

D/1274

Bougainville Copper Limited Annual Report 1977



Notice of Meeting

Contents

The Annual General Meeting of Bougainville Copper Limited is held at 10.00 a.m. on Wednesday 12th April, 1978 in the Conference Complex, Panguna, Bougainville, P.N.G.

A separate Notice of Meeting is enclosed. All shareholders are cordially invited to attend.

Bougainville Copper Limited produces a concentrate containing copper, gold and silver from its mine at Panguna in central Bougainville. The concentrate is pumped in slurry form to the Company's port at Anewa Bay where it is dried before being shipped overseas.

Results in brief

| | | 1977 | 1976 |
|-------------------------------------|------------|---------|---------|
| Sales to external customers | (K'000) | 200 578 | 205 349 |
| Net earnings after tax | (K'000) | 28 531 | 41 368 |
| Earnings per share | (toea) | 10.7 | 15.5 |
| Return on Shareholders' Funds | (per cent) | 9.2 | 13.7 |
| Dividends declared | | | |
| – gross dividends | (K'000) | 21 390 | 26 738 |
| – per share | (toea) | 8 | 10 |
| – times covered by earnings | | 1.3 | 1.6 |
| Depreciation | (K'000) | 36 203 | 31 103 |
| Government Royalties | (K'000) | 2 490 | 2 578 |
| Taxation | (K'000) | 13 724 | 20 303 |
| Shareholders' Funds | (K'000) | 309 656 | 302 515 |
| Number of employees | | 3 916 | 3 931 |

1977 Highlights

January: The eighth mine shovel was commissioned.

March: The copper price on London Metal exchange reached its year's high, equivalent to 70.3 US cents/lb.

April: US\$25 million raised by Eurobond issue.

May: A 1976 final dividend of K13 368 750 was paid to shareholders. Tenth ball mill was commissioned.

July: The ninth mine shovel was commissioned.

August: The Government announced the change in its fiscal year to start from 1st January, 1978.

The copper price on the London Metal exchange fell to its year's low, equivalent to 51 US cents/lb.

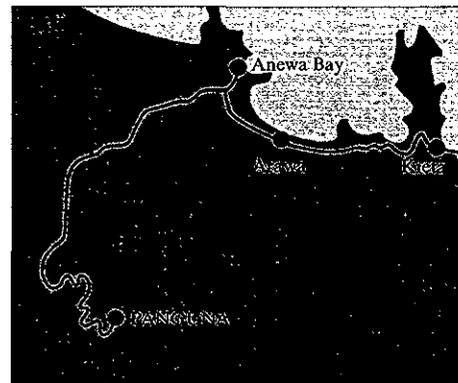
September: Construction of the pit drainage tunnel commenced.

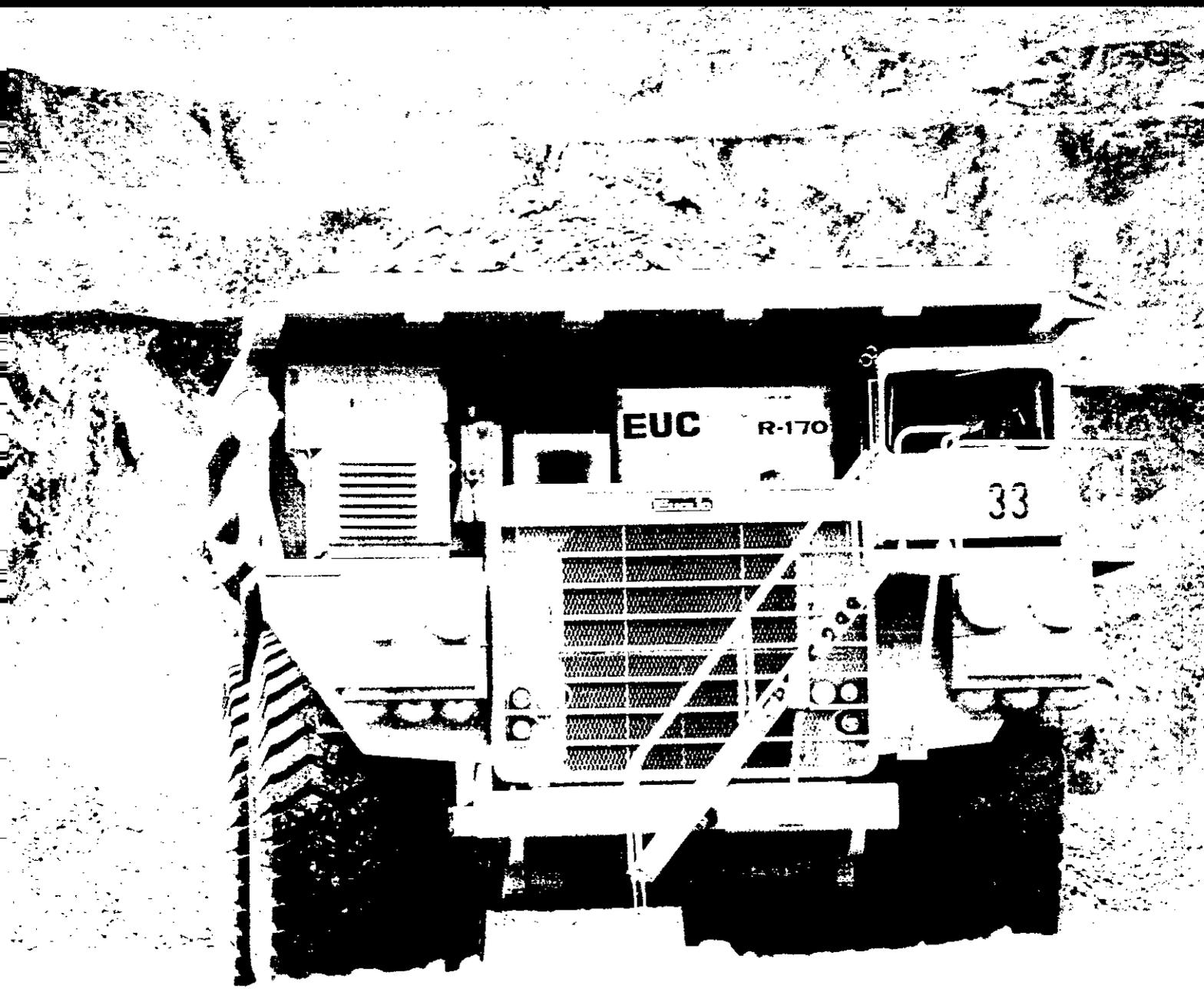
October: Commitment received from bankers for new loans of US\$60 million.

November: A 1977 interim dividend of K10 695 000 was paid to shareholders.

December: Shipments for the year totalled 614 819 dry tonnes of concentrate. Production of contained copper in concentrates totalled 182 291 tonnes.

Earnings for the year amounted to K28 530 923.





Directors

Officers

R170 HAUL TRUCK

Replacement of the original haul truck fleet with Euclid R170 haul trucks was completed during 1977. Thirty-seven trucks each with a capacity of 155 tonnes are now in service.

F. F. ESPIE, O.B.E.
(Chairman)

N. R. AGONIA

J. L. AUNA

R. H. CARNEGIE

B. E. FAIRFAX-ROSS, C.B.E.

P. W. QUODLING

J. T. RALPH

D. C. VERNON

Alternate Director

R. H. HARDING

Secretary

M. RANGAI

BOUGAINVILLE COPPER LIMITED
(Incorporated in Papua New Guinea)

Registered Office:
Panguna, Bougainville, P.N.G.

Share registers:
Melbourne: 95 Collins Street, Melbourne.
Canberra: 78 Northbourne Avenue, Canberra
City, A.C.T.
Panguna: Panguna, Bougainville Island, Papua
New Guinea.

United Kingdom: c/o Central Registration
Limited.

1 Redcliff Street, Bristol.

Stock Exchanges:
Listed on the principal exchanges
in all Australian states and New Zealand.

