

from USA, Chile and Australia. The price remained at or about US\$1.00 in volatile trading until mid-August when it became apparent that, far from rising, stocks were returning to January levels. Prices peaked at over US\$1.68 in December. The overwhelming reason for buoyant copper prices was that global economic and particularly industrial growth was far in excess of general expectations. Copper metal supplies from Zambia, Peru and Chile were below expectations in 1988.

Gold prices have been in a down trend having started the year at \$485, per ounce partly due to higher interest rates and the stabilisation of the US dollar and partly influenced by the increasing production in Canada, USA and Australia. The lowest price for the year of US\$395 was recorded during September, closing at around US\$400 at the end of December. Prices would perhaps have dropped further but for the strong buying in East Asia.

Finance:

The Kina is set daily based on a fixed basket of currencies. At the beginning of 1988, a "modest technical adjustment" was made to the basket which had the effect of devaluing the Kina by around 4%. The basket appears heavily weighted towards the Australian dollar and as this strengthened the Kina rose from US\$1.14 to US\$1.21.

The Company has an exceptionally strong balance sheet; loans are negligible, cash balances are high, and a competitively priced US\$115 million loan facility is in place to allow continued capital investments. During the year uncommitted Bankers Acceptance lines were reduced from US\$170 million to US\$130 million reflecting a tightening of PNG international credit.

Personnel:

The total number of direct Company employees at the end of 1988 was 3 560 (1987: 3 724) including 2 950 (1987: 3 025) citizens of Papua New Guinea.

The Company training and development programs are designed to ensure that optimum use is made of human resources. To this end, the Company has 19 Papua New Guineans currently studying overseas with this total increasing to 24 in 1989.

A further 49 Papua New Guineans were sponsored to undertake formal studies within Papua New Guinea. In the light of Prime Minister Namaliu's recent call for the private sector to

make an increased contribution to the professional education of PNG citizens, Bougainville Copper is clearly leading the way.

The 1988 internal Company training programs covered 422 employees, including 281 apprentices, and 40 graduate trainees. A total of 75 apprentices received their indentures in 1988. In addition, 533 employees attended internal supervisory and management courses.

Eleven Company apprentices competed commendably in the 1988 International Work Skills Olympics in Sydney. It is hoped to send a team to the next competition in Birmingham, England.

Occupational health and safety programs continued in 1988 with increasing numbers participating in Company sponsored personal fitness activities. The Company is justifiably proud of its safety record with the year showing another significant reduction in work-related injuries.

Environmental:

As part of normal operations, the Company continued the research and monitoring programs for the rehabilitation of the Jaba River system and Empress Augusta Bay. Increasing emphasis will be placed on the opportunities for rehabilitation created by the tailings pipeline, scheduled for commissioning late in 1989.

Late in 1988, an independent consulting group was appointed by the Government to review the social, environmental and economic impact of the Company's operations on Landowners within the mine lease areas and make recommendations accordingly. Although by design excluding the economic impact of the Company across the Nation and the Province, nevertheless the study should provide an important contribution to the current debate on mining in Papua New Guinea.

Community Relations:

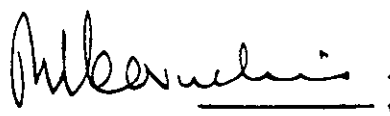
The Company makes cash payments to local Landowners by way of restitution for various losses associated with the operations of the mine. The amounts paid in 1988 totalled K1.5 million. The level of payments is based on a 1986-1990 Agreement with the Landowners, and is well in excess of amounts required by legislation.

In August, the Company and Landowners developed a K3 million program of works for the next two to three years. This latest program includes bridges, crossings, major

roads to some isolated villages plus upgraded water supplies to some villages around the mine. Sabotage slowed progress on some projects late in the year although work on water supplies and crossings was satisfactory.

Royalties paid amounted to K6.0 million in 1988. The Provincial Government share of this benefit was K5.7 million, with the remaining K0.3 million being paid to the Landowners.

The Bougainville Copper Foundation, a charitable organisation established by the Company in 1971 and supported subsequently, continued its community development activities with emphasis in the North Solomons Province. As a result of its long-term investments, the Foundation is largely self supporting, although it has been decided that the Company should continue financial support for the time being. In 1988 this amounted to K0.5 million. It is expected that with continued good performance of the Foundation investments, this support will gradually reduce over the next few years.



