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. Unrealised gains and losses on forward metal sales, not related to shipments, are included in earnings. There has been no sales revenue since 1990.

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 sheet. 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.

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.

Bougainville Copper Limited year ended 31 December, 1998	**1998** **K'000**	1997 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	**12 397**	6 130
Net exchange gain	**481**	45
Expenses:		
Provision for doubtful debts in respect of other debtors	**420**	377
Remuneration of Directors (Note.11)	**65**	89
Auditors' remuneration - auditing the accounts	**9**	9
- other services	**8**	17
(The auditors have received no other benefits)		

Independent Audit Report

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF BOUGAINVILLE COPPER LIMITED

Scope

We have audited the financial statements of Bougainville Copper Limited set out on pages 7 to 15. These financial statements comprise the balance sheet as at 31 December, 1998 and the related statements of income and cash flows for the year then ended. This information is stated in accordance with the accounting policies described in Note 1 to the financial statements.

These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our firm provides taxation services to the company.

Qualified Audit Opinion

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 in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of 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 assets.

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.

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 the period to 31 December, 1998. 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.

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.

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.

These assets which represent 66% of the book value of total assets and 75% 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 give a true and fair view of the state of affairs of the company as at 31 December, 1998 and the results for the year ended on that date.

In our opinion, except that the records of mine assets may not be a reflection of the existence and value of those assets on Bougainville Island, proper accounting records have been kept by the company as far as appears from our examination of those records.

Our audit was completed on 18 January, 1999 and our qualified opinion is expressed as at that date.

PricewaterhouseCoopers
by S. C. Beach
Registered under the Accountants Registration Act (1996)
Port Moresby,
on this 18th day of January, 1999.

Statement of Cash Flows

Bougainville Copper Limited
year ended 31 December, 1998

	1998 K'000	1997 K'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers	**(4 910)**	(4 824)
Interest received	**11 289**	5 991
Income tax paid	**–**	(2 329)
Net operating cash flows	**6 379**	(1 162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property, plant and equipment	**1988**	20
Purchase of fixed assets	**(6)**	-
Net investing cash flows	**1982**	20
NET INCREASE/(DECREASE) IN CASH HELD		
Net cash flow	**8 361**	(1 142)
Cash at beginning of year	**62 981**	64 078
Effect of exchange rate changes on cash held	**481**	45
Cash at end of year	**71 823**	62 981

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.

For, and on behalf of, the board.

B. L. Cusack
Chairman

M. A. Moramoro
Director

18 January, 1999.