P. W. QUODLING
(General Manager)

J. D. ERICKSON
(Assistant General Manager)

J. R. TREZISE
(Assistant General Manager)

G. BILLARD
(Executive Manager – Commercial)

R. L. KAY
(Executive Manager – Mine)

Chairman's Statement



E. F. Espie, Chairman

The Company's net earnings in 1977 of K28 530 923 were K12 836 409 less than in the previous year. The year's average price for electrolytic copper wire bars on the London Metal Exchange was 7% less than in 1976 and this factor, combined with inflationary increases in operating costs, kept earnings at unsatisfactory levels.

1977 was marked by the inability of major Western countries to lift their economies above the depressed levels prevailing since 1973. Inflation rates were lower than in recent years, but still remained at unacceptable levels in many countries. Demand for consumer goods and services improved, but was not matched by growth in the capital equipment and construction industries, because of excess production capacity in many sectors. This lack of growth in the capital equipment and construction industries restricted demand for metals and kept metal prices at low levels.

The copper industry continues to produce at levels where consumption is insufficient to absorb high metal stockpiles. Current prices are the lowest in real terms for almost twenty years and recent estimates are that over 40% of

the Western world's producers are unable to cover their cash production costs. A number have closed down, particularly in North America and Australia. However a major problem exists with some developing countries, whose need for export revenue has caused them to continue to operate at maximum capacity. With the excess production capacity in the industry, high metal stocks and scheduled opening of new mines this year, copper prices are likely to stay at low levels for some time.

I referred in last year's Annual Report to attempts by the Governments of copper producing and consuming nations to establish a price stabilisation scheme for this commodity. Despite continued efforts on a number of fronts during the year, there has been a failure to agree and successfully introduce any such scheme. Because of the poor price outlook for copper, efforts to develop a viable scheme can be expected to continue. The Company will continue to monitor developments in consultation with the Papua New Guinea Government.

The Papua New Guinea Government's hard currency policy has assisted in keeping the level of inflation in the country at relatively

Average copper prices 1972-1977

| US c/lb |
|---------|
| 175 |
| 150 |
| 125 |
| 100 |
| 75 |
| 50 |
| 25 |
| 1972 |
| 1973 |
| 1974 |
| 1975 |
| 1976 |
| 1977 |

Average gold prices 1972-1977

| US \$/oz |
|----------|
| 175 |
| 150 |
| 125 |
| 100 |
| 75 |
| 50 |
| 25 |
| 1972 |
| 1973 |
| 1974 |
| 1975 |
| 1976 |
| 1977 |

Annual Average Quotation of Official London Metal Exchange Daily Cash Copper Wirebar Quotations. (Source: London Metal Exchange.)

Annual Average of Mean Price for Fine Gold on London Gold Market. (Source: Sharps Pixley and Company Limited, London.)

low levels. However, the establishment by the Government of new values of the kina on 9th January, 1978 meant that Papua New Guinea's currency has revalued by 11% against the US dollar since the beginning of 1977. As the Company's sales revenues are earned in US dollars, the hard currency policy reduces Company income. Benefit has been received from a reduction in the cost of imported goods and services, but this has been offset by the high inflation in supplier countries. Because of the low level of earnings it has been necessary to arrange additional borrowings to finance capital expenditure, working capital and loan repayments.

The Papua New Guinea Government plans to introduce new legislation in 1978 on the taxation of new mining projects. A Statement of Intent, entitled "Financial Policies Relating to Mining and Mining Tax Legislation", has been prepared and will form the basis of the proposed legislation. This will not affect the Company, which will continue to operate under the terms of the Bougainville Mining Agreement.

Following on the Papua New Guinea national elections held in mid 1977, the Government entered

into a policy of decentralisation. A Minister for Decentralisation was appointed and an Office of Implementation created within the Ministry of Decentralisation to co-ordinate the transfer of certain powers to provincial governments. The functions contemplated under the Organic Law on provincial governments, as well as certain other functions, were transferred to the provinces on 1st January, 1978.

The Province of the North Solomons, in which the Company operates, has been developing its activities throughout the year. The transfer of functions from the National Government on 1st January, 1978 will assist it to further establish its role. The Company looks forward to establishing a good working relationship with the Provincial Government.

The Directors wish to express their appreciation for the efforts of staff and employees during the year. Their contribution to increased efficiency and productivity has helped the Company to maintain its competitive position among the world copper producers.



F. F. Espie, Chairman.
7th February, 1978.

Sir Maurice Mawby C.B.E. 1904-1977

Your Directors wish to pay tribute to Sir Maurice Mawby who died in August, 1977. Sir Maurice was the Company's Chairman from the date of its establishment in 1967 until 1973 and played a leading part in its development.

His leadership and energy contributed greatly to making Bougainville one of the world's largest and most successful copper mines and his record of achievement in the development of other mining projects throughout the world is one which has rarely been equalled.

Sir Maurice was a friendly man who possessed a common touch and who was deeply respected throughout Papua New Guinea. In his passing we have lost a fine man and an outstanding leader.

Net sales revenue 1972-1977

| KM |
|-------------------------------|
| 380 |
| 240 |
| 200 |
| 160 |
| 120 |
| 80 |
| 40 |
| 1972 1973 1974 1975 1976 1977 |

Cost of sales 1972-1977

| KM |
|-------------------------------|
| 380 |
| 240 |
| 200 |
| 160 |
| 120 |
| 80 |
| 40 |
| 1972 1973 1974 1975 1976 1977 |

Net earnings & dividends 1972-1977

| KM |
|-------------------------------|
| 280 |
| 240 |
| 200 |
| 160 |
| 120 |
| 80 |
| 40 |
| 1972 1973 1974 1975 1976 1977 |

