For several months, a number of positive and negative public statements have been made about the future of mining at Ok Tedi and about PNG Sustainable Development Program Ltd, the trust company that holds 63.4 percent of the shares of Ok Tedi Mining Limited in trust for the people of Western Province.

I have not, until now, responded to any of these statements, believing that the issues were best dealt with through direct discussion and negotiation between the parties concerned.

These are the facts.

**Background**

In 2001 BHP Billiton told the Papua New Guinea Government, of which I was Prime Minister, that it wanted to close the Ok Tedi mine. The company believed the environmental damage that would be caused by continued mining outweighed the commercial value of the mine to itself.

My Government considered the matter carefully, balancing the environmental impacts against the economic and social importance of the mine at that time.

Ok Tedi was generating 30 percent of Gross Domestic Product, the Bougainville mine was closed and Misima was about to close. Kutubu was past its peak production period. The sudden closure of the Bougainville mine in the late 1980s had been associated with a catastrophic decline in services and national economic benefits, and I was cautious about putting the country through that again.

The times were especially hard: in the late 1990s and early 2000s, Papua New Guinea stood on the brink of financial collapse after several years of gross mismanagement of the nation’s public finances. The annual rate of inflation had risen to almost 22 percent at the end of 1998. By mid-1999, interest rates had risen to 28 percent, while foreign exchange reserves had fallen to US$89 million, less than one month of import cover.

The Government’s ability to provide public goods and services had stalled, especially in more remote regions such as Western Province.

Ok Tedi at that time was Papua New Guinea’s single most productive, income-generating asset – with exports in 2001 of over K1.2 billion, equivalent to about 11 percent of Gross Domestic Product, and providing 19 percent of the nation’s total exports. Closing the mine would have had truly disastrous consequences for the country and the people of Western Province.

The National Executive Council therefore decided it had to remain open.

In making that decision the Government obtained independent advice on Ok Tedi covering environmental, economic, social and legal aspects prior to entering into negotiations.

The decision to proceed was wholly in the hands of the Government and was not influenced by any outside party, including BHP Billiton.

BHP Billiton was informed of NEC’s decision and agreed to negotiate the terms under which the mine would continue operating for the benefit of Papua New Guinea.

For the negotiations, the Government and BHP Billiton agreed upon an independent mediator, Rothschilds merchant bank, to make objective assessments and advise on a fair and effective outcome.

**Acceptable to all parties**

The outcome had to be acceptable to all parties - the State, BHP Billiton and its partner Inmet of Canada, and the people of the Western Province and the Fly River and mine areas.

As part of the negotiations, the most extensive con-
sultations ever undertaken in Papua New Guinea at that time were held with all communities affected by the mine. The primary aims of the negotiations were:

- To pay fair and appropriate compensation to people affected by environmental impacts
- To limit environmental damage and promote environmental recovery
- To put governance arrangements in place to ensure that Papua New Guinea’s biggest and most complex industrial enterprise continued to operate efficiently and with high safety standards, and therefore independently of Government
- To find an efficient, transparent and accountable way of using mine dividends to promote social and economic development throughout the nation and especially in Western Province.

After almost 12 months of detailed negotiations, an agreement was reached that a law would be passed to allow BHP Billiton to withdraw from Ok Tedi Mining Limited, the mine operator and owner, and for mining to continue.

**Ok Tedi Mine Continuation Act 2001**

That law, the Ok Tedi Mine Continuation Ninth Supplemental Agreement Act 2001, came into effect in December 2001. The law enshrined the four basic aims listed above, and created systems, processes and structures to achieve them. The law has a Constitutional foundation by taking into account in its Preamble two sections:

- The National Goals and Directive Principles, including the goals that Papua New Guinea should be economically independent and its economy basically self-reliant and that Papua New Guinea’s natural resources and environment should be conserved for the collective benefit of all Papua New Guineans
- The Basic Social Obligations, including the obligations to protect Papua New Guinea and to safeguard the national wealth, resources and environment in the interest not only of the present generation but also of future generations.

