Balance Sheets

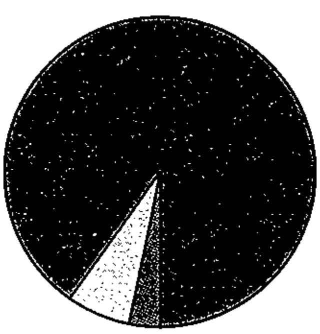
at 31 December, 1990
Bougainville Copper Limited

	Notes	Consolidated 1990 K'000	Consolidated 1989 K'000	Bougainville Copper Limited 1990 K'000	Bougainville Copper Limited 1989 K'000
Funds employed by the group:					
Shareholders' funds					
Paid up capital	12	**401 063**	401 063	**401 063**	401 063
Asset revaluation reserve		**31 276**	31 276	**31 276**	31 276
Retained earnings		**118 723**	133 308	**118 711**	133 295
		551 062	565 647	**551 050**	565 634
Non-current liabilities					
Income tax	3	**6 759**	7 088	**6 759**	7 088
Deferred income tax liability	3	**40 804**	42 589	**40 804**	42 589
Provision for long service leave		**133**	7 263	**133**	7 265
		47 696	56 940	**47 696**	56 942
Current liabilities					
Creditors	7	**9 494**	38 426	**9 490**	38 418
Income tax		**2 314**	4 376	**2 309**	4 370
		11 808	42 802	**11 799**	42 788
Total funds		**610 566**	665 389	**610 545**	665 364
These funds are represented by:					
Non-current assets					
Future income tax benefit	3	**–**	10 102	**–**	10 102
Investments	8	**–**	–	**205**	963
Property, plant and equipment	9	**545 858**	595 811	**545 858**	594 848
		545 858	605 913	**546 063**	605 913
Current assets					
Bank balances and short term deposits		**49 623**	11 897	**49 489**	11 872
Debtors for sale of concentrate		–	1 071	–	1 071
Other debtors	10	**4 854**	7 579	**4 762**	7 579
Stocks and stores	11	**10 231**	38 929	**10 231**	38 929
		64 708	59 476	**64 482**	59 451
Total assets		**610 566**	665 389	**610 545**	665 364

Details of commitments and contingent liabilities and assets are shown in notes 15 and 16.
All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted.
The notes commencing on page 9 form part of these accounts and are to be read in conjunction with them.

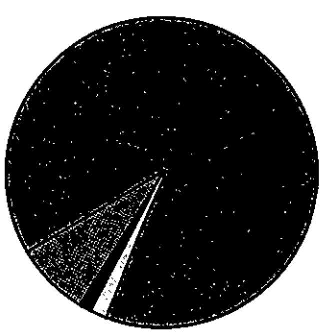
Simplified Balance Sheet

Total funds K610.6m.



- Shareholders' funds K551.1m.
- Creditors & current income tax K18.7m.
- Income tax deferred K40.8m.

Total assets K610.6m.



- Property, plant & equipment K545.9m.
- Stocks & stores K10.2m.
- Amount owed by debtors K4.9m.
- Cash at bank K49.6m.

1.(b) Accounting Policies (continued)

Exploration, Research and Development Expenditure:

Expenditure on exploration within the mining lease and on research and development is normally written off or provided for as incurred. No expenditure was incurred in 1990. Exploration has not been undertaken outside the mining lease.

Repairs and Maintenance:

Expenditure on repairs and maintenance during normal production is charged against income as incurred. Those costs which were connected with the attacks on company facilities referred to above were classified as extraordinary items in 1989.

Valuation of Stocks and Stores:

Stores are valued at weighted average cost, excluding transportation costs less a provision for obsolete stores. In 1990 a write-off has been made in respect of deterioration and pilferage of stores which, as explained above, has been classified as an extraordinary item. Concentrate stocks are valued at the lower of direct production cost or net realisable value. Cost includes direct materials, services and overheads, but excludes depreciation and indirect overheads.

Net Sales Revenue:

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, as no shipments took place in 1990. 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 in the 1990 accounts pending the development of a clearer view of the timing of recommencement of operations, and so have been treated as extraordinary items.

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.

Subsidiaries:

The company has two wholly owned subsidiaries. BCL (Hong Kong) Limited, incorporated in Hong Kong, was used to arrange shipping contracts on behalf of the company, but is now inoperative, as is BCL Services Pty Ltd, incorporated in Australia. These companies have been consolidated in accordance with conventional consolidation principles.