R.J. Cornelius

Managing Director
14 February, 1989

B

alance Sheets

at 31 December, 1988
Bougainville Copper Limited

		Consolidated		Bougainville Copper Limited	
	Notes	1988 K'000	1987 K'000	1988 K'000	1987 K'000
Funds employed by the group:					
Shareholders' funds					
Paid up capital	4	401 063	401 063	401 063	401 063
Asset revaluation reserve		31 276	31 276	31 276	31 276
Retained earnings		153 917	153 615	153 903	153 605
		586 256	585 954	586 242	585 944
Exchange fluctuation	5	158	251	158	251
Non-current liabilities					
Deferred income tax liability	3	22 590	23 276	22 590	23 276
Loans	6	—	1 437	—	1 437
Provision for long service leave		10 307	7 758	10 307	7 758
		32 897	32 471	32 897	32 471
Current liabilities					
Loans	6	1 348	1 437	1 348	1 437
Creditors	7	54 070	51 782	54 067	51 763
Income tax		96 593	48 245	96 593	48 245
Dividends payable		60 159	76 202	60 159	76 202
		212 170	177 666	212 167	177 647
Total funds		831 481	796 342	831 464	796 313
These funds are represented by:					
Non-current assets					
Future income tax benefit	3	9 164	7 423	9 164	7 423
Investments	8	156	756	1 517	2 001
Property, plant and equipment	9	570 039	527 827	568 678	526 251
Loan	12	2 000	—	2 000	—
		581 359	536 006	581 359	535 675
Current assets					
Bank balances and short term deposits		74 122	78 521	74 105	78 486
Debtors for sale of concentrate		107 234	112 275	107 234	112 275
Other debtors	10	13 921	10 910	13 921	11 247
Stocks and stores	11	54 845	58 630	54 845	58 630
		250 122	260 336	250 105	260 638
Total assets		831 481	796 342	831 464	796 313

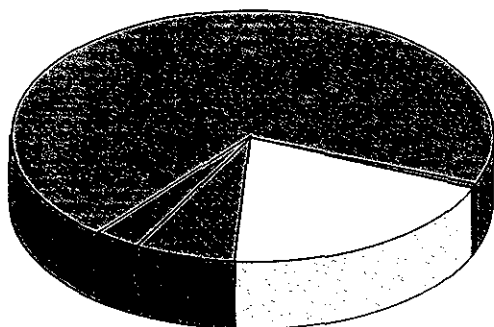
Details of commitments and contingent liabilities and assets are shown in notes 14 and 15.

All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted.

The notes commencing on page 20 form part of these accounts and are to be read in conjunction with them.

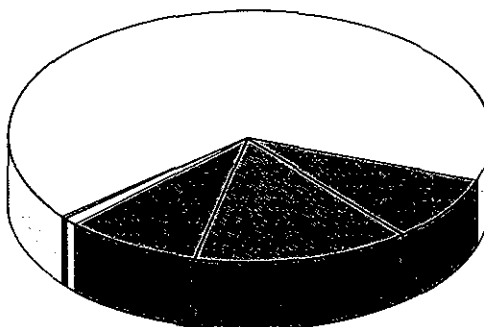
Simplified Balance Sheet

Total funds K831.5m.



- Shareholders' funds K586.2m.
- Borrowings & exchange fluctuation K1.5m.
- Creditors & current income tax K161.0m.
- Dividends payable K60.2m.
- Income tax deferred K22.6m.

Total assets K831.5m.



- Property, plant & equipment K570.0m.
- Stocks & stores K54.8m.
- Amount owed by debtors K121.2m.
- Cash at bank K74.1m.
- Income tax benefits not yet realised K9.2m.
- Loans & investment K2.2m.

Notes to the Accounts

These notes form part of the 1988 accounts and consolidated accounts of Bougainville Copper Limited and should be read in conjunction with them.

1. Statement of significant accounting policies

The principal accounting policies adopted in the preparation of the Group accounts are stated to assist in a general understanding of the financial statements.

The policies generally comply with Australian Accounting Standards and conform in all material respects with International Accounting Standards which have been adopted in Papua New Guinea. They are consistent with those adopted in the previous year unless otherwise stated.

