

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

**Balance Sheet***Bougainville Copper Limited at 31 December 2007*

	Notes	2007 K'000	2006 K'000
<b>Funds employed:</b>			
<b>Shareholders' Funds</b>			
Ordinary shares	10	401,063	401,063
Asset revaluation reserve	8	31,276	31,276
Fair value reserve	11	86,859	64,654
Accumulated losses		(115,164)	(118,753)
		<b>404,034</b>	<b>378,240</b>
<b>Non-Current Liabilities</b>			
Provisions	6(b)	22,073	22,073
Other payables	6(b)	4,736	4,888
Income tax	4(b)	6,759	6,759
		<b>33,568</b>	<b>33,720</b>
<b>Current Liabilities</b>			
Trade payables	6(a)	1,137	1,318
<b>Total Funds</b>		<b>438,739</b>	<b>413,278</b>
<b>These funds are represented by:</b>			
<b>Non-Current Assets</b>			
Available-for-sale financial assets	3	204,739	176,620
Other receivables	9(b)	3,909	3,909
Mine assets	7	197,894	197,894
		<b>406,542</b>	<b>378,423</b>
<b>Current Assets</b>			
Cash and cash equivalents		358	1,352
Held-to-maturity financial assets		14,291	16,025
Other receivables	9(a)	17,548	17,478
		<b>32,197</b>	<b>34,855</b>
<b>Total Assets</b>		<b>438,739</b>	<b>413,278</b>

*Details of contingent liabilities and assets are shown in Note 13. All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The Notes on pages 16 to 22 form part of these accounts and are to be read in conjunction with them.*

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

**Notes to Accounts**

*These notes form part of the 2007 accounts of Bougainville Copper Limited and should be read in conjunction with them.*

The principal accounting policies applied in the preparation of these financial statements are set out below. Accounting policies relevant to mining operations are not presented due to mining operations having ceased in 1990. These policies have been consistently applied to all years presented, unless otherwise stated.

**1.(a) Basis of Preparation**

The financial statements of Bougainville Copper Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and the PNG Companies Act 1997. The financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the accounting policy note on significant risks and uncertainties.

**1.(b) Accounting Policies****Mine Assets:**

As a consequence of cessation of mining activities in 1990, an impairment loss of K350 million was made for deterioration, damage or pilferage of company assets on Bougainville. The accuracy of that provision cannot be proved because of 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 impairment loss has been made since 1991. The Directors consider that any further review of the impairment loss 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 4. 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 Translation:****(i) Functional and presentation currency**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in PNG Kina, which is the company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and translation at year end exchange rates of monetary assets and liabilities determined in foreign currencies are recognised in the income statement.

**Provisions:**

Provisions for compensation, rehabilitation and stabilisation are recognised when the company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

**Investments:****(i) Available-for-sale financial assets**

Investments in marketable securities (shares in other corporations) are classified as "available-for-sale financial assets". Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. For investments that are actively traded in organised financial markets, fair value is determined by reference to the Australian Securities Exchange quoted market bid prices at the close of business on the balance sheet date.

(ii) **Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These are measured at cost with accrued interest included in other receivables.

**Cash and Cash Equivalents:**

Cash and cash equivalents comprises cash on hand, deposits held at call with banks, and bank deposits and treasury bills with original maturities of three months or less.

**Revenue Recognition:**

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

**Significant Risks and Uncertainties**

Mine production was suspended on 15 May 1989

because of attacks on employees. Following repeated instances of damage to mine facilities and the power line and further attacks on employees, it became necessary to evacuate all remaining company personnel from Bougainville early in 1990.

There continues to be considerable uncertainty surrounding the future of the Panguna mine. Since the withdrawal of company personnel from Bougainville was completed on 24 March 1990, there has been no care and maintenance of the company's assets. Considerable deterioration of the assets has occurred in the intervening period, because of this lack of care and maintenance, their exposure to the elements, vandalism, pilferage and militant action. However, as access to the mine site has not been possible, the extent of the necessary write-downs is not capable of reliable measurement or estimation.

With the passage of time, it is clear that a major write-down of assets from their pre-closure levels will be required. To allow for this future write-down, the directors made a impairment loss in 1991 for deterioration, damage and pilferage of K350 million, with this sum being classified as an extraordinary item.

The exact quantum of this provision should not be viewed as a precise calculation reflecting an accurate estimate of the present value of losses or likely costs of repair. Rather, the reduction in carrying value should be seen as a broad estimate of the total service potential likely to have been lost to the operation in respect of the whole inventory of assets carried in the books.

While 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 representatives is again possible. Accordingly, the 1991 provision may eventually prove to be above or below the sum that is necessary to reflect these losses. 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.

Refer to Note 9 and 13 for information regarding the company's ongoing tax dispute with the IRC.

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

**Independent Audit Report***Independent Audit Report to the Members of Bougainville Copper Limited***Report on the financial statements**

We have audited the accompanying financial statements of Bougainville Copper Limited which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is

sufficient and appropriate to provide a basis for our audit opinion.