Settlement of Insurance Litigation

As explained in the notes to the 1989 accounts, claims were instituted by the company against its insurers for material damage and business interruption losses incurred in 1989. On 22 February, 1990 the company and the insurers reached agreement in principle to settle the litigation in respect of those claims on payment of A$102.5 million (K76.3 million) to the company on or before 5 April, 1990, with the parties bearing their own legal costs.

That sum was received by the company and brought to account as income when received in 1990. Because of its materiality and its relationship to costs and losses incurred in 1989, that sum has been classified as an extraordinary in 1990.

	Consolidated		Bougainville Copper Limited	
	1990	1989	**1990**	1989
	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	**3 677**	8 679	**3 677**	8 679
Expenses:				
Interest — on long term loans and standby facilities	**465**	35	**465**	35
— other	**112**	119	**112**	119
Provision for doubtful debts in respect of other debtors	**163**	197	**163**	197
Bad debts in respect of other debtors	**352**	8	**352**	8
Depreciation (Notes 1(a) and 4)				
— on buildings	**–**	18 575	**–**	18 575
— on plant, machinery and equipment	**–**	26 964	**–**	26 626
Amortisation (Notes 1(a) and 4)				
— of mine property	**–**	1 770	**–**	1 770
Loss/(profit) on disposal and retirement of fixed assets	**(371)**	(51)	**97**	(51)
Research and development expenditure	**–**	416	**–**	416
Directors' emoluments (Note 13)	**27**	24	**27**	24
Auditors' remuneration — auditing the accounts	**30**	177	**30**	175
— other services	**7**	24	**7**	24
(The auditors have received no other benefits)				

Declarations

Statement by Directors

The accounts of the company have been prepared using the basis of valuation described in note 1 to the accounts. If the mine is re-opened by the company within a reasonable time, continued use of that method of valuation would be appropriate. However, if the company is ultimately unable to recommence operations successfully a major reduction in the value of the company's assets as disclosed in the accounts would be necessary. For these reasons the directors are unable to determine if the carrying value of the assets is or is not included in the accounts on an appropriate basis of valuation.

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 subsidiaries 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 subsidiaries at the end of that period.

Signed at Port Moresby on this 12th day of February, 1991.
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 subsidiaries 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 12th day of February, 1991.
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 6 to 13 in accordance with generally accepted auditing standards.

2. These accounts have been prepared with the inclusion of the company's assets at their current book value, without any separate provision having been made for the indeterminate level of deterioration, damage and pilferage of mine assets which is expected to have occurred in 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. In the absence of reliable information on these matters, directors believe there is no suitable alternative to retaining the company's assets at their current book values, pending the recommencement of operations at the mine. In arriving at those current book values, directors have continued to provide normal depreciation on property, plant and equipment as a substitute for any required write-off for deterioration, damage and pilferage, and have also written off estimated losses on stores.

4. In our opinion, the provision for normal depreciation is not an appropriate alternative for the provision which needs to be made for actual losses due to the deterioration, damage and pilferage of mine assets in 1990. 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, and so the provision made by directors in 1990 may, or may not, be adequate for this purpose.

5. If the Panguna mine is re-opened by the company within a reasonable time, it would be appropriate, in our opinion, to include the company's mine assets in the accounts at their book value at the date of withdrawal of company personnel from Bougainville early in 1990, less a write-off to reflect the deterioration, damage and pilferage of those assets which has occurred since that date.

6. 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.

7. For the reasons set out above we are unable to form an opinion as to whether or not property, plant and equipment of K546 million and stores of K10 million are included in the accounts on an appropriate basis of valuation. 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), we are unable to express an opinion on what their carrying value should be at 31 December, 1990.

8. These assets (which represent 90% of the book value of total assets and exceed the book value of net tangible assets) are of such fundamental importance to the presentation of the accounts, that we are consequently 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, 1990 and the results for the year ended on that date.

9. In our opinion, except that the records of property, plant and equipment and of stores, are unlikely to 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 12th day of February, 1991.

