625,896	**595,168**	548,185
Management salaries and other short-term benefits	**1,494,586**	1,255,620	**765,586**	996,910
	2,382,063	1,881,516	**1,360,754**	1,545,095

There has been a Consumer Price Index (CPI) adjustment in the amount of remuneration payable to individual directors. In addition, a director received US$65,818 (2008: US$42,960) 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.

(c) Loans and receivables

As set out in Note 10, during the year the Company entered into a Facility Agreement with Lihir Gold Limited, a global gold mining company, in which the Chairman, Dr. Ross Garnaut is Chairman. The transaction was conducted on an arms length basis. The terms of the Facility Agreement (see Note 10) were determined on a commercial basis and ratified by the Company's Board of Directors.

27. Events occurring after the balance sheet date

(a) The Company acquired the 20% non-controlling interest in Cloudy Bay Sustainable Forestry Ltd from Constant Investment Limited (the other shareholder) on 10 February 2010 for nil consideration. Constant Investment Limited was relieved from its shareholder funding agreements.

(b) The Company transferred its 50% interest in Sunset Shipping Limited to Fly River Provincial Government on 12 March 2010 for nil consideration.

28. New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

(a) Amendments to FRS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009)

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group will apply this amendment from 1 January 2010, but it is not expected to have a material impact on the financial statements.

(b) INT FRS 117 Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)

INT FRS 117 clarifies how the Group should measure distributions of assets, other than cash, to its owners. INT FRS 117 specifies that such a distribution should only be recognised when appropriately authorised, and that the dividend should be measured at the fair value of the assets to be distributed. The difference between the fair value and the carrying amount of the assets distributed should be recognised in profit or loss. INT FRS 117 applies to pro rata distributions of non-cash assets except for distributions to a party or parties under common control.

The Group will apply INT FRS 117 from 1 January 2010, but it is not expected to have a material impact on the financial statements.

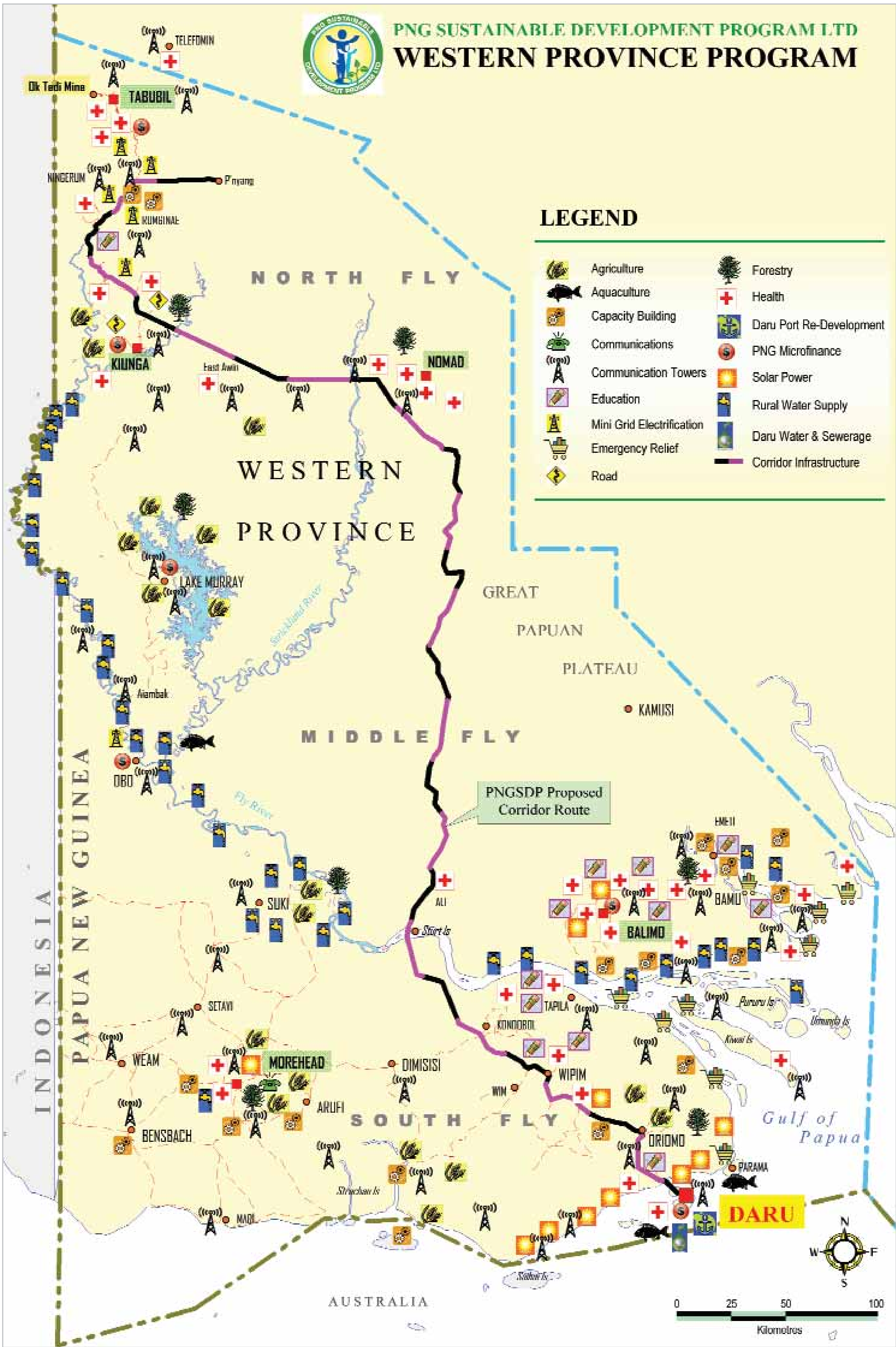
(c) INT FRS 118 Transfer of Assets to Customers (effective for annual periods beginning on or after 1 July 2009)