The Preamble recognises the balance that needs to be achieved between continuing environmental damage and the benefits that the mine brings to the nation and in particular to Western Province.

The key paragraphs in the Preamble recognise specifically:

- that the Ok Tedi mine has made significant contributions to the advancement of the social and economic welfare of the people of Papua New Guinea in general, and the people of Western Province in particular; and
- that as a result of the Company’s activities, public health in the area of influence of the Ok Tedi mine has improved significantly since the Ok Tedi mine commenced operations; and
- that as a result of the Company’s activities, infrastructure has been provided, income and wealth has been generated for the State and Western Province, job opportunities have been created, business development opportunities have been created, better transportation facilities have been provided, and better education and training opportunities have been provided.

The purpose of the Ninth Supplemental Agreement Act is to give the force of law to the agreed outcomes of the negotiations between the State of Papua New Guinea and BHP Billiton.

The main elements of the Act, therefore, are:

- To allow BHP Billiton to withdraw from OTML, to give its 52 percent share of the company for the benefit of the people of Papua New Guinea, especially in Western Province, and in exchange be indemnified against future law suits seeking compensation for environmental damage
- To create an independent trust company, PNG Sustainable Development Program Ltd to hold BHP Billiton’s shareholding in OTML in trust for the people of Western Province and Papua New Guinea. PNGSDP’s charter requires it to invest one third of its annual dividend receipts from OTML in Western Province and Papua New Guinea, and invest two-thirds in the Long Term Fund for the people of Western Province to be spent after the closure of the mine
- To set up the Community Mine Continuation Agreements (CMCA), which provide for the Fly River people affected by mining to have the final say in whether the mine can continue operating and the appropriate levels of compensation for environmental damage
- To set up the Ok Tedi Development Foundation, which manages community development benefits from Ok Tedi mine operations on behalf of the 100,000 river residents living in 156 villages throughout Western Province. Trading as Ok Tedi Fly River Development Program since 2010, it delivers projects and programs to communities through a unique partnership between mining, the people and the government
- To develop arrangements for periodic review of Mine Life Extension, following consultation with the CMCA communities
Where the PNG people’s money from Ok Tedi goes*

<table>
<thead>
<tr>
<th>Total dividends to end 2012</th>
<th>PNGSDP</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>$US4.8 billion**</td>
<td>$US2.0 billion</td>
<td>$US1.2 billion</td>
</tr>
<tr>
<td>Taxes and charges paid/received***</td>
<td>$US0.2 billion</td>
<td>$US2.0 billion</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$US1.8 billion</td>
<td>$US3.8 billion</td>
</tr>
</tbody>
</table>

How PNGSDP spends its share of OTML dividends

| Dividend paid                        | $US1.8 billion |
| Administration                       | $US66 million |
| 2/3 to Long Term Fund                | $US1.16 billion |
| 1/3 to Development Fund              | $US0.578 billion |

Share of Development Fund $US$78 million

| 2/3 National Projects                | $US385 million |
| 1/3 Western Province Projects       | $US193 million |

Western Province Projects K465.5 million

| Reserved for CMCA projects****      | K150.5 million |
| PNGSDP projects                     | K315 million |

*As at end 2012

**The $US4.8 billion includes dividends paid to the original preference shareholders of OTML, and BHP and Inmet. It also includes the buyback of Inmet shares, paid for out of dividends foregone. This total $US1.6 billion. The amount shared between the state and PNGSDP is $US3.2 billion.

***OTML: Company income tax, Dividend Withholding Tax, Salaries and Wages Tax, Customs duties, Withholding Tax, SSIS PAYE tax, GST, Mining Levy, Production Levy, Royalty Withholding Tax received.
PNGSDP: Dividend Withholding Tax paid.

****Spent K37 million, K113.5 million held in the Development Fund for drawdown.

- To develop a new environmental regime for the Ok Tedi mine
- To develop new mine closure plans

The creation of PNGSDP is at the heart of the Ninth Supplemental Agreement Act’s intention that the OTML dividends be used wisely, independently, transparently and accountably.

