the year in review

ADMINISTRATION:
The "peace process" is now into its third year and the company has still not gained access to the Panguna mine site. Whilst other areas such as Loloho and Arawa are accessible, because of sensitivities on Bougainville, BCL has elected not to send its representatives to the island.

The people of Bougainville will need to be party to any agreement on the future of the mine. The establishment of a government for Bougainville acceptable to its people and PNG is therefore required for an agreement to be concluded. It is hoped the political future of Bougainville will be settled during the coming year.

Shareholders were advised at the last annual general meeting that company property was being stolen and destroyed as part of a commercial scrap metal business. Legal action by the company has, we believe, stopped this illegal trade but not before considerable damage was caused to mine site and port infrastructure. For example, all that remains of the power station is the shell of the building and badly damaged generating equipment. The company has also received reports that virtually no mine site infrastructure has escaped damage.

The Board has considered whether it is in the shareholders' interest to list on the newly established Port Moresby Stock Exchange. Two advantages that might flow from such a listing are the potential to raise equity in the local market and the ability to trade locally. Given BCL has no immediate prospects of mine redevelopment there is no current need to raise equity. There is also no advantage for the vast majority of shareholders in a local listing as over 90% of shareholders do not hold a tradeable parcel of shares. Listing carries with it costs and additional administration. In the circumstances the Board does not propose at this stage that BCL be listed on the local exchange.

BCL continues to use the services of Rio Tinto Minerals (PNG) Limited (RTM) under modified terms of the management agreement which has been in place since mining commenced. RTM provides management services "at cost". Under the original agreement a management fee was payable based on mine production in addition to reimbursement of costs.

FINANCE AND ASSETS:
Interest earnings have increased from K12.4 million last financial year to K16.7 million in the current year. General and administration expenses for the year were held at the levels of the previous year despite a significant decline in the Kina/A$ exchange rate. Some rationalisation of the balance sheet has taken place with respect to aged debtors and creditors giving rise to an abnormal gain of K1.6 million. As a result net profit for the year has increased by K6.2 to K13.9 million.

Total cash reserves at the end of the year stood at K106.9 million.

The company's main asset remains the Panguna mine and infrastructure. Although access to much of the infrastructure is not available to the company, it is assumed considerable deterioration has occurred. A decision was taken in 1991 to make a general provision of K350 million to allow for future write-down of the value of assets when their true value can be ascertained. This provision has not been increased since 1991 nor has depreciation been charged.

In previous years the directors had made provision for ongoing compensation to landowners with these funds being set aside in a separate interest bearing deposit. The directors consider that the provision held as at 31 December 1998 is adequate to cover the claims to which the company may be liable and accordingly no further provision has been made in 1999.

The provision for landowners' compensation has been re-named in recognition of the general nature of the company's potential obligations as a consequence of prolonged cessation of operations. Cash balances previously held in respect of this provision and shown under Other Debtors have been reclassified as Bank Balances.

ORE RESERVES:
No exploration or other work took place on ore reserves during the year. At mine closure the recoverable proved ore reserves based on the 1989 estimates are 496 million tonnes of average grade 0.45% copper and 0.55 grams per tonne gold. Upgrading by screening adds 520 million tonnes of 0.22% copper and 0.18 grams per tonne gold. This would produce an additional 195 million tonnes of mill feed averaging 0.34% copper and 0.28 grams per tonne gold.

The total mineable mill feed was estimated at 691 million tonnes averaging 0.40% copper and 0.47 grams per tonne gold.

In 1989 the exchange rate was US$1.17 to the Kina, the copper price was US$1.29/lb. and gold US$381/oz. By comparison 1999 averages have been US$0.39 to the Kina, US$0.71/lb. copper and US$280/oz. gold and are unlikely to support the same level of ore reserves.

COMING YEAR:
In the coming year consideration will be given to further rationalising the company's balance sheet particularly with regard to the remaining contingent liabilities and unrealised assets.

This year's annual report contains a statement on the environment. Work will continue in the coming year on analysing and defining likely environmental issues to be addressed arising from natural processes that have taken place in the ensuing decade.

A provision has now been established to provide funding for care and maintenance projects where there is access to company property. One such area is Loloho where consumables owned by the company have been disturbed or have naturally deteriorated and may require stabilising or containment.

Peter Taylor
Managing Director
7 March, 2000

COST CONVENTION:

The results of operations and the financial position of the company are accounted for under the historical cost convention, except that they reflect the revaluation in 1980 of certain major items of property, plant and equipment.

DEPRECIATION AND AMORTISATION:

Following cessation of mining activities, in 1991 a general provision of K350 million was made for deterioration, damage or pilferage of company assets on Bougainville. The accuracy of that provision cannot be proved, because the lack of access to Bougainville prevents a detailed assessment of the nature or extent of those losses. No depreciation charge or increase to the general provision has been made since 1991. The directors consider that any further review of the general provision at this time would be completely arbitrary because of the continuing lack of access to the mine.

TAXATION:

Tax effect accounting procedures are followed. Any current liability for income tax is based on estimated taxable income for the year. The components of this taxable income can differ from those which make up the earnings before tax for the year and these differences are either permanent differences or temporary differences. Permanent differences are disclosed in note 3. Temporary differences arise because the tax base of some assets and liabilities is different from their accounts carrying value. The tax effect of these temporary differences is classified as either deferred income tax liability or future income tax benefit in the balance sheet. Future income tax benefits are not recognised unless their realisation is probable. Future income tax benefits therefore have not been recognised pending the development of a clearer view of the timing of recommencement of operations.

FOREIGN CURRENCY:

Monetary assets and liabilities in foreign currencies are translated into Papua New Guinea currency at the rates of exchange ruling at balance date. All other overseas transactions are translated at the rates of exchange applying when they occurred. Exchange gains and losses on overseas borrowings are recognised as they occur to reflect the full effect of exchange rate movements. Other monetary gains and losses are also recognised as they occur. Gains and losses on hedges (excluding hedges relating to specific commitments) are included in earnings for the period during which the exchange rate movements occurred.

PROVISIONS:

Provision is made for compensation, rehabilitation and stabilisation for which the company may be liable as a consequence of cessation of operations. The amount previously shown as a liability for landowners' compensation has been reclassified as a provision, and the comparative amount has been restated on a consistent basis. Bank balances previously shown under Other Debtors in respect of this liability have been reclassified as part of Bank Balances.

Bougainville Copper Limited year ended 31 December, 1999	**1999** **K'000**	1998 K'000
2. GENERAL AND ADMINISTRATIVE EXPENSES		
Provision for doubtful debts in respect of other non-current debtors	**490**	420
Remuneration of Directors (Note 10)	**125**	65
Auditors' remuneration - auditing the accounts	**10**	9
- other services	**14**	8
(The auditors have received no other benefits)		
Care and maintenance	**1 194**	468
Compensation	**-**	1 358
Management fees - related party (Note 15)	**1 544**	933
Other general and administrative expenses	**1 387**	1 921
	4 764	5 182