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:

Depreciation and amortisation are determined by dividing the written down value of assets by their remaining useful life or the estimated remaining life of the mine whichever is the lesser. Depreciation commences in the month following commissioning ready for use. Following a review of ore resources, there has been a change in the remaining life of the mine for the purpose of providing for depreciation. Depreciation rates have been revised for appropriate assets. Had there been no revision, an additional K6.2 million would have been charged against earnings this year.

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. Exploration has not been undertaken outside the mining lease.

Repairs and Maintenance:

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

Valuation of Stocks and Stores:

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. Stores are valued at weighted average cost, excluding transportation costs, less an allowance for inventory writedown.

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 outturn adjustments are recognised in the following year. Unrealised gains and losses on forward metal sales, not related to shipments, are included in earnings before tax.

Taxation:

Tax effect accounting procedures are followed. The current liability for income tax is based on estimated taxable income for the year. The components of this taxable income 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.

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, arranges shipping contracts on behalf of the Company. BCL Services Pty Ltd, incorporated in Australia, leases an aircraft to the Company. These companies have been consolidated in accordance with conventional consolidation principles.

	1988		1987	
	Company	Related Corporations	Company	Related Corporations
	K'000	K'000	K'000	K'000
13. Directors' emoluments				
The total of the emoluments received, or due and receivable (whether from the Company or from related corporations) by:				
(a) Directors of the Company engaged in the full-time employment of the Company or its related corporations (including all bonuses and commissions received or receivable by them as employees but not including the amount received or receivable by them by way of fixed salary as employees), was	—	—	—	—
(b) other Directors of the Company, was	24	—	15	—
No commissions for subscribing for, or agreeing to procure subscriptions for any shares in or debentures of the Company or any related corporations, were received or are due and receivable by any Director.				

14. Commitments

Approved capital expenditure

(a) Committed	114 000	6 000	114 000	6 000
(b) Uncommitted	32 500	111 000	32 500	111 000
	146 500	117 000	146 500	117 000

Operating lease commitments not reflected in the financial statements	6 330	3 126	6 330	3 126
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15. Contingent liabilities and assets

Bougainville Copper Limited is contractually obliged to reimburse Shell Papua New Guinea Pty Limited for any retail sales tax payable by Shell on petroleum products sold to the Company. A claim for retail sales tax amounting to approximately K4 663 000 has been lodged by the North Solomons Provincial Government. However, the validity of the tax is being disputed by both Shell Papua New Guinea Pty Limited and the Company.

The Company has lodged a claim with its insurers for property damage and business interruption losses caused by the attacks on Company property in November and December 1988.

16. Mining tenements

The Company holds 100% interest in leases: 1, B9, B6, B8, B7, B10, B3; and prospecting authorities: 1, 2, 3, 4, 5, 6, 7A and 7B on Bougainville Island.

17. Holding company

The holding company is CRA Limited (incorporated in Australia).

D eclarations

Statement by Directors

In the opinion of the Directors of Bougainville Copper Limited the accompanying statements of earnings and funds statements are drawn up so as to 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 and the accompanying balance sheets are drawn up so as to 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 Panguna this 14th day of February, 1989.

On behalf of the Board
D. S. CARRUTHERS
Chairman.
R. J. CORNELIUS
Managing Director.

Declaration by Secretary

I, Geoffrey William Ewing, Secretary of Bougainville Copper Limited, do solemnly and sincerely declare that the accompanying balance sheets, statements of earnings and funds statements of the Company and its subsidiaries 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 the statements contained herein to be true in every particular.

Declared at Panguna this 14th day of February, 1989.

G. W. EWING
Secretary.
Before me:
M. S. LELA
Commissioner for Oaths.

Auditors' Report to the Members

We have audited the balance sheets, statements of earnings and the funds statements (the accounts) set out on pages 17 to 24 in accordance with generally accepted auditing standards.

In our opinion:

(a) the accounts are properly drawn up in accordance with the Companies Act (Chapter 146), and so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December, 1988, and are in accordance with generally accepted accounting standards;

(b) the accounting and other records, including registers, examined by us have been properly kept in accordance with the Act.

COOPERS & LYBRAND

by B. J. Davies
Registered under the Accountants Registration Act (Chapter 89),
Panguna, on 14th day of February, 1989.