PNGSDP was created to allow mining to continue at Ok Tedi and to provide development expenditure to the people of Western Province annually, and after the mine closure.

Indemnities to the State and BHP

In support of those indemnities, both have the benefit of mortgage security over certain PNGSDP assets, including shares in OTML.

It is not true to say that an indemnity has been granted only to BHP Billiton and that the shares and other assets are mortgaged only in favor of BHP Billiton.

The State also has an indemnity from PNGSDP, and also secured by PNG’s shares in OTML and other assets.

The PNGSDP structure

PNGSDP is a private not-for-profit company limited by guarantee. It is registered in Singapore, and also has registration in Papua New Guinea as a foreign company. Private companies limited by guarantee are commonly used by trustee companies, foundations, NGOs, non-profit companies, and charities.

For example, it is the structure within which the Red Cross operates in Australia. Such companies have no shareholders, so must spend their income in ways set out in their constitutions and rules.

PNGSDP is governed by a set of Program Rules for governance, fund management, and transparency and accountability. These Rules were agreed to by the State and BHP Billiton to ensure that the benefits from Ok Tedi would flow to current and future generations of Papua New Guineans, especially in Western Province.

The State and BHP Billiton decided to use this trustee-style structure because PNGSDP would be like a charitable company whose beneficiaries would be the people of PNG, and in particular the people of the Western Province.

Its main purpose is to invest the OTML dividends so that sufficient funds are available to pay for and implement development projects and programs now and for at least 40 years after the Ok Tedi mine closes.
The structure was specifically designed to protect the money in the Long Term Fund, so that it remains available only for the benefit of the people of Western Province when mining has ceased.

The PNGSDP structure has stood the test of time. There is no good reason to change it.

It also provides a mechanism for independently contributing to the good governance of Ok Tedi Mining Ltd alongside the other shareholder, the Papua New Guinea State.

The mine governance arrangements, too, have stood the test of time.

The PNGSDP Board of Directors

For the first decade of PNGSDP’s existence, BHP Billiton appointed three directors. Papua New Guinea originally had the same entitlement of three directors. There is one independent Singapore director, whose appointment is a requirement of Singapore law under which PNGSDP is registered.

BHP Billiton has never, ever had a majority on the PNGSDP board.

Now, the board has nine directors, only two of whom are BHP Billiton nominees, Mr Philip Bainbridge and Ms Patricia Caswell.

The other seven directors are: a nominee of the Bank of Papua New Guinea (new appointment pending); Mr Don Manoa, a nominee of the PNG Chamber of Commerce and Industry; Mr Rex Paki, a nominee of the Treasurer; Mr David Sode, PNGSDP’s chief executive; the Western Province Administrator, Dr Modowa Guimo; Mr Lim How Teck, the Singapore director; and myself.

BHP Billiton announced in September last year that it would no longer nominate directors. A new system has been introduced that enables existing directors...
to nominate their own replacements, subject to the approval of other directors.

I was appointed under these new Rules, and not by BHP Billiton.

BHP Billiton has no involvement whatsoever in PNGSDP or OTML. Its sole relationship with PNGSDP has been to nominate three directors to the board – a practice now ended – and a report it receives once a year along with the State of PNG.

Nor does it have any beneficial or financial or operational or managerial interest whatsoever in either the mine or PNGSDP.

BHP Billiton had no involvement in the original decision to keep the Ok Tedi mine operating, and it will not have any say in the decision on the current Mine Life Extension application.

Mine Life Extension application

The current MLE application has been made by Ok Tedi Mining Limited. A decision to extend the mine’s life is subject to approval by the State as mining regulator and separately by the two OTML shareholders – PNGSDP (63.4 percent) and the State of Papua New Guinea (36.6 percent). MLE will not proceed without the approval both of the State and the Western Province communities affected by the mine (the Community Mine Continuation Agreement Communities. The CMCA communities have already given their unanimous approval for Mine Life Extension to be granted. PNGSDP as the majority shareholder of OTML supports the Mine Life Extension.

