Balance Sheets

at 31 December, 1991
Bougainville Copper Limited

	Notes	Consolidated 1991 K'000	Consolidated 1990 K'000	Bougainville Copper Limited 1991 K'000	Bougainville Copper Limited 1990 K'000
Funds employed by the group:					
Shareholders' funds					
Paid up capital	12	**401 063**	401 063	**401 063**	401 063
Asset revaluation reserve	10	**31 276**	31 276	**31 276**	31 276
Retained earnings		**(194 483)**	118 723	**(194 473)**	118 711
		237 856	551 062	**237 866**	551 050
Non-current liabilities					
Income tax	3	**6 759**	6 759	**6 759**	6 759
Deferred income tax liability	4	**–**	40 804	**–**	40 804
Provision for long service leave		**75**	133	**75**	133
		6 834	47 696	**6 834**	47 696
Current liabilities					
Creditors	7	**11 006**	9 494	**11 004**	9 490
Income tax		**2 329**	2 314	**2 329**	2 309
		13 335	11 808	**13 333**	11 799
Total funds		**258 025**	610 566	**258 033**	610 545
These funds are represented by:					
Non-current assets					
Investments	8	**–**	–	**–**	205
Mine assets	9	**201 495**	556 089	**201 495**	556 089
		201 495	556 089	**201 495**	556 294
Current assets					
Bank balances and short-term deposits		**49 347**	49 623	**49 345**	49 489
Other debtors	11	**7 183**	4 854	**7 193**	4 762
		56 530	54 477	**56 538**	54 251
Total assets		**258 025**	610 566	**258 033**	610 545

Details of commitments and contingent liabilities and assets are shown in notes 14 and 15.
All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted.
The notes commencing on page 10 form part of these accounts and are to be read in conjunction with them.

1.(b) Accounting Policies (continued)

Repairs and Maintenance:

Expenditure on repairs and maintenance during normal production is charged against income as incurred.

Valuation of Stocks and Stores:

During normal production operations stores are valued at weighted average cost, excluding transportation costs, less a provision for obsolete stores, while concentrate stocks are valued at the lower of direct production costs or net realisable value. Cost includes direct materials, services and overheads, but excludes depreciation and indirect overheads. In 1991 due to the uncertainty of the condition and value of stores, the remaining book value of K10 million has been grouped with non-current mine assets against which a general provision of K350 million has been made as referred to in note 1(a).

Net Sales Revenue:

During normal operations sales are recognised when the risk passes from the seller which is at the time when the concentrate enters the ship's hold. The final sales value can only be determined from weights, assays, prices and treatment charges applying after a shipment has arrived at its destination. Estimates based on world metal prices ruling up to year end are used for those shipments not due for final valuation until the following year. In addition, the estimated results of forward contracts existing at year end in relation to concentrates shipped are reflected in sales revenue. Variations in revenue arising from final pricing and out-turn adjustments are recognised in the following year. Sales revenue in 1990 represents such adjustments in respect of shipments made in 1989, the final shipment year. Unrealised gains and losses on forward metal sales, not related to shipments, are included in earnings.

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 timing differences. Permanent differences are disclosed in note 3. Timing differences arise because some items of revenue and expenditure are recognised for tax purposes during periods which differ from the periods in which they are included in earnings before tax. The tax effect of these timing differences is classified as either deferred income tax liability or future income tax benefit in the balance sheets. Future income tax benefits are not recognised unless their realisation is virtually certain. Future income tax benefits therefore have not been recognised pending the development of a clearer view of the timing of recommencement of operations.

Deferred tax liabilities and future income tax benefits are generally disclosed separately as the periods in which the originating timing differences reverse often differ. Where, however, it is believed that these differences will reverse in the same future period, the liability and benefit are offset against each other and only the net liability or benefit, as the case may be, is disclosed.

In preparing these accounts, it is considered that the liability of K40.8 million, brought forward from 1990, is unlikely to crystallise until such time as the benefit of future income tax benefits is realised. For the reasons stated above future income tax benefits have not been recognised in these accounts and in these circumstances it is not considered appropriate to continue to maintain a deferred tax liability in the balance sheet. Accordingly the deferred tax liablility has been written off in these accounts as an extraordinary item and has reduced the amount of the future income tax benefit not brought to account.

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.

Subsidiary:

The company has one wholly owned subsidiary. BCL (Hong Kong) Limited, incorporated in Hong Kong, was used to arrange shipping contracts on behalf of the company, but is now inoperative. This company has been consolidated in accordance with conventional consolidation principles. BCL Services Pty. Ltd., incorporated in Australia, has not operated in 1991 and its registration was cancelled (without loss) on 10 December, 1991.