INT FRS 118 prescribes the accounting requirements for arrangements where the Group receives an item of property, plant and equipment from a customer which must be used to provide an ongoing service to the customer. It also applies to cash received from a customer that must be used to acquire or construct such property, plant and equipment.

The Group will apply INT FRS 118 from 1 January 2010, but it is not expected to have a material impact on the financial statements.

29. 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 6 April 2010.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Aquaculture
Capacity Building
Communications
Communication Towers
Education
Mini Grid Electrification
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Daru Port Re-Development
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Solar Power
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Corridor Infrastructure
NORTH FLY
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PROVINCE
MIDDLE FLY
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PNGSDP Proposed
Corridor Route
INDONESIA
PAPUA NEW GUINEA
AUSTRALIA
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Ok Tedi Mine
TABUBIL
NINGERUM
KUMGINAE
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NOMAD
LAKE MURRAY
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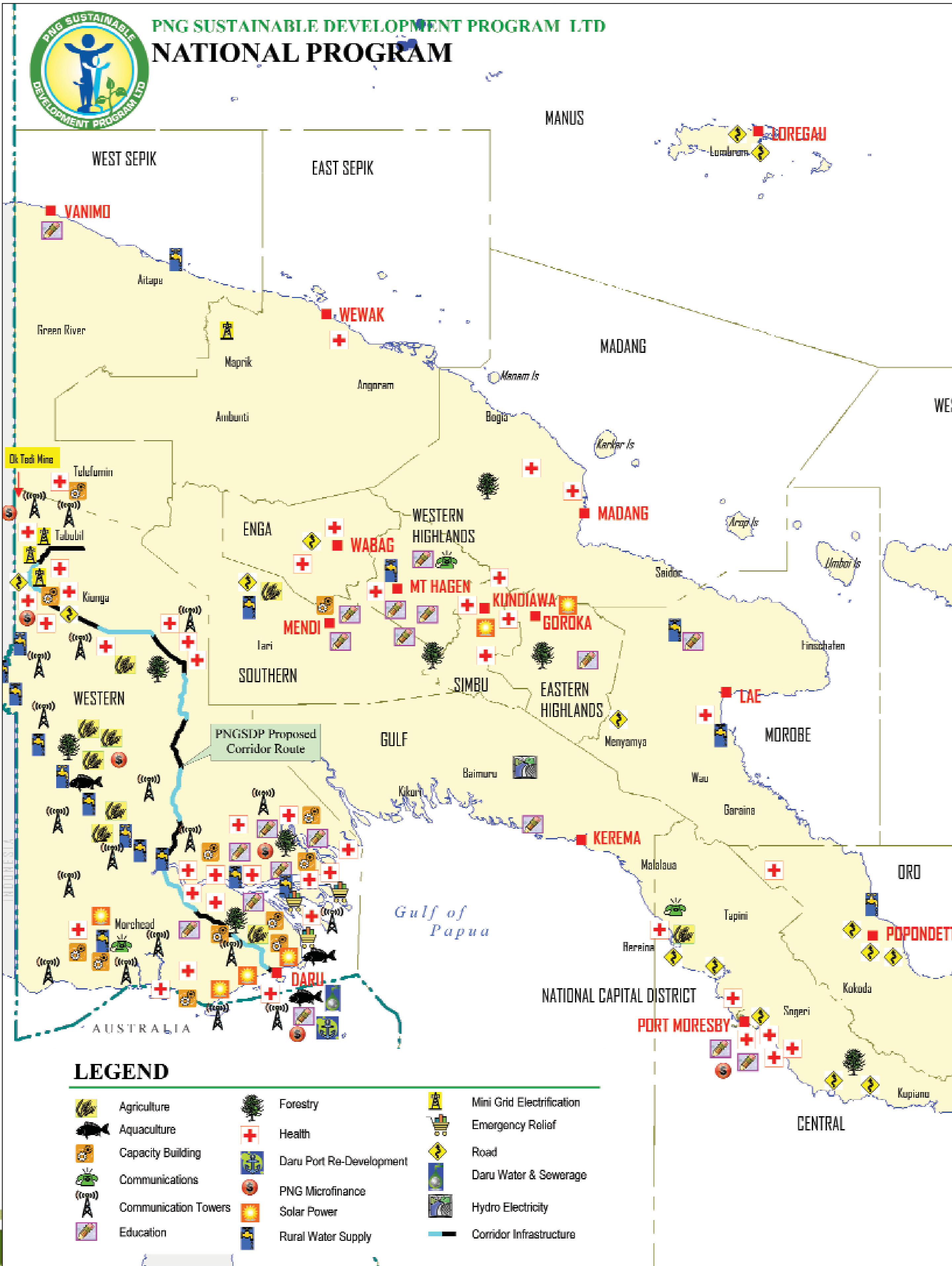