Net earnings
Dividends



Statistical Summary

| Mined | 1977 | 1976 | 1975 | 1974 | 1973 | 1972* |
|--|----------------|---------|---------|---------|---------|----------|
| Ore and Waste removed (millions of tonnes) | 70.79 | 58.54 | 56.40 | 56.00 | 56.65 | 46.75 |
| Ore Milled (millions of tonnes) | 34.11 | 31.21 | 31.08 | 30.14 | 29.14 | 21.89 |
| Ore Grade | | | | | | |
| Copper..... (per cent) | 0.61 | 0.64 | 0.64 | 0.70 | 0.73 | 0.76 |
| Gold..... (grams/tonne) | 0.90 | 0.87 | 0.80 | 1.02 | 1.03 | 0.77 |
| Silver..... (grams/tonne) | 1.86 | 1.96 | 1.87 | 2.12 | 1.99 | 2.06 |
| Produced | | | | | | |
| Concentrate (dry tonnes) | 615 605 | 596 838 | 595 498 | 640 818 | 650 172 | 438 115 |
| Contained Copper (tonnes) | 182 291 | 176 519 | 172 477 | 184 083 | 182 890 | 123 961 |
| Concentrate Grade | | | | | | |
| Copper..... (per cent) | 29.61 | 29.58 | 28.94 | 28.73 | 28.13 | 28.29 |
| Gold..... (grams/tonne) | 36.3 | 33.9 | 30.5 | 32.0 | 31.6 | 27.25 |
| Silver..... (grams/tonne) | 77.1 | 76.1 | 71.0 | 72.0 | 69.0 | 69.3 |
| Shipped | | | | | | |
| Total Concentrate (dry tonnes) | 614 819 | 605 793 | 586 947 | 665 702 | 625 227 | 434 387 |
| Shipped to: | | | | | | |
| W. Germany..... | 198 321 | 223 170 | 243 534 | 221 365 | 200 333 | 186 827 |
| Japan..... | 337 090 | 256 406 | 250 658 | 343 204 | 342 878 | 209 032 |
| Spain..... | 47 019 | 58 169 | 72 184 | 57 368 | 35 778 | 27 565 |
| Other..... | 32 389 | 68 048 | 20 562 | 43 765 | 46 238 | 10 963 |
| Received | | | | | | |
| Net Sales revenue (K'000) | 200 578 | 205 349 | 184 754 | 279 825 | 249 048 | 95 695 |
| Contribution by: | | | | | | |
| Copper..... | 114 699 | 142 021 | 117 505 | 194 159 | 203 422 | 75 226 |
| Gold..... | 81 282 | 59 253 | 63 706 | 81 417 | 43 623 | 19 328 |
| Silver..... | 4 597 | 4 075 | 3 543 | 4 249 | 2 003 | 1 141 |
| Other Statistics | | | | | | |
| Average Metal Prices | | | | | | |
| Copper – | | | | | | |
| L.M.E. cash sellers | | | | | | |
| price for electrolytic | | | | | | |
| wire bars (expressed in US\$/lb) | 59.3 | 63.6 | 55.9 | 93.3 | 80.9 | 48.6 |
| Gold – | | | | | | |
| Mean of London | | | | | | |
| Gold Market (US\$/oz.) | 147.8 | 124.8 | 160.9 | 158.7 | 97.3 | 58.2 |
| Silver – | | | | | | |
| Spot price, London | | | | | | |
| Silver Market (expressed in US\$/oz.) | 4.6 | 4.4 | 4.4 | 4.7 | 2.5 | 1.7 |
| Work force at 31st December (P.N.G.) | | | | | | |
| Overseas (number) | 853 | 858 | 942 | 980 | 929 | 971 |
| National..... (number) | 3 063 | 2 989 | 3 094 | 3 242 | 2 915 | 2 594 |
| Number of Shareholders at 31st December | 43 820 | 50 082 | 54 129 | 55 558 | 45 353 | 46 726** |
| Shareholders' Funds at 31st December (K'000) | 309 656 | 302 515 | 287 884 | 268 423 | 227 377 | 146 679 |
| Net Earnings (K'000) | 28 531 | 41 368 | 46 199 | 114 579 | 158 411 | 27 679 |
| Dividends in Respect of Year (K'000) | 21 390 | 26 738 | 26 738 | 73 528 | 80 212 | 11 000 |
| Return on Shareholders' Funds (per cent) | | | | | | |
| –before extraordinary item..... | 9.2 | 13.7 | 14.9 | 42.7 | 69.7 | 18.4 |
| –after extraordinary item..... | 9.2 | 13.7 | 16.0 | 42.7 | 69.7 | 18.4 |

NO. 10 BALL MILL

An additional ball mill (No. 10) was commissioned in May, 1977 to augment concentrator milling capacity. No. 10 mill has a length of 7.3 metres and a diameter of 5.5 metres and is driven by a 4100 kW motor (5500 h.p.).

NOTES:

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

** 1972 figure is for Bougainville Mining Limited.

Review of Operations



P. W. Quodling, General Manager

Measured Ore Reserves:

The diamond drilling programme within the Special Mining Lease continued during the year. Measured ore reserves at the end of 1977 were estimated to be approximately 760 million tonnes, averaging 0.45% copper and 0.51 grams of gold per tonne.

Production:

During 1977, a total of 70 789 200 tonnes of ore and waste was removed from the pit. The ore content of 34 111 600 tonnes was processed in the concentrator to produce 182 291 tonnes of contained copper in concentrates. Production statistics were as follows:

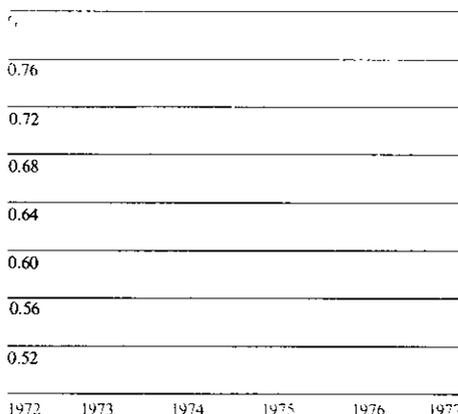
| Production: | Year Ended 31/12/77 | Year Ended 31/12/76 |
|--|------------------------|------------------------|
| Material Mined (millions of tonnes) | | |
| Ore | 34.11 | 31.21 |
| Waste | 36.68 | 27.33 |
| Waste/Ore ratio | 1.07/1 | 0.88/1 |
| Ore Grade | | |
| Copper (per cent) | 0.61 | 0.64 |
| Gold - grams/tonne | 0.90 | 0.87 |
| Silver - grams/tonne | 1.86 | 1.96 |
| Concentrate Produced (dry tonnes) | | |
| | 615 605 | 596 838 |
| Concentrate Grade | | |
| Copper (per cent) | 29.61 | 29.58 |
| Gold - grams/tonne | 36.3 | 33.9 |
| Silver - grams/tonne | 77.1 | 76.1 |
| Contained Metal in Concentrates | | |
| Copper - tonnes | 182 291 | 176 519 |
| Gold - kilograms | 22 374 | 20 221 |
| Silver - kilograms | 47 430 | 45 413 |

The increase in material mined reflected the commissioning of two extra shovels during the year and the replacement of the last R105 Euclid trucks of the obsolete fleet with electric wheel R170 Euclids. The quantity of waste removed was substantially greater than in previous years, as overburden was stripped in areas being developed for future mining. The average grade of copper in the ore declined as the mine advanced into low grade sections of the orebody.

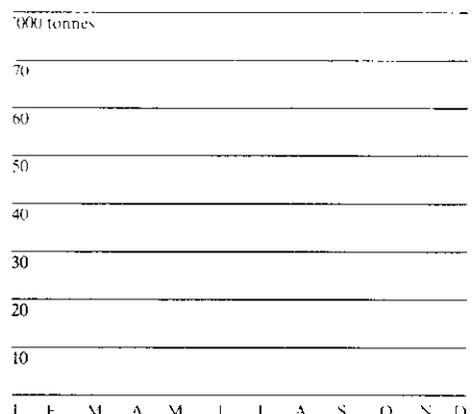
Concentrator throughput was increased with the commissioning of the tenth ball mill in May. This mill, which is 14% longer than those previously installed, is giving additional throughput commensurate with its extra length. The concentrator worked continuously throughout the year, apart from minor shutdowns for planned maintenance and modifications. A pilot plant commissioned late in the year successfully extracted copper from waste dump leach liquors by the cementation process.

Pressures continued on operating costs because of inflation in supplier countries and oil price rises. However, the effect of inflationary trends on production costs was offset to a significant extent by increases in plant capacity and improvement in equipment utilisation.

Copper ore grade 1972-1977



Monthly concentrate shipments 1977



Marketing:

Sales for 1977 totalled 614 819 dry tonnes of concentrate, containing 182 029 tonnes of copper, 22 333 kilograms of gold and 47 043 kilograms of silver. As in previous years, production was fully sold and Bougainville concentrates continue to be sought by potential buyers.

All commitments under long term contracts were fulfilled. The Japanese buyers returned to their full level of contractual deliveries and indicated their desire to take some tonnages, which were deferred from previous years' commitments, in 1978. A further spot sale was made to the People's Republic of China, which has expressed interest in arranging a long term contract.

Copper prices increased in the first quarter of the year, but continuing slow recovery by the major Western economies cut short the improvement. Prices dropped substantially to depressed levels in the second half of the year. The average London Metal Exchange cash sellers' price for electrolytic copper wire bars for 1977 was equivalent to US\$59.3 cents per pound compared with US\$63.6 cents per pound in 1976.

Demand for gold was strong, because of fluctuations of major currencies on foreign exchange



NORTH CHANNEL

Waste material is being dumped in the Kawerong Valley adjacent to the mine. The Kawerong River has been diverted through a concrete channel (left foreground) to permit dumping to continue. The flume to carry tailings from the concentrator can also be seen and the relocated Dapera village is at centre left. A cementation plant to recover copper leached from the waste dumps commenced operations towards the end of 1977.