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Statistical Summary

	1988	1987	1986	1985	1984	1983
Financial						
Earnings (K million)						
Net sales revenue and other income	493.4	415.4	342.7	317.6	310.9	392.9
Operating and other expenses	244.8	227.5	223.7	221.5	234.8	228.1
Depreciation	43.9	49.4	47.3	47.6	46.5	47.0
Earnings before taxation and exchange gains	204.7	138.5	71.7	48.5	29.6	117.8
Exchange gains/(losses)	(2.9)	5.7	2.3	(1.4)	(2.8)	(16.3)
Earnings before taxation	201.8	144.2	74.0	47.1	26.8	101.5
Taxation	93.2	50.6	28.7	19.0	15.2	46.9
Net earnings	108.6	93.6	45.3	28.1	11.6	54.6
Dividends	108.3	92.2	44.1	28.1	16.0	52.1
Earnings retained	0.3	(1.8)	1.2	—	(4.4)	2.5
Balance sheet (K million)						
Property, plant and equipment	570.0	527.8	550.1	558.5	576.2	594.9
Investments and loans	2.2	0.7	0.7	0.2	0.2	0.3
Current assets	250.1	260.3	190.1	160.4	152.9	185.3
Total assets	822.3	788.8	740.9	719.1	729.3	780.5
Shareholders' funds	586.2	586.0	587.7	586.5	586.5	590.9
Exchange fluctuation	0.2	0.3	(3.2)	(5.9)	(5.3)	(4.7)
Long term liabilities	23.7	24.8	48.1	52.4	52.5	51.6
Current liabilities	212.2	177.7	108.3	86.1	95.6	142.7
Funds employed	822.3	788.8	740.9	719.1	729.3	780.5
Production/Sales						
Mined						
Ore and waste removed (millions of tonnes)	89.78	83.53	79.16	73.62	74.74	81.00
Ore milled (millions of tonnes)	47.69	48.20	47.89	50.07	46.52	47.73
Ore grade						
Copper (per cent)	0.41	0.41	0.42	0.42	0.42	0.46
Gold (grams/tonne)	0.41	0.43	0.48	0.42	0.48	0.55
Produced						
Concentrate (thousands of dry tonnes)	552.0	585.5	586.6	581.8	542.3	636.9
Contained copper (thousands of dry tonnes)	166.0	178.2	178.6	175.0	164.4	183.2
Concentrate grade						
Copper (per cent)	30.1	30.4	30.5	30.1	30.3	28.8
Gold (grams/tonne)	25.1	25.8	27.9	24.7	28.9	28.3
Silver (grams/tonne)	87.7	86.4	85.9	79.3	81.9	74.4
Shipped						
Total concentrate (thousands of dry tonnes)	570.8	567.6	589.4	560.0	550.8	636.1
Destination:						
Japan (per cent)	45.4	32.6	43.2	44.1	51.9	47.0
Other Asian (per cent)	23.4	33.5	15.4	15.7	12.3	11.0
Europe (per cent)	27.7	33.9	41.4	40.2	35.8	42.0
All Other (per cent)	3.5	0.0	0.0	0.0	0.0	0.0
Values						
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	561.0	489.4	417.9	381.3	373.4	454.6
Contribution by:						
Copper (per cent)	68	60	54	61	53	52
Gold (per cent)	30	38	44	37	45	46
Other						
US\$/Kina exchange rate	1.16	1.10	1.03	1.00	1.11	1.19
Average metal prices						
LME copper (US\$/lb)	117.9	81.0	62.3	64.3	62.4	71.9
London gold market (US\$/oz)	436.8	446.7	367.9	317.3	360.8	423.5
Return on shareholders' funds (per cent)	18.5	16.0	7.7	4.8	2.0	9.3
Earnings per share*** (toea)	27.1	23.3	11.3	7.0	2.9	13.6
Dividends per fully paid share*** (par value K1.00) (1988 interim 12t/share) (toea)	27.0	23.0	11.0	7.0	4.0	13.0
Number of shares issued at end of year (millions)	401	401	401	401	401	401
Number of shareholders at end of year	21 966	22 650	24 680	27 117	30 435	32 834
Debt/equity ratio	.002/1	.004/1	0.05/1	0.06/1	0.09/1	0.10/1
Work force at end of year (in PNG)						
Overseas	610	699	706	704	749	751
National	2 950	3 025	2 993	2 948	2 987	3 058

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