**Bases for qualification**

The financial report of Bougainville Copper Limited for the year ended 31 December 2007 has been prepared with the inclusion of the company's mine assets at their 1 January 1991 book value, with a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in Note 1(b) to the accounts, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the company's assets on Bougainville. While the directors have made this impairment 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 representatives is again possible or when a reliable market price for the Panguna assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2007. However, as the actual extent of such impairment can only be established after the company regains access to the mine site or a reliable market price can be determined, we recognise that, at present, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision made by directors in 1991 may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount 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.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. The company's actual liability for these costs is subject to significant

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

## Statistical Summary

FINANCIAL	2007	2006	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>Earnings (K million)</b>																
Net sales revenue and other income*****	8.3	7.9	7.4	16.1	11.7	13.0	19.6	18.3	12.4	6.1	10.7	5.5	2.2	1.7	2.2	3.3
Operating and other expenses****	4.9	4.4	5.0	4.7	4.1	4.6	3.8	4.8	5.2	4.8	5.0	4.9	3.6	4.1	5.1	316.6
Depreciation*****	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings/(loss) before taxation and exchange gains	3.4	3.5	2.4	11.4	7.6	8.4	15.8	13.5	7.2	1.4	5.7	0.6	(1.4)	(2.4)	(2.9)	(313.3)
Exchange gains/(losses)	0.2	0.2	(0.4)	3.1	0.3	-	-	0.4	0.5	-	-	6.6	9.2	(0.3)	1.5	0.1
Earnings/(loss) before taxation	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)	(1.4)	(313.2)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional profits tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net earnings/(loss)	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)	(1.4)	(313.2)
Dividends paid	-	-	-	-	8.0	-	-	-	-	-	-	-	-	-	-	-
Earnings/(losses) retained	3.6	3.7	2.0	14.5	(0.1)	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)	(1.4)	(313.2)
<b>Balance Sheet (K million)</b>																
Property, plant & equipment	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	198.6	200.1	200.6	200.7	200.7	200.8	201.4	201.5
Investments and loans	204.7	176.6	128.2	121.2	18.9	3.1	-	-	-	-	-	-	-	-	-	-
Current and other non-current assets	36.1	38.7	31.7	31.4	119.4	135.4	131.0	114.4	100.7	87.7	85.4	76.0	65.6	56.2	56.8	56.5
Total assets	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0	258.2	258.0
Shareholders' funds	404.0	378.2	323.3	316.1	301.6	301.8	293.3	277.5	263.6	255.9	254.5	248.8	241.6	233.8	236.4	237.9
Exchange fluctuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	33.6	33.7	33.4	33.4	33.4	33.4	33.4	33.5	35.3	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Current liabilities	1.1	1.3	1.1	1.0	1.2	1.2	2.2	1.3	0.4	25.1	24.7	21.1	17.9	16.4	15.0	13.3
Funds employed	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0	258.2	258.0
<b>PRODUCTION / SALES</b>																
<b>Mined</b>																
Ore and waste removed (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore milled (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore grade																
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Produced</b>																
Concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contained copper (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Concentrate grade																
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Silver (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Shipped</b>																
Total concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Destination:																
Japan (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asian (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Values</b>																
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution by:																
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>OTHER</b>																
US\$/Kina exchange rate	0.3636	0.3344	0.33	0.30	0.25	0.26	0.36	0.39	0.48	0.69	0.76	0.79	1.01	1.02	1.04	1.05
Average metal prices																
LME copper (US\$/lb)	323.66	305.50	130.01	79.95	70.65	66.2	82.1	71.4	75.2	105.6	104.0	133.1	105.0	87.0	103.0	106.0
London gold market (US\$/oz)	691.00	602.00	409.55	363.89	310.14	276.5	280.0	280.0	294.0	335.3	387.0	384.5	384.0	360.0	344.0	362.2
Return on shareholders' funds (per cent)	0.888	0.967	0.60	4.6	2.6	2.8	5.4	5.0	2.9	0.5	2.2	2.9	3.2	-	-	-
Earnings per share*** (toea)	0.895	0.912	0.50	3.61	1.96	2.10	3.93	3.5	1.9	0.3	1.4	1.8	1.9	-	-	-
Dividends per fully paid share*** (par value K1.00) (toea)	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-
Number of shares issued at end of year (millions)	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401
Number of shareholders at end of year	-	15 698	16 072	16 374	16 519	16 812	17 021	17 260	18 183	18 182	18 041	18 452	18 765	19 189	19 851	19 982
Debt/equity ratio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workforce at end of year																
Overseas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	6
National	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	6

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 dividend figures for those years.

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

\*\*\* 1972 figure is for Bougainville Mining Limited

## BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

**Statement of Cash Flows***Bougainville Copper Limited year ended 31 December 2007*

	<b>2007</b> <b>K'000</b>	2006 K'000
<b><i>Cash flows from operating activities</i></b>		
Payments to suppliers	<b>(5,731)</b>	(4,359)
Interest received	<b>889</b>	943
Dividends received	<b>7,397</b>	6,351
Net operating cash flows	<b>2,555</b>	2935
<b><i>Cash flows from investing activities</i></b>		
Payments for purchase of shares in non-related entities	<b>(5,914)</b>	(3,178)
Proceeds from sale of shares in non-related entities	-	1,123
Increment in held-to-maturity investments	<b>(889)</b>	(837)
Proceeds from held-to-maturity investments	<b>3,355</b>	350
Net investing cash flows	<b>(3,448)</b>	(2,542)
<b><i>Net increase/(decrease) in cash and cash equivalents</i></b>		
Net cash flow	<b>(893)</b>	393
Cash and cash equivalents at beginning of year	<b>1,352</b>	847
Effect of exchange rate changes on cash and cash equivalents	<b>(101)</b>	112
Cash and cash equivalents at end of year	<b>358</b>	1,352

*All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The Notes on pages 16 to 22 form part of these accounts and are to be read in conjunction with them.*

For, and on behalf of, the board.



**P R Taylor**

Chairman & Managing Director

20 February 2008



**B R Alexander**

Director