Monthly average copper prices 1977

| U.S. c. lb |
|------------|
| 85 |
| 80 |
| 75 |
| 70 |
| 65 |
| 60 |
| 55 |

Monthly average gold prices 1977

| US\$ oz. |
|----------|
| 158 |
| 154 |
| 150 |
| 146 |
| 142 |
| 138 |
| 134 |

J F M A M J J A S O N D

U.S. equivalent Monthly Average Official London Metal Exchange Daily Cash Copper Wirebar Quotations

J F M A M J J A S O N D

Monthly Average of Mean Price for Fine Gold on London Gold Market.

(Source: Sharps Pixley and Company Limited, London.)

ASSEMBLY OF SHOVEL

Two additional P & M 2100 electric shovels were commissioned during 1977. Each shovel has a capacity of 11 000 tonnes per shift and weighs 425 tonnes. The shovels' components were shipped from Japan and assembled on site by B.C.L. tradesmen.



TRAINING VISITS TO BROKEN HILL. Training and staff development continued during 1977. A number of mine staff visited mining operations in Australia to observe different operating environments and techniques. More officers prepare to go underground during a visit to Broken Hill.

markets. The average gold price on the London Gold Market for 1977 of US\$147.9 per ounce was substantially above the 1976 average of US\$124.8 per ounce. Silver prices rose slightly to average US\$4.6 per ounce (US\$4.4 per ounce in 1976).

Finance:

The Company met its 1977 loan obligations by making principal repayments of K25.6 million and paying interest of K11.1 million.

New loan funds totalling K28 million were drawn down during the year to finance capital expenditure. An initial draw down of US\$10 million (K8.1 million) was made against a US\$18 million facility arranged in December 1976 for the replacement of haul trucks. A US\$25 million (K19.9 million) Eurobond issue was made in May 1977 by the Company's wholly owned subsidiary, Bougainville Copper Finance N.V.

The Company has need for additional borrowings in 1978 to finance capital expenditure and working capital requirements and to repay the long term Commonwealth Trading Bank loan of US\$67.4 million due in the first quarter. A commitment has been received from the Bank of America and Commonwealth Trading Bank of Australia that each will

provide an equal share of loan funds up to a total of US\$60 million before the end of 1978. Funds will be drawn down as required and repaid over seven years. An additional loan of \$A4.2 million was arranged with the Export Finance and Insurance Corporation to finance the purchase of replacement crushers.

Exchange Rates:

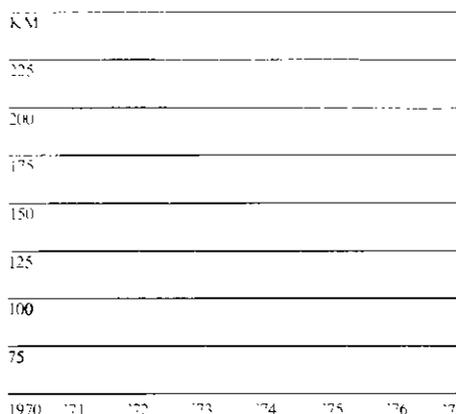
Papua New Guinea continued its hard currency policy for the kina in 1977, to reduce the effect of inflation on imported goods. Over the year the kina was revalued against the Australian dollar by 2% appreciating its value to A\$1.156 at year end.

Balance of payment deficits in the USA caused its currency to weaken and the kina effectively revalued by 7% to a year end value of \$US1.32. This movement decreased sales revenue, although some benefit was received from the reduction in debt servicing obligations and costs of imported goods.

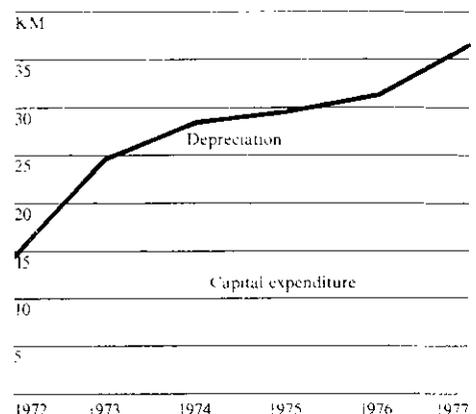
Capital Expenditure:

Capital expenditure totalled over K38 million for the year. A major emphasis was on the completion of the short term expansion in mine and concentrator capacity and the

Loans outstanding 1970-1977



Capital expenditure & depreciation 1972-1977



establishment of greater facilities to counter the long term decline in head grade. K6 million was spent completing the tenth ball mill and K2 million was spent on the haul truck replacement programme. Mining equipment costing K6 million was acquired to match mining capacity with that of the concentrator and to strip overburden from areas being developed for future mining. Additional housing and staff accommodation, costing K7 million was built. The pit gravity drainage scheme was commenced with expenditure of K2 million. This will enable the pit to be self draining. The project involves construction of a 6 kilometre tunnel to a level 300 metres below that of the present pit, with vertical connecting shafts.

At the end of the year, the workforce strength stood at 3 916, of which 3 063 were Papua New Guinea nationals.

Continued emphasis is being placed on the development of Papua New Guinea nationals in areas of greater responsibility within the Company. A number attended senior management and technical courses in Papua New Guinea and Australia. In addition visits were made to other mines in Australia to widen exposure to different types of operations.

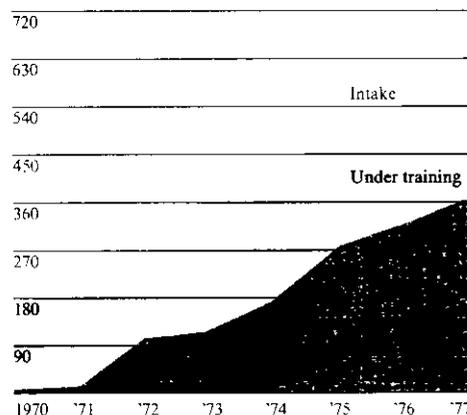


P. W. Quodling, General Manager.
7th February, 1978.

Staff Development:

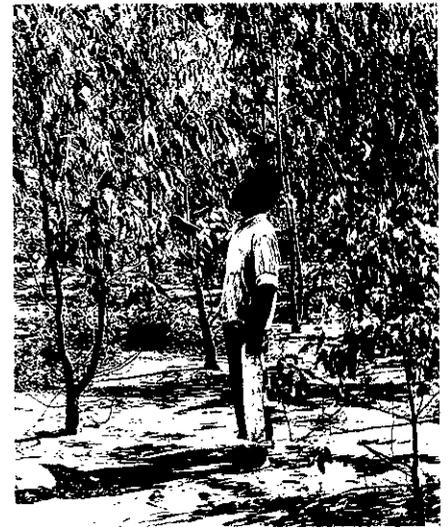
The Company's training programme has continued successfully. Over 300 tradesmen have now qualified through the Mine Training College and some 70% have remained with the Company either practising their trade or undertaking further training for supervisory functions. A further 280 are training under the apprenticeship scheme.

Apprentice training (accumulative)
1970-1977



ENVIRONMENT

Forest trees are successfully growing in tailings following corrections of nitrogen, phosphorus and boron deficiencies.



RESEARCH VESSEL

Offshore surveys are being conducted to examine the physical and biological aspects of marine tailings disposal. After positioning the vessel using radar, the water quality at a number of depths is automatically measured and recorded.

Directors' Report

To the Members:

Net Earnings:

The Company's net earnings for 1977 totalled K28 530 923 after providing K36 203 094 for depreciation and amortisation, K2 489 843 for royalties and K13 724 132 for income tax.

Capital:

There was no change in the Company's capital structure during the year. At 31st December, 1977, the paid up capital of the Company was K133 687 500 representing 267 375 000 shares on issue to shareholders.

Exchange Fluctuation:

Repayment of U.S. and Australian dollar loans during 1977 resulted in a realised exchange gain of K2 177 370 which has been credited to 1977 earnings. The balance of the Exchange Fluctuation account at 31st December, 1977, was K14 607 930, which represents the unrealised portion of gains on outstanding loans at the prevailing exchange rate on 31st December, 1977.