	Consolidated		Bougainville Copper Limited	
	1991	1990	**1991**	1990
	K'000	K'000	**K'000**	K'000
2. Earnings before taxation				
Earnings before taxation have been determined after allowing for the following income and expense items:				
Income:				
Interest on short-term deposits	**3 364**	3 677	**3 364**	3 677
Expenses:				
Interest – on long-term loans and standby facilities	**–**	465	**–**	465
– other	**–**	112	**–**	112
Provision for doubtful debts in respect of other debtors	**225**	163	**225**	163
Bad debts in respect of other debtors	**50**	352	**50**	352
Loss/(profit) on disposal and retirement of fixed assets	**1 332**	(371)	**1 332**	97
Directors' fees (note 13)	**36**	27	**36**	27
Auditors' remuneration – auditing the accounts	**11**	30	**10**	30
– other services	**1**	7	**1**	7
(The auditors have received no other benefits)				

	Consolidated 1991 K'000	Consolidated 1990 K'000	Bougainville Copper Limited 1991 K'000	Bougainville Copper Limited 1990 K'000
3. Taxation				
(a) Taxation on earnings for the year comprises:				
Future	–	(1 622)	–	(1 622)
Adjustments relating to previous years:				
Current	–	(2 370)	–	(2 370)
Income tax expense/(credit) on operating profit/(loss) for the year	–	(3 992)	–	(3 992)
Income tax relating to extraordinary items (note 4):				
Future	–	9 939	–	9 939
	–	5 947	–	5 947
(b) The following reconciliation discloses the items which caused the charge for income tax in the statements of earnings to vary from the income tax prima facie payable on reported earnings:				
Operating loss before taxation	**(4 010)**	(4 734)	**(3 988)**	(4 903)
Prima facie income tax @ 35%	**(1 404)**	(1 657)	**(1 396)**	(1 716)
Permanent differences				
– net losses not deductible	–	35	–	94
– adjustments relating to previous years	–	(2 370)	–	(2 370)
	(1 404)	(3 992)	**(1 396)**	(3 992)
Future income tax benefits not brought to account	**1 404**	11 720	**1 396**	11 720
Transfer of those future income tax benefits not brought to account to extraordinary items	–	(11 720)	–	(11 720)
Income tax credit	–	(3 992)	–	(3 992)
Extraordinary items before taxation	**(350 000)**	(3 904)	**(350 000)**	(3 734)
Prima facie income tax @ 35%	**(122 500)**	(1 366)	**(122 500)**	(1 307)
Permanent differences				
– non-allowable depreciation	–	3 945	–	3 945
– extraordinary income not deductible/(assessable) (note 3(c))	**38 870**	(26 705)	**38 870**	(26 705)
Write back of prior year deferred tax liability (note 3 (d))	**40 804**	–	**40 804**	–
Future income tax benefits not brought to account:				
– operating result (as above)	–	11 720	–	11 720
– extraordinary items	**41 294**	22 345	**41 294**	22 286
Adjustment relating to prior year	**1 532**	–	**1 532**	–
Income tax expense	–	9 939	–	9 939

(c) The written down value of mine assets before provision, of K551.5 million, contains an unamortised balance of asset revaluation of K111.1 million. To the extent that the current provision for deterioration, damage and pilferage becomes deductible for taxation purposes, the future amount of the write-down relating to this revaluation increment will be permanently disallowed as a tax deduction. The tax effect of this potential future permanent difference is K38.87 million.

(d) Deferred tax liabilities and future income tax benefits are generally disclosed separately as the periods in which the originating timing differences reverse often differ. Where, however, it is believed that these differences will reverse in the same future period, the liability and benefit are offset against each other and only the net liability or benefit, as the case may be, is disclosed.
In preparing these accounts, it is considered that the liability of K40.8 million, brought forward from 1990, is unlikely to crystallise until such time as the benefit of future income tax benefits is realised. For the reasons stated in note 3(f) future income tax benefits have not been recognised in these accounts and in these circumstances it is not considered appropriate to continue to maintain a deferred tax liability in the balance sheet. Accordingly the deferred tax liability has been written off in these accounts as an extraordinary item and has reduced the amount of the future income tax benefit not brought to account.

(e) An agreement between the Independent State of Papua New Guinea and CRA Limited provides for the deferral of income tax payable in respect of the 1989 year until certain criteria have been met following successful recommencement of operations.

(f) Future income tax benefits not brought to account total K76 763 000 (1990 K34 065 000).
This benefit for tax losses will only be obtained if:

(i) the group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the group continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the group in realising the benefit from the deductions for the losses.