Based on the feasibility study, MLE is expected to provide $US4.3 billion in social and economic benefits to PNG. Mine Life Extension increases the value of OTML by $US660 million from $US1812 million to $US2472 million.

Tax and dividend benefits of OTML to PNG in last 10 years

The benefits of the Ok Tedi mine to the people of Papua New Guinea, and in particular the people of the Western Province, have already been significant. In total, OTML has paid the State of Papua New Guinea $US3.8 billion up to the end of 2012 - $US2.6 billion in taxes and charges, and $US1.2 billion in dividends.

A further $US289 million has been used to fund road construction and maintenance in Western Province.

The majority of the benefits from Ok Tedi have flowed in the last 10 years, following the establishment of PNGSDP.

Dividend payments to PNGSDP

PNGSDP has received a net $US1.8 billion, after payment of Dividend Withholding Tax of $US200 million.

Use of PNGSDP income

Since its establishment in 2002 to the end of 2012, PNGSDP has committed K1.18 billion to 662 development projects throughout Papua New Guinea and holds KUS1.4 billion in the Long Term Fund. Every kina is transparently accounted for on time in the annual reports presented to a public meeting in Papua New Guinea each year. PNGSDP’s projects promote social and economic progress and contribute directly to national advancement according to the National Goals and Directive Principles of the Constitution:

- Integral Human Development
- Equality and Participation
- National Sovereignty and Self-Reliance
- Natural Resources and Environment
- Papua New Guinean Ways

Projects funded by PNGSDP are aimed directly at improving the way of life of individuals and communities across the nation, and especially in Western Province.

K1.18 billion PNGSDP commitment to projects

Since 2002 PNGSDP has committed K.737 million to 414 National Projects and K.446 million to 248 Western Province projects.
Most of the commitments – a total of K555 million - across both National and Western Province projects were for essential infrastructure aimed directly at improving community life – classrooms, aid posts, roads and bridges, wharves and jetties.

The most significant transformational infrastructure project has been the construction of a network of telecommunications towers in Western Province and adjacent areas of Sandaun Province (a commitment of K73 million), and Gulf Province (K4 million).

It is recognised internationally that a modern and efficient telecommunications network has a dramatic impact on social and economic development. PNGSDP’s towers project has provided access to the digital revolution – mobile telephones and internet - to tens of thousands of people in the three provinces.

A joint program with the World Bank on rural roads rehabilitation brought the World Bank back to PNG after it had given the country up as too hard to do business with, and has had a major impact in Central, East New Britain, Gulf, Manus, Morobe, Oro and West New Britain, with Western Province on the way.

PNGSDP’s focus on future generations resulted in Health and Education being the next highest areas of spending. K73 million has been committed to Health (124 projects) and 105 million to Education (100 projects).

PNGSDP maintains a constant flow of small but invaluable community-based projects such as accommodation for teachers, nurses and other community workers, school classrooms, and health centres.

In Western Province community-based projects alone PNGSDP has built 31 classrooms, 24 teachers’ houses, two school dormitories, 14 health centres and 22 nurses’ houses.

The total commitment to these community-based projects, which is only a small proportion of the projects and programs PNGSDP funds in Western Province, was K12 million.
The value of almost all of the community projects is generally far higher than the cash inputs because communities and other partners supply sweat equity, project management, logistics, and other skills and many other valuable forms of contribution.

PNGSDP has provided electricity supplies to 18,000 people in 18 villages in the Kiunga-Tabubil Corridor, at a total cost of K35 million. PNGSDP is about to commence a solar power project in the South Fly that will bring electricity to 49 villages in the Dudi, Kiwaba and Manawete areas, at a cost of K32 million. This is by far the largest rural electrification effort in Papua New Guinea so far.

After careful work on design, groundwork will start this month on a K52-million project to provide a reliable and safe water supply to the 19,000 residents of Daru. Other important projects have been completed in Daru town, including the rehabilitation of the airstrip (costing K40 million) and the reconstruction of the Trestle Jetty (costing K10.2 million).