Statistical Summary

		1990	1989	1988	1987	1986	1985
Financial							
Earnings (K million)							
Net sales revenue and other income*****		**80.2**	231.6	493.4	415.4	342.7	317.6
Operating and other expenses****		**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		**(8.1)**	2.6	204.7	138.5	71.7	48.5
Exchange gains/(losses)		**(0.5)**	2.5	(2.9)	5.7	2.3	(1.4)
Earnings/(loss) before taxation		**(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)		**(14.6)**	(20.6)	108.6	93.6	45.3	28.1
Dividends		**–**	–	108.3	92.2	44.1	28.1
Earnings retained		**(14.6)**	(20.6)	0.3	(1.8)	1.2	–
Balance sheet (K million)							
Property, plant and equipment		**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		**64.7**	59.5	250.1	260.3	190.1	160.4
Total assets		**610.6**	655.3	822.3	788.8	740.9	719.1
Shareholders' funds		**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		**47.7**	46.9	23.7	24.8	48.1	52.4
Current liabilities		**11.8**	42.8	212.2	177.7	108.3	86.1
Funds employed		**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$/Kina exchange rate		**1.05**	1.17	1.16	1.10	1.03	1.00
Average metal prices							
LME copper	(USc/lb)	**119.8**	129.0	117.9	81.0	62.3	64.3
London gold market	(US$/oz)	**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
Number of shareholders at end of year		**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		**13**	330	610	699	706	704
National		**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 and 1990 include extraordinary items of K26.1 million and K28 7 million respectively
***** 1990 includes extraordinary items of K76.3 million for insurance litigation settlement and K51.5 million for depreciation.

this growth sprang not only from the income generated by the mine, but also from provision of infrastructure by BCL, particularly roads, which led to a rapid increase in land devoted to cash cropping.

Among provincial governments in PNG the North Solomons was considered to be possibly the most progressive and well run. Its ability to provide services to the inhabitants of the North Solomons rested partly upon the royalties and taxes paid by BCL, which made up over 40% of provincial government revenue in 1988.

An independent report commissioned by the North Solomons Provincial government in 1982 indicated that the economic benefit to the North Solomons Province was substantially more than this with 25% of the wealth generated staying in the province, and 45% going to the rest of PNG.

In the 1980s provincial government revenue grew at about 15% per annum largely because businesses dependent on BCL provided it with an expanding tax base. In 1988 two hundred businesses provided services to BCL. In that year for example, K30 million worth of work was awarded to national companies, of which K10 million went to Bougainvillean companies and K1 million to landowners' enterprises.

BCL actively encouraged nationally owned businesses to provide a number of services such as transport, security, building, and the supply of garden produce. The North Solomons Provincial government saw that there were opportunities for larger, more complex businesses — many run in partnership with non-Bougainvilleans — and incorporated the Bougainville Development Corporation to develop such opportunities. Companies were formed to promote a provincial commuter air service, a steel fabrication operation, a catering service, a furniture manufacturing business and a lime processing plant.

At a conservative estimate, 4000 people were employed in businesses mainly dependent on BCL contracts. In all, about 30,000 depended directly or indirectly for their livelihoods on the Panguna mine.

The impact of the mining operation has undoubtedly been most severe on the 5000 local people who live on land within the company leases — particularly those who have rights to the 0.5% of the island directly affected by the mining operation. Nevertheless, some of the K24 million paid out under a series of comprehensive compensation agreements has provided the seed money for local enterprises that must evolve if the province is to meet the expectations of its very rapidly growing population.

A comparison of compensation rates carried out in 1988 showed that all the major PNG mines paid rates well in excess of statutory requirements. BCL rates have been, however, consistently the highest. The company has continued to set aside those compensation payments and has placed them in a separate interest bearing account pending restoration of normal conditions on the island.

BCL has contributed substantially to the local community. It provided the original funding, and substantial subsequent funds, for the Bougainville Copper Foundation, so that the foundation could, within Papua New Guinea:

- make grants and donations for charitable, public, scientific, educational and artistic purposes;
- assist and promote participation by Papua New Guineans in commerce, services and industry;
- provide medical, educational and welfare services; and
- assist in the provision of training in professional, commercial, agricultural and industrial skills.

The activities of the foundation are administered by an executive committee (of which majority membership must be Papua New Guinea citizens) — including representatives from national and provincial governments, the North Solomons community and the company.

Since the withdrawal of the national government presence from Bougainville in early 1990, the foundation's medical clinic has continued to operate as the only medical facility in Arawa — a great tribute to its medical and nursing staff.

The problems that a large mine can cause have been searchingly discussed, but the benefits that its presence brings have been under reported. The task of providing a stable economic base for the development of the North Solomons Province must eventually be faced, unless the people are prepared to accept a marked drop in their standards of living, education and health services. The mine has powered the province's economy for nearly two decades and it can do so again.

The knowledge and experience gained over the past 17 years of operation — and the lessons learned — are priceless assets which do not appear on any balance sheet. Like the physical assets of the mine, however, they will deteriorate over time. It is in everybody's interest to commence the difficult task of reconstructing the province's economy before those assets are further diminished.