Declarations

Statement by Directors

The accounts of the company have been prepared using the basis of valuation described in note 1 to the accounts. The directors believe that in the absence of reliable information and the lack of a more suitable alternative, this is the only appropriate basis to use, despite the current cessation of operations. The general provision made may eventually prove to be above or below the sum which is necessary to reflect the actual losses which will have occurred. For these reasons the directors are unable to determine if the carrying value of the assets included in the accounts is properly stated.

Accordingly, the directors are unable to form an opinion whether or not the accompanying statements of earnings and fund statements give a true and fair view of the results of the business of the company and its subsidiary for the period covered by the statements or that the accompanying balance sheets exhibit a true and fair view of the state of affairs of the company and its subsidiary at the end of that period.

Signed at Port Moresby on this 10th day of February, 1992.
On behalf of the Board
D. S. CARRUTHERS
Chairman.
I. R. JOHNSON
Director.

Declaration by Secretary

I, Moses Samboro Koiri, Secretary of Bougainville Copper Limited, do solemnly and sincerely declare that for the reasons stated by the directors of the company in note 1 to the accounts, the accompanying balance sheets, statements of earnings and funds statements of the company and its subsidiary have been prepared on the basis described in that note and on this basis are to the best of my knowledge and belief, correct, and I make this solemn declaration by virtue of the Oaths, Affirmations and Statutory Declarations Act (Chapter 317), conscientiously believing that the statements contained herein to be true in every particular.

Declared at Port Moresby this 10th day of February, 1992.
M. S. KOIRI
Secretary.
Before me:
A. G. CORREN
Commissioner for Oaths.

Auditors' Report to the Members of Bougainville Copper Limited

1. We have audited the balance sheets, statements of earnings and the funds statements (the accounts) set out on pages 7 to 15 in accordance with generally accepted auditing standards.

2. These accounts have been prepared with the inclusion of the company's assets at their 1 January, 1991 book value, with a separate general provision of K350 million having been made for the value of the indeterminate level of deterioration, damage and pilferage of mine assets which is expected to have occurred in the period since the withdrawal of company personnel from Bougainville in early 1990. As explained in note 1(a) to the accounts, it is not possible, at present, to determine when the company will resume operations at the Panguna mine on Bougainville Island, or to measure or estimate reliably the extent of deterioration, damage and pilferage of mine assets.

3. While the directors have made this provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company personnel is again possible.

4. In our opinion, providing for the probable loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual losses which will have occurred in 1990 and 1991. However, as the actual extent of such losses can only be established after the company regains access to the mine site, we recognise that, at present, those losses are not capable of reliable measurement or estimation, either by directors or by us. Accordingly the provision made by directors in 1991 may eventually prove to be above or below the sum which is necessary to reflect these losses.

5. If the company is ultimately unable to recommence operations successfully at the Panguna mine, in our opinion, the company's mine assets, as disclosed in the accounts, would need to be written off, less any amounts which may be recovered by sale or compensation.

6. In the absence of all the necessary information and explanations we require, (because both we and the directors have been unable to obtain access to Bougainville Island) and for the reasons set out above, we are unable to form an opinion as to whether or not the provision against the net book value of mine assets of K350 million is adequate or not. Accordingly we are unable to form an opinion as to whether or not the carrying value of the mine assets, as disclosed in these accounts, is properly stated.

7. These assets which represent 78% of the book value of total assets and 85% of the book value of net tangible assets are of fundamental importance to the presentation of the accounts. In view of the uncertainty over the quantum of the general provision that has been made against these assets, as set out above, we are unable to form an opinion as to whether or not the accounts and group accounts give a true and fair view of the state of affairs of the company and the group as at 31 December, 1991 and the results for the year ended on that date.

8. In our opinion, except that the records of mine assets may not be a reliable reflection of the existence and value of those assets on Bougainville Island, the remaining accounting and other records, including registers, examined by us have been properly kept in accordance with the Companies Act (Chapter 146).

COOPERS & LYBRAND
by P. A. Atwood
Registered under the Accountants Registration Act (Chapter 89),
Port Moresby,
on this 10th day of February, 1992.