PNGSDP’s success is highlighted by the performance of the Long Term Fund, which receives two-thirds of the net income received from Ok Tedi. As of the end of 2012, there is US$1.4 billion in the Fund, which has been set aside to underwrite sustainable development in the Western Province for at least 40 years after the Ok Tedi mine closes.

Over the long term, PNGSDP has put US$1.2 billion (net of administration costs and withholding tax) into the Long Term Fund. PNGSDP’s low-risk investments have resulted in gains of US$200 million.

The Long Term Fund invests in many markets all over the world with the intention of having the most secure and balanced portfolio possible. 23 percent (US$307 million) of the Long Term Fund has been invested in low-risk investments in Papua New Guinea. None of the funds is invested in Singapore.

In any case, where the money is invested should not be an issue. The money be-
PNGSDP also encourages OTML’s close, productive and harmonious relationships with mine and downriver landowners and the Western Province community generally. PNGSDP supports the Ok Tedi Development Foundation, both through PNGSDP’s 63.4 percent shareholding in OTML, which holds 75 percent of the shares in OTDF, and a direct shareholding of 25 percent. PNGSDP also provides additional funding for priority projects implemented by OTDF.

PNGSDP is working with and through OTML to consult with mine and downriver landowners on the current Mine Life Extension application, which has been unanimously agreed to by the CMCA communities.

**OTML in its own right is a significant contributor to national and Western Province life.**

It directly employs about 2000 people, 95 percent of whom are Papua New Guineans, with 36 per cent from the Western Province.

In addition, business partners that work under contract to OTML employ approximately 1500 people. OTML is investing heavily in training and development so that staff have the right skills to perform their jobs effectively.

Of the 2829 service contracts let in 2012, 88 percent went to PNG companies, including joint ventures. PNG contracts were worth K590 million, and accounted for 54 percent of the total value of contracts awarded.

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**Summary**

PNGSDP and Ok Tedi have been success stories for Papua New Guinea over the past decade. That is a fact that no one can deny. The mine has paid K16 billion in taxes and dividends to Papua New Guinea during the past 10 years.

In the last 10 years OTML has paid a net $US1.8 billion in dividends to PNGSDP.

PNGSDP, as a trustee, has put $US1.2 billion of the dividends received in the Long Term Fund.

It has put that money into low-risk investment overseas and in Papua New Guinea. The Long Term Fund now stands at $US1.4 billion.

That money, managed by PNGSDP under its current structure, is protected; it is safe. It can only be used for the benefit of the people of Western Province once the mine closes.

In addition to saving $US1.4 billion in the Long Term Fund for the people of Western Province, PNGSDP has allocated $US385 million to projects throughout Papua New Guinea and $US193 million to projects in Western Province, a total of $US578 million.

PNGSDP represents for the first time a successful way to save for future generations the bulk of the dividend proceeds it receives from a resources project.

“PNGSDP is a unique organisation. We are not aware of any parallel to it anywhere else in the world”, according to the authors of the independent Papua New Guinea Sustainable Development Program Review of 2011, Professors Stephen Howes and Eric Kwa.

PNGSDP is a unique organisation. We are not aware of any parallel to it anywhere else in the world. PNGSDP is working with and through OTML to consult with mine and downriver landowners on the current Mine Life Extension application, which has been unanimously agreed to by the CMCA communities.

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**PNGSDP Health and Education minor infrastructure projects**

<table>
<thead>
<tr>
<th>Project Type</th>
<th>No.</th>
<th>Total Funding Commitment</th>
<th>Est Value**</th>
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<td>Classrooms</td>
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<td></td>
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<tr>
<td>Western Province</td>
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<td>Teacher Houses</td>
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<td>School dormitories</td>
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<td><strong>30.0</strong></td>
<td><strong>69.4</strong></td>
</tr>
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</table>

* Millions of Kina
** The value of the finished projects is generally far higher than the cash inputs because communities and other partners supply sweat equity, project management, logistics, trade and other skills and many other valuable forms of contribution.