The revaluation of the kina on 9th January, 1978 does not have a material effect on the current assets and current liabilities converted from foreign currencies at 31st December, 1977 and has not been reflected in the financial accounts at that date.

Loans:

Loan repayments totalling K25 634 842 were made during the year. At 31st December, 1977, outstanding loans, totalling K115 675 628, were as follows:

- Credit Agreement — Seven Year Loans \$US67 400 000 (K51 060 606)
- Housing Loan (Papua New Guinea Banking Corporation) — K2 906 730
- International Westminster Bank — \$US5 000 000 (K3 787 879)

- Bank of America Housing Loan — \$US12 000 000 (K9 090 909)
 - Bank of America Syndicate — \$US9 000 000 (K6 818 182)
 - Japanese Cash Loan \$US9 000 000 (K6 818 182)
 - Japanese Equipment Loan — \$US10 218 429 (K7 741 234)
 - Australian Equipment Loans — \$A9 844 720 (K8 512 512)
 - Loan from Finance Subsidiary (Funds obtained through issue of Guaranteed Bearer Notes) \$US25 000 000 (K18 939 394)
- All loans are secured by a charge over 194 500 676 shares in the Company owned by Conzinc Riotinto of Australia Limited, the Government of Papua New Guinea and the Investment Corporation of Papua New Guinea. This charge can become enforceable only after an event of default in respect of the Credit Agreement or in respect of the Japanese Cash and Equipment Loans if the Credit Agreement Loan has been repaid. The charge is not directly enforceable by the other lenders.

Dividends:

An interim dividend of 4 toea per share was declared on 18th August, 1977, and paid on 3rd November, 1977.

A final dividend of 4 toea per share has been declared and is payable on 4th May, 1978. Withholding tax will be deducted from dividends paid to shareholders who are not residents of Papua New Guinea. This dividend will bring the total dividend in respect of 1977 earnings to 8 toea per share.

Directors:

In accordance with Article 94 of the Company's Articles of Association, Mr. J. L. Auna and Mr. D. C. Vernon retire and, being eligible, offer themselves for re-election. In accordance with Article 85 of the Company's Articles of

Association, Mr. N. R. Agonia and Mr. P. W. Quodling hold office until the conclusion of the Annual General Meeting and, being eligible, offer themselves for election.

The closing date for the receipt of nominations for the office of Director is 24th March, 1978.

Auditors:

The retiring Auditors, Coopers & Lybrand, being eligible, offer themselves for re-appointment.

Statutory:

In accordance with the provisions of Section 162 of the Companies Act 1963, as amended to date, the directors state that in their opinion:

1. The results of the Company's operations in the year under review have not been materially affected by items of an abnormal character except as mentioned in this report.
2. No circumstances have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
3. No contingent liabilities have arisen since the balance date of the accounts, 31st December, 1977, and the date of this report, 7th February, 1978.
4. No contingent liability has become enforceable or is likely to become enforceable within twelve months from the date of this report which will materially affect the Company in its ability to meet its obligations as and when they fall due.

For and on behalf of the Board,



F. F. Espie, Chairman.
7th February, 1978.

Simplified Balance Sheet

Bougainville Copper Limited

What we own (assets)

| | K Million | | |
|---|-----------|-------|-----|
| | 1976 | 1977 | |
| Mine leases, treatment plant, housing, power station, port facilities, etc. | 350.4 | 352.2 | 72% |
| Copper concentrate in storage awaiting shipment and stores on hand | 31.2 | 30.1 | 6% |
| Money held by banks on deposit and in cash | 53.2 | 71.0 | 15% |
| Amounts owed to your company mainly for copper concentrates recently shipped..... | 51.7 | 36.1 | 7% |
| | 486.5 | 489.4 | |

Less what we owe (liabilities)

| | | | |
|--|-------|-------|-----|
| Long term loan borrowings to be repaid after 1978 | 100.7 | 52.0 | 32% |
| Short term overdraft | 2.0 | 3.9 | 2% |
| Loan borrowings to be repaid during 1978 | 20.3 | 63.7 | 39% |
| Amounts owing to suppliers and others for goods and services | 18.3 | 21.1 | 13% |
| Money set aside for payment of dividends to the Company's shareholders | 13.4 | 10.7 | 6% |
| Money set aside for payment of income tax | 20.3 | 13.7 | 8% |
| | 175.0 | 165.1 | |

Amount remaining

| | | | |
|--|-------|-------|-----|
| | 311.5 | 324.3 | |
| This amount (K324.3 million) is retained to finance operations of the business and represents: | | | |
| Contributions by the Company's shareholders | 133.7 | 133.7 | 41% |
| Profits which Directors currently intend to retain in the business..... | 168.8 | 176.0 | 54% |
| The gain (based on present exchange rates and not yet realised) on future United States loan repayments. This gain results from the increase in the value of the kina compared with the United States dollar | 9.0 | 14.6 | 5% |

Statements of Earnings

year ended 31st December, 1977

Bougainville Copper Limited
and Subsidiary Company

| | Notes | Consolidated | Bougainville Copper Limited | |
|--|-------|-----------------------|--------------------------------|---------------|
| | | 1977 K'000 | 1977 K'000 | 1976 K'000 |
| NET SALES REVENUE | | 200 578 | 200 578 | 205 349 |
| Other Income | | <u>2 513</u> | <u>2 513</u> | 3 097 |
| | | 203 091 | 203 091 | 208 446 |
| <i>Less:</i> | | | | |
| Cost of sales, financing and other costs | | 124 320 | 124 317 | 114 695 |
| Depreciation and amortisation..... | 4 | 36 203 | 36 203 | 31 103 |
| Royalties..... | | <u>2 490</u> | <u>2 490</u> | 2 578 |
| | | 163 013 | 163 010 | 148 376 |
| | | 40 078 | 40 081 | 60 070 |
| <i>Add:</i> | | | | |
| Exchange gains realised on loan repayments | 11 | <u>2 177</u> | <u>2 177</u> | 1 601 |
| EARNINGS (Before taxation) | 3 | 42 255 | 42 258 | 61 671 |
| Taxation – current | 8 | <u>13 724</u> | <u>13 724</u> | 20 303 |
| NET EARNINGS FOR YEAR | | 28 531 | 28 534 | 41 368 |
| <i>Plus:</i> | | | | |
| Unappropriated earnings brought forward..... | | <u>168 827</u> | <u>168 827</u> | 154 197 |
| | | 197 358 | 197 361 | 195 565 |
| <i>Less: Dividends</i> | | | | |
| – Interim paid | | 10 695 | 10 695 | 13 369 |
| – Final payable | | <u>10 695</u> | <u>10 695</u> | 13 369 |
| | | 21 390 | 21 390 | 26 738 |
| UNAPPROPRIATED EARNINGS CARRIED FORWARD | | <u>175 968</u> | <u>175 971</u> | 168 827 |

All amounts expressed in Papua New Guinea currency.

The notes attached hereto form part of these accounts and are to be read in conjunction with them.