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NATIONAL PROGRAM
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Bereina
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Daru Port Re-Development
PNG Microfinance
Solar Power
Rural Water Supply
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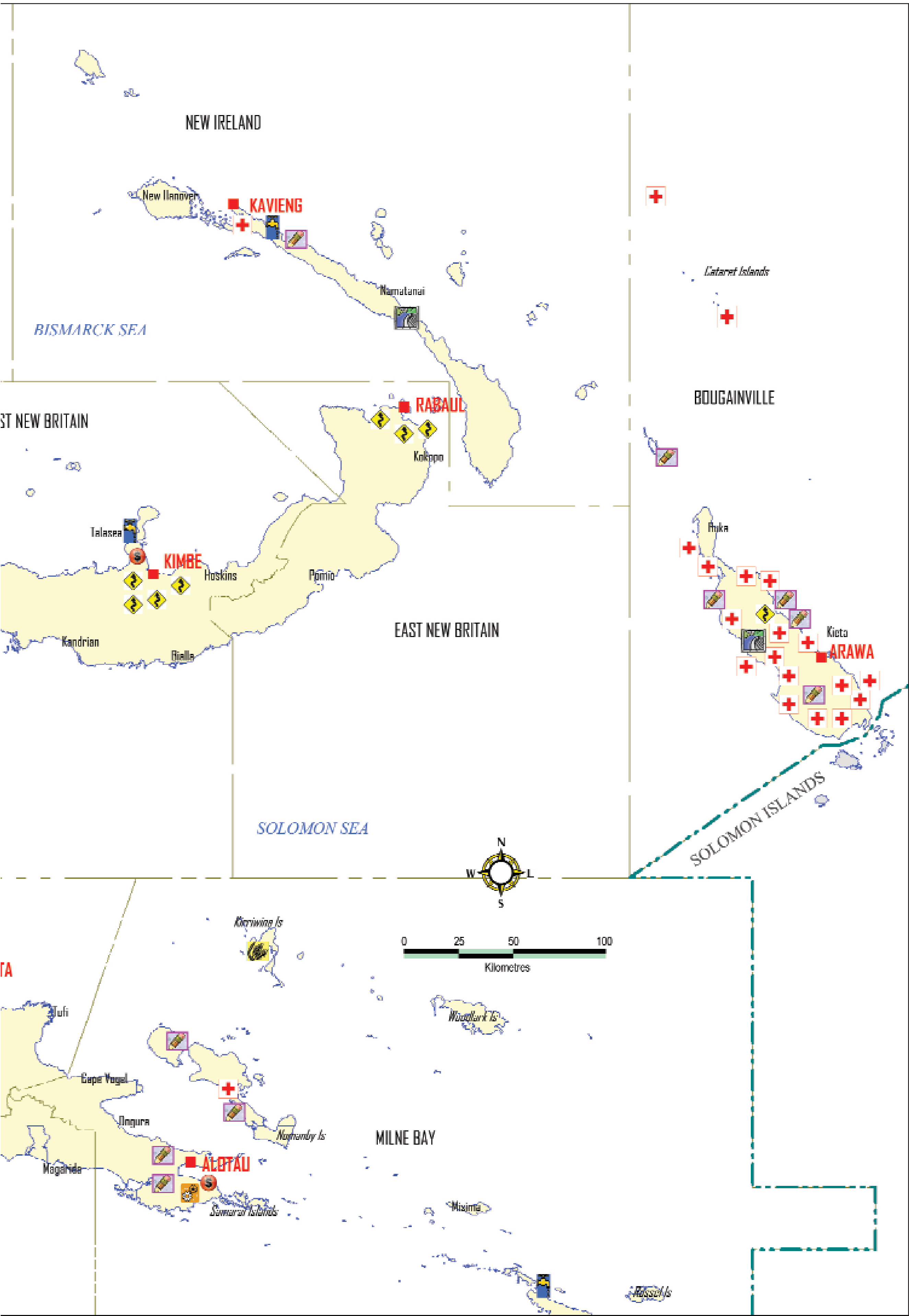
NEW IRELAND
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Rossel Is
MAPS

GLOSSARY OF ACRONYMS

CBSFL	Cloudy Bay Sustainable Forestry Ltd
CMCA	Community Mine Consultation Agreement
CSDP	Community Sustainable Development Program
CSIP	Community Social Investment Program
EPC	Engineering, Procurement, Construction
FRPG	Fly River Provincial Government
GEF	Global Environment Facility
ILG	Incorporated Land Group
LTF	Long Term Fund
MOA	Memorandum of Agreement
NGO	Non-Government Organisation
OTML	Ok Tedi Mining Ltd
OTDF	Ok Tedi Development Foundation
OTFRDP	Ok Tedi & Fly River Development Program
PFA	Program Funding Agreement
PNG	Papua New Guinea
PNGSDP	PNG Sustainable Development Program Ltd
PNGMFL	PNG Microfinance Ltd
RMRP	Road Maintenance & Rehabilitation Project
SADP	Smallholder Agriculture Development Program
SEFP	Sustainable Energy Financing Project
SFM Australasia	Sustainable Forestry Management
SMIT	Star Mountains Institute of Technology
SSM	Small Scale Mining
TSLP	Teachers' Solar Lighting Project
VCT	Voluntary Counselling & Testing
WP	Western Province
WPSPL	Western Province Sustainable Power Ltd

NOTES

NOTES

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PHOTOS BACK COVER

Back Cover - Left hand photo:
PNGSDP Australian scholarship recipient Hilda Duwaba from Western Province.

Back Cover - Center:
Recipients of the Western Province Scholarship scheme to study in Australia: Front row (L-R): Peter Olton, Lady Mina Siaguru (Education Consultant, PNGSDP), Hilda Duwaba, Bareya Kanora, Jason Magaia, Anita Malawa. Back row (L-R): Dominic Sibili, Mr. Camillus Midire (CPO, PNGSDP),Velle Kissua, Thomas Amani, Eileen Fergusson, Devinago Deho, Carina Davey, Elizabeth Wamsa, Joanne McLachlan (GRM International).

Back Cover - Right hand photo:
PNGSDP Australian scholarship recipient Dominic Sibili from Western Province.

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