Statistical Summary

		1991	1990	1989	1988	1987	1986	1985
Financial								
Earnings (K million)								
Net sales revenue and other income*****		**3.3**	80.2	231.6	493.4	415.4	342.7	317.6
Operating and other expenses****		**316.6**	36.8	181.7	244.8	227.5	223.7	221.5
Depreciation*****		**–**	51.5	47.3	43.9	49.4	47.3	47.6
Earnings/(loss) before taxation and exchange gains		**(313.3)**	(8.1)	2.6	204.7	138.5	71.7	48.5
Exchange gains/(losses)		**0.1**	(0.5)	2.5	(2.9)	5.7	2.3	(1.4)
Earnings/(loss) before taxation		**(313.2)**	(8.6)	5.1	201.8	144.2	74.0	47.1
Taxation		**–**	6.0	25.7	93.2	50.6	28.7	19.0
Net earnings/(loss)		**(313.2)**	(14.6)	(20.6)	108.6	93.6	45.3	28.1
Dividends		**–**	–	–	108.3	92.2	44.1	28.1
Earnings retained		**(313.2)**	(14.6)	(20.6)	0.3	(1.8)	1.2	–
Balance sheet (K million)								
Property, plant and equipment		**201.5**	545.9	595.8	570.0	527.8	550.1	558.5
Investments and loans		**–**	–	–	2.2	0.7	0.7	0.2
Current assets		**56.5**	64.7	59.5	250.1	260.3	190.1	160.4
Total assets		**258.0**	610.6	655.3	822.3	788.8	740.9	719.1
Shareholders' funds		**237.9**	551.1	565.6	586.2	586.0	587.7	586.5
Exchange fluctuation		**–**	–	–	0.2	0.3	(3.2)	(5.9)
Long-term liabilities		**6.8**	47.7	46.9	23.7	24.8	48.1	52.4
Current liabilities		**13.3**	11.8	42.8	212.2	177.7	108.3	86.1
Funds employed		**258.0**	610.6	655.3	822.3	788.8	740.9	719.1
Production/Sales								
Mined								
Ore and waste removed	(millions of tonnes)	**–**	–	33.27	89.78	83.53	79.16	73.62
Ore milled	(millions of tonnes)	**–**	–	18.52	47.69	48.20	47.89	50.07
Ore grade								
Copper	(per cent)	**–**	–	0.44	0.41	0.41	0.42	0.42
Gold	(grams/tonne)	**–**	–	0.50	0.41	0.43	0.48	0.42
Produced								
Concentrate	(thousands of dry tonnes)	**–**	–	224.6	552.0	585.5	586.6	581.8
Contained copper	(thousands of dry tonnes)	**–**	–	68.7	166.0	178.2	178.6	175.0
Concentrate grade								
Copper	(per cent)	**–**	–	30.1	30.1	30.4	30.5	30.1
Gold	(grams/tonne)	**–**	–	31.0	25.1	25.8	27.9	24.7
Silver	(grams/tonne)	**–**	–	91.2	87.7	86.4	85.9	79.3
Shipped								
Total concentrate	(thousands of dry tonnes)	**–**	–	250.8	570.8	567.6	589.4	560.0
Destination:								
Japan	(per cent)	**–**	–	40.2	45.4	32.6	43.2	44.1
Other Asian	(per cent)	**–**	–	34.3	23.4	33.5	15.4	15.7
Europe	(per cent)	**–**	–	25.5	27.7	33.9	41.4	40.2
All Other	(per cent)	**–**	–	0.0	3.5	0.0	0.0	0.0
Values								
Gross concentrate sales value (before treatment and refining charges, freight, etc.)	(K million)	**–**	0.3	260.0	561.0	489.4	417.9	381.3
Contribution by:								
Copper	(per cent)	**–**	61	68	68	60	54	61
Gold	(per cent)	**–**	38	31	30	38	44	37
Other								
US$/Kina exchange rate		**1.05**	1.05	1.17	1.16	1.10	1.03	1.00
Average metal prices								
LME copper	(USc/lb)	**106.0**	119.8	129.0	117.9	81.0	62.3	64.3
London gold market	(US$/oz)	**362.2**	382.8	381.0	436.8	446.7	367.9	317.3
Return on shareholders' funds	(per cent)	**–**	–	–	18.5	16.0	7.7	4.8
Earnings per share***	(toea)	**–**	–	–	27.1	23.3	11.3	7.0
Dividends per fully paid share*** (par value K1.00)	(toea)	**–**	–	–	27.0	23.0	11.0	7.0
Number of shares issued at end of year	(millions)	**401**	401	401	401	401	401	401
Number of shareholders at end of year		**19 982**	20 532	21 287	21 966	22 650	24 680	27 117
Debt/equity ratio		**–**	–	–	.002/1	.004/1	0.05/1	0.06/1
Work force at end of year								
Overseas		**6**	13	330	610	699	706	704
National		**6**	10	1 987	2 950	3 025	2 993	2 948

Notes: Bonus dividends of 4.0 and 6.7 toea per fully paid share were made in 1979 and 1980 respectively and have been included in the dividend figures for those years.

* Full year figures, but commercial production commenced 1 April, 1972

** 1972 figure is for Bougainville Mining Limited

*** 1972 to 1979 figures are after adjustment for the 1980 capital reconstruction

**** 1989, 1990 and 1991 include extraordinary items of K26.1 million, K28.7 million and K309.2 million respectively

***** 1990 includes extraordinary items of K76.3 million for insurance litigation settlement and K51.5 million for depreciation