Balance Sheets

at 31st December, 1977

Bougainville Copper Limited
and Subsidiary Company

| | Notes | Consolidated | Bougainville Copper Limited | |
|--|-------|----------------|--------------------------------|---------------|
| | | 1977 K'000 | 1977 K'000 | 1976 K'000 |
| CAPITAL AND RESERVES | | | | |
| CAPITAL | | | | |
| Authorised | 9 | <u>135 000</u> | <u>135 000</u> | 135 000 |
| Paid up | | 133 688 | 133 688 | 133 688 |
| REVENUE RESERVES | | | | |
| Unappropriated earnings | 10 | <u>175 968</u> | <u>175 971</u> | 168 827 |
| Total capital and reserves | | <u>309 656</u> | <u>309 659</u> | 302 515 |
| EXCHANGE FLUCTUATION | 11 | 14 608 | 14 608 | 9 031 |
| LIABILITIES | | | | |
| MATURING LATER THAN ONE YEAR: | | | | |
| Loans | 12 | 51 952 | 51 952 | 100 692 |
| Long Service Leave | | <u>1 360</u> | <u>1 360</u> | 978 |
| | | <u>53 312</u> | <u>53 312</u> | 101 670 |
| CURRENT | | | | |
| Bank overdraft | | 3 870 | 3 870 | 1 957 |
| Loan instalments | 12 | 63 724 | 63 724 | 20 325 |
| Creditors | 13 | 19 808 | 19 805 | 17 301 |
| Income tax | | 13 749 | 13 749 | 20 365 |
| Dividend payable | | <u>10 695</u> | <u>10 695</u> | 13 369 |
| | | <u>111 846</u> | <u>111 843</u> | 73 317 |
| Commitments & contingent liabilities | 19 | — | — | — |
| TOTAL FUNDS | | <u>489 422</u> | <u>489 422</u> | 486 533 |
| These funds are represented by: | | | | |
| ASSETS | | | | |
| PROPERTY, PLANT AND EQUIPMENT | 14 | <u>352 228</u> | <u>352 228</u> | 350 435 |
| INVESTMENTS | 15 | <u>83</u> | <u>92</u> | 83 |
| CURRENT | | | | |
| Cash and bank balances | | 3 350 | 3 341 | 2 383 |
| Short term deposits and loans | | 67 546 | 67 546 | 50 770 |
| Debtors | 16 | 36 112 | 36 112 | 51 699 |
| Stocks and stores | 17 | <u>30 103</u> | <u>30 103</u> | 31 163 |
| | | <u>137 111</u> | <u>137 102</u> | 136 015 |
| TOTAL ASSETS | | <u>489 422</u> | <u>489 422</u> | 486 533 |

All amounts expressed in Papua New Guinea currency.

The notes attached hereto form part of these accounts and are to be read in conjunction with them.

Notes forming part of the 1977 accounts

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

Bougainville Copper Limited
and Subsidiary Company

1. Accounting policies

In general, accounting policies and practices are adopted which follow the joint recommendations of the principal Australian Professional Accounting Bodies.

In particular, some of the practices are:

HISTORICAL COSTS

The financial accounts have been prepared under the historical cost convention and have not been adjusted to take account of the current cost of specific assets or their impact on operating results.

FIXED ASSETS

Mine property, buildings, plant, machinery and equipment are valued at cost less accumulated depreciation and amortisation.

DEPRECIATION AND AMORTISATION

Depreciation is provided on the straightline method by charges to income at rates based on estimated useful lives of the various assets. Additions are depreciated from the commencement of the month following their completion or installation.

Generally the assets are fully depreciated over the shorter of economic life or twenty years.

Borrowing costs incurred prior to the commencement of commercial operations have been capitalised and are being amortised over a five year period commencing 1st January, 1974. Borrowing costs incurred on loans since 1st January, 1974 have also been capitalised and are being amortised over five years.

STOCK VALUATIONS

Concentrate stocks are valued at cost, which is lower than net realisable value. Cost includes direct and indirect labour, materials and services, but excludes depreciation and overheads, except those directly related to production activities.

Other stocks and stores are valued at cost on a first in, first out basis, less allowance for obsolescence.

CURRENCY CONVERSION

Current assets, current liabilities and long term loans in foreign currencies are converted to Papua New Guinea currency at the rates of exchange ruling at 31st December. All other amounts in foreign currencies have been converted at the rates of exchange at the dates of the relevant transactions.

Unrealised gains on overseas loans are held in Exchange Fluctuation Account and transferred to Earnings as and when realised.

INCOME TAX

The provision for income tax is calculated on earnings before tax. Certain items of expense, principally depreciation and major consumable stock items, are deductible for tax purposes in periods different from those for accounting purposes, but at the present time such differences do not significantly affect the determination of the Company's liability for income tax.

NET SALES REVENUE

Sales revenue is recognised on shipment of concentrates from Bougainville. However, final sales values are determined by reference to weights, assays, prices and refining and smelting charges applying after a shipment has arrived at its destination. The values used in estimating sales revenue for 1977 shipments, not due for final pricing until 1978, are realistic. Any variation in sales revenue actually realised from the estimated revenue will be included in the accounts for next year.

2. Subsidiary company

A wholly owned subsidiary, Bougainville Copper Finance N.V. was incorporated on 13th April, 1977, in the Netherlands Antilles for fund raising purposes. This Company has been consolidated in accordance with generally accepted accounting principles.

| | Consolidated | Bougainville Copper Limited | |
|---|---------------|--------------------------------|---------------|
| | 1977 K'000 | 1977 K'000 | 1976 K'000 |
| 3. Earnings (before taxation) | | | |
| Earnings (before taxation) have been determined after allowing for: | | | |
| DEDUCTIONS WHICH INCLUDE: | | | |
| Interest paid/payable (Note 5) | 11 661 | 11 661 | 11 060 |
| Bad and doubtful debts (Note 6) | 32 | 32 | — |
| Auditors' remuneration (Note 7) | 75 | 75 | 80 |
| Directors' emoluments (Note 18) | 4 | 4 | 4 |
| Loss on disposal of non-current assets | 667 | 667 | 418 |
| Loss on overseas cash balances (Note 11) | 2 243 | 2 242 | 501 |
| ADDITIONS WHICH INCLUDE: | | | |
| Interest on short-term deposits | 4 756 | 4 756 | 3 598 |
| Profit on sale of shares in subsidiary | — | — | 12 |
| 4. Depreciation and amortisation | | | |
| The amount charged against earnings comprised: | | | |
| Depreciation on: Buildings | 10 530 | 10 530 | 10 094 |
| Plant, machinery and equipment | 22 567 | 22 567 | 17 903 |
| Amortisation of mine property | 3 106 | 3 106 | 3 106 |
| | <u>36 203</u> | <u>36 203</u> | <u>31 103</u> |
| 5. Interest paid/payable | | | |
| Subsidiary Company | | | |
| Long term loans | — | 1 105 | — |
| Other | | | |
| Long term loans | 11 577 | 10 472 | 10 999 |
| Bank overdrafts | 84 | 84 | 61 |
| | <u>11 661</u> | <u>10 556</u> | <u>11 060</u> |
| | <u>11 661</u> | <u>11 661</u> | <u>11 060</u> |
| 6. Bad and doubtful debts | | | |
| Amounts provided during the year for doubtful debts were in respect of: | | | |
| Trade debtors | — | — | — |
| Other debtors | 32 | 32 | — |
| | <u>32</u> | <u>32</u> | <u>—</u> |
| In addition an amount of K30 931 in respect of other debtors was written off the provision for doubtful debts. | | | |
| 7. Auditors' remuneration | | | |
| Amounts paid/payable to Auditors for: | | | |
| Auditing the accounts | 58 | 58 | 52 |
| Other services | 17 | 17 | 28 |
| | <u>75</u> | <u>75</u> | <u>80</u> |
| No other benefits were received by the Auditors. | | | |
| 8. Current taxation | | | |
| (a) The income tax charged against earnings is determined in accordance with the policy set out in Note 1. | | | |
| | 13 724 | 13 724 | 20 303 |
| Under the terms of the Mining Agreement (as amended) the Company is required from 1st January, 1974 to pay company tax pursuant to a prescribed formula. This provides that the Company will pay the normal company tax rate (currently 33⅓%) on a certain level of taxable income and 70% on any excess over this level. The Company was not liable for tax at the higher scale. | | | |
| (b) The following major items caused the charge for income tax to vary from that prima facie payable on reported earnings: | | | |
| Income tax at normal rates on: | | | |
| Exchange gains/losses | 22 | 22 | (367) |
| Depreciation | (652) | (652) | (1 275) |
| Consumable aids | (215) | (215) | 1 086 |
| Exempt income | — | — | (115) |
| Other | 508 | 508 | 480 |
| Approximate reduction in charge for income tax | <u>(337)</u> | <u>(337)</u> | <u>(191)</u> |

| | Consolidated | Bougainville Copper Limited | |
|--|--------------|--------------------------------|-------|
| | 1977 | 1977 | 1976 |
| | K'000 | K'000 | K'000 |

9. Capital

The authorised capital of K135 000 000 is made up of 270 000 000 ordinary shares of 50 toea each. At 31st December, 1977, the paid up capital of the Company was K133 687 500 represented by 267 375 000 ordinary shares of 50 toea each, fully paid. No change in authorised or paid up capital occurred during 1977.

10. Revenue reserves

| | | | |
|--------------------------|---------|---------|---------|
| Unappropriated earnings: | | | |
| 1st January | 168 827 | 168 827 | 154 197 |
| Net earnings for year | 28 531 | 28 534 | 41 368 |
| | 197 358 | 197 361 | 195 565 |
| Dividends paid/payable | | | |
| 31st December | 21 390 | 21 390 | 26 738 |
| | 175 968 | 175 971 | 168 827 |

The Company's earnings are not wholly available for payment to shareholders because of restrictions imposed on the payment of dividends under the terms of the Credit Agreement dated 28th July, 1969 (as amended).

11. Exchange fluctuation

Because of currency realignments, a loss of K2 242 788 was realised on conversion of overseas cash balances to Papua New Guinea Kina (1976 loss K501 091).

| | | | |
|--|--------|--------|--------|
| Exchange fluctuations relating to long term loan repayment obligations were: | | | |
| Unrealised gains 1st January | 9 031 | 9 031 | 11 495 |
| Increase/(decrease) due to currency realignments during the year | 7 754 | 7 754 | (863) |
| | 16 785 | 16 785 | 10 632 |
| Gains realised on loan repayments during the year | 2 177 | 2 177 | 1 601 |
| Unrealised gains 31st December | 14 608 | 14 608 | 9 031 |

12. Long term loans

| | | | |
|---|----------------|----------------|----------------|
| (a) Repayments due later than one year: | | | |
| Secured (1) | 51 952 | 51 952 | 100 692 |
| (b) Repayments due within one year: | | | |
| Secured (1) | 63 724 | 63 724 | 20 325 |
| TOTAL OUTSTANDING OBLIGATIONS | 115 676 | 115 676 | 121 017 |
| BANK LOANS | | | |
| Credit agreement Seven year loans | Repayable 1978 | 51 061 | 51 061 |
| Other bank loans: | | | |
| Eximbank loans (2) | 1978 | — | 14 861 |
| Housing loan (3) | 1978 | 2 907 | 5 594 |
| International Westminster Bank | 1979-1981 | 3 788 | 4 061 |
| Bank of America | 1979-1983 | 9 090 | 9 745 |
| Bank of America Syndicate (4) | 1978-1981 | 6 818 | 6 818 |
| TOTAL BANK LOANS | | 73 664 | 88 995 |
| OTHER LOANS | | | |
| Japanese cash loan | 1978-1979 | 6 818 | 10 963 |
| Japanese equipment loans | 1978-1982 | 7 741 | 9 958 |
| Australian equipment loans (5) | 1978-1982 | 8 513 | 11 101 |
| Bearer notes due 1984 (6) | 1978-1984 | 18 940 | — |
| Loan from finance subsidiary (7) | 1978-1984 | — | 18 940 |
| TOTAL OTHER LOANS | | 42 012 | 32 022 |
| TOTAL OUTSTANDING OBLIGATIONS | | 115 676 | 121 017 |

(1) All loans are secured by a charge over 194 500 676 shares in the Company owned by Conzinc Riotinto of Australia Limited, the Government of Papua New Guinea and the Investment Corporation of Papua New Guinea. This charge can become enforceable only after an event of default in respect of the Credit Agreement Loan or in respect of the Japanese Cash and Equipment Loans if the Credit Agreement Loan has been repaid. The charge is not directly enforceable by the other lenders.

(2) The final instalment of US\$6.1 million of the Eximbank Loan was due on 15th February, 1978. This instalment was prepaid on 15th August, 1977.

(3) The Housing Loan was secured by an equitable charge over certain of the Company's housing leases in Arawa township. The loan was originally advanced by the Commonwealth Savings Bank of Australia which transferred its assets and liabilities in Papua New Guinea on 22nd April, 1974 to the Papua New Guinea Banking Corporation under legislation passed in the Australian Parliament. In December 1977 the Papua New Guinea Banking Corporation agreed to release their interest in the security and cancelled the equitable charge. Interest is payable on this loan at a rate of 8% per annum.

| | Consolidated | Bougainville Copper Limited | |
|--|--------------|--------------------------------|-------|
| | 1977 | 1977 | 1976 |
| | K'000 | K'000 | K'000 |

12. Long term loans (continued)

(4) In December 1976, the Company finalised a loan of US\$18 million to be provided by Bank of America, the Toronto Dominion Bank and Security Pacific National Bank to finance the purchase of replacement mine haul trucks. In January 1977 US\$10 million of this facility was drawn down. Interest is currently payable on this loan at a rate of 8.68% per annum.

(5) The Company entered into deferred payment arrangements with Australian suppliers of goods and services during the construction phase. Interest rates on these loans vary from 7.25% to 7.75% per annum.

(6) The Bearer Notes due 1984 were issued by Bougainville Copper Finance N.V., a wholly owned subsidiary of Bougainville Copper Limited, in May 1977 and are unconditionally guaranteed by Bougainville Copper Limited. Interest is payable on these Notes at 8¾% per annum. Sinking fund payments are due to commence on May 1st, 1978 and will reduce the average life to 5.2 years.

(7) All of the funds obtained by Bougainville Copper Finance N.V. through the issue of Guaranteed Bearer Notes due 1984 were immediately on-borrowed by Bougainville Copper Limited on identical terms.

(8) Interest rates payable on other loans during 1977 varied between 6.9% and 10.9% per annum.

13. Creditors

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Related corporations | | | |
| Subsidiary company | — | 1 105 | — |
| Other | 292 | 292 | 1 402 |
| Trade creditors and bills payable | 9 082 | 9 082 | 9 218 |
| Other current liabilities | | | |
| Secured | 3 156 | 2 048 | 566 |
| Unsecured | 7 278 | 7 278 | 6 115 |
| | <u>19 808</u> | <u>19 805</u> | <u>17 301</u> |

14. Property, plant and equipment

| | | | |
|--|----------------|----------------|----------------|
| Leasehold, land and buildings (at cost) | 208 889 | 208 889 | 197 020 |
| Less depreciation | 51 399 | 51 399 | 41 529 |
| | <u>157 490</u> | <u>157 490</u> | <u>155 491</u> |
| Plant, machinery and equipment (at cost) | 220 262 | 220 262 | 192 575 |
| Less depreciation | 79 294 | 79 294 | 61 207 |
| | <u>140 968</u> | <u>140 968</u> | <u>131 368</u> |
| Mine property (at cost) | 62 122 | 62 122 | 62 121 |
| Less amortisation | 17 848 | 17 848 | 14 741 |
| | <u>44 274</u> | <u>44 274</u> | <u>47 380</u> |
| Capital works in progress | 9 496 | 9 496 | 16 196 |
| | <u>352 228</u> | <u>352 228</u> | <u>350 435</u> |

15. Investments

RELATED COMPANIES — shares not listed on Stock

| | | | |
|--------------------|-----------|-----------|-----------|
| Exchange at cost | | | |
| Subsidiary Company | — | 9 | — |
| Other | 38 | 38 | 38 |
| | <u>38</u> | <u>47</u> | <u>38</u> |

OTHER COMPANIES — shares not listed on Stock Exchange at cost

| | | | |
|--|-----------|-----------|-----------|
| | 45 | 45 | 45 |
| | <u>83</u> | <u>92</u> | <u>83</u> |

16. Debtors

| | | | |
|---------------------------------------|---------------|---------------|---------------|
| Related companies | 654 | 654 | 682 |
| Trade debtors | 32 527 | 32 527 | 48 679 |
| Other debtors and payments in advance | 2 976 | 2 976 | 2 381 |
| Provision for doubtful debts | (45) | (45) | (43) |
| | <u>36 112</u> | <u>36 112</u> | <u>51 699</u> |

17. Stocks and stores

| | | | |
|-------------------------|---------------|---------------|---------------|
| Unshipped concentrate | 822 | 822 | 612 |
| Other stocks and stores | 29 281 | 29 281 | 30 551 |
| | <u>30 103</u> | <u>30 103</u> | <u>31 163</u> |

| | 1977 | 1976 |
|--|--------------|--------------|
| | Company | Company |
| | Related | Related |
| | Corporations | Corporations |
| | K'000 | K'000 |

18. Directors' emoluments

The total of emoluments received or due and receivable (whether from the Company or from a related corporation) by:

(a) Directors of the Company engaged in 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

and
(b) Other Directors of the Company was

| | | | |
|---|---|---|---|
| — | — | — | — |
| 4 | — | 4 | — |

19. Commitments for capital expenditure and contingent liabilities

The approximate commitments for the purchase of land, buildings, plant and equipment not reflected in the Balance Sheet amount to K10 676 000 (1976 K15 253 000). The Company has contingent obligations attaching to the terms of:

(a) the Credit Agreement dated 28th July, 1969 (as amended);

and

(b) the Amending Agreement as referred to in the Mining (Bougainville Copper Agreement) (Amendment) Act, 1974.

However, no circumstances have yet arisen to suggest that an enforceable claim has, or is likely to arise, in respect of these obligations.

Except for the foregoing the Company has no contingent liabilities which are material in nature and/or amount.

20. Ultimate holding company

The ultimate holding Company is The Rio Tinto-Zinc Corporation Limited (incorporated in England).

21. Comparative figures for 1976

Where necessary, these figures have been adjusted to conform with changes in presentation made in 1977.

Declarations

Statement by Directors

In the opinion of the Directors of Bougainville Copper Limited the accompanying statement of earnings is drawn up so as to give a true and fair view of the results of the business of the Company for the period covered by the statement and the accompanying balance sheet is drawn up so as to exhibit a true and fair view of the state of affairs of the Company at the end of that period.

Signed at Panguna this 7th day of February, 1978.

On behalf of the Board
F. F. ESPIE, P. W. QUODLING
Directors

Declaration by Secretary

I, Misac Rangai, Secretary of Bougainville Copper Limited, do solemnly and sincerely declare that the accompanying balance sheet and statement of earnings of the Company 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 1962, as amended to date, conscientiously believing the statements contained herein to be true in every particular.

Declared at Panguna this 7th day of February, 1978.

M. RANGAI
Secretary

Before me:
L. G. SMITH
Justice of the Peace

Report of the Auditors to the Members

We report on the balance sheets and statements of earnings of the Company and of the group set out on pages 14 to 20 which have been prepared under the historical cost convention described in note 1.

In our opinion the balance sheets and statements of earnings are properly drawn up in accordance with the provisions of the Companies Act 1963, as amended, and so as to give a true and fair view of the state of affairs of the Company and of the group as at 31st December, 1977, and the results for the year ended on that date.

In our opinion the accounting and other records, including registers, examined by us have been properly kept in accordance with the provisions of the Act.

COOPERS & LYBRAND
Chartered Accountants
Arawa, 8th February, 1978

Shareholdings

Substantial shareholders

The distribution of holdings of the issued shares in Bougainville Copper Limited at 31st January, 1978, was:

| | |
|------------------------|--------|
| 1- 1 000 shares | 35 882 |
| 1 001- 5 000 shares | 6 486 |
| 5 001-10 000 shares | 714 |
| 10 001 shares and over | 563 |
| | 43 645 |

Substantial shareholders at 31st January, 1978, were:

The Rio Tinto-Zinc Corporation Limited
R.T.Z. Australian Holdings Limited
C.R.A. Holdings Pty. Limited
Conzinc Riotinto of Australia Limited
C.R.A. Base Metals Pty. Limited
143 258 644 shares

Government of Papua New Guinea
Investment Corporation of Papua
New Guinea
53 975 000 shares

81.30% of the total issued shares were held by the 20 largest shareholders of the Company at 31st January, 1978.

The voting rights are one vote for each share held.

Twenty largest shareholders

The twenty largest shareholders at 31st January, 1978, and the number of shares held by each were:

| Name & Registered Address: | Shares |
|--|--------------------|
| Conzinc Riotinto of Australia Limited, Melbourne, Vic. | 140 525 676 |
| The Independent State of Papua New Guinea, P.N.G. | 50 948 113 |
| The National Mutual Life Association of Australasia Limited, Melbourne, Vic. | 3 871 456 |
| ANZ Nominees Limited, Melbourne, Vic. | 3 178 363 |
| The Investment Corporation of Papua New Guinea, Port Moresby, P.N.G. | 3 026 887 |
| C.R.A. Base Metals Pty. Ltd., Melbourne, Vic. | 2 732 968 |
| Bank of New South Wales Nominees Pty. Ltd., Sydney, N.S.W. | 2 537 533 |
| Panguna Development Foundation Limited, Bougainville Island, P.N.G. | 2 400 000 |
| The Colonial Mutual Life Assurance Society Limited, Melbourne, Vic. | 1 644 491 |
| National Nominees Limited, Melbourne, Vic. | 1 135 707 |
| Australian Mutual Provident Society, Melbourne, Vic. | 882 004 |
| Legal & General Assurance Society Limited, Sydney, N.S.W. | 605 160 |
| The Wales Nominees (Vic.) Pty. Ltd., Melbourne, Vic. | 542 915 |
| Anglo-Australian Nominees Pty. Ltd., Melbourne, Vic. | 536 200 |
| Mobil Nominees Pty. Ltd., Melbourne, Vic. | 500 000 |
| Hanover Nominees Limited, London, U.K. | 488 570 |
| ANZ Pensions (Overseas) Pty. Ltd., Melbourne, Vic. | 484 229 |
| Public Officers Superannuation Fund, Boroko, P.N.G. | 480 000 |
| Darling Nominees Pty. Ltd., Sydney, N.S.W. | 458 136 |
| C.M.L. Nominees Pty. Ltd., Melbourne, Vic. | 406 900 |
| | <u>217 385 308</u> |

Directors' interests

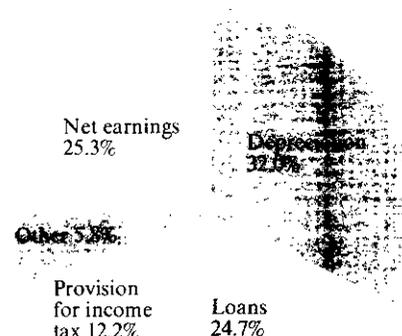
Directors' interests in Bougainville Copper Limited and its associated companies - - 21st January, 1978:

| | | |
|--------------------|--------------|---|
| F. F. Espie | 1 300 | Mary Kathleen Uranium Ltd. shares |
| R. H. Carnegie | 6 000 | Bougainville Copper Limited shares |
| | 1 000 | Mary Kathleen Uranium Ltd. shares |
| | 6 000 | Conzinc Riotinto of Australia Limited shares |
| | 1 000 | Hamersley Holdings Limited shares |
| J. T. Ralph | 114 | Bougainville Copper Limited shares |
| | 476 | Conzinc Riotinto of Australia Limited shares |
| | £750 | The Rio Tinto-Zinc Corporation Limited convertible loan stock |
| B. E. Fairfax-Ross | 2 400 | Bougainville Copper Limited shares |
| J. L. Auna | No interests | |
| D. C. Vernon | No interests | |
| P. W. Quodling | No interests | |
| N. R. Agonia | No interests | |

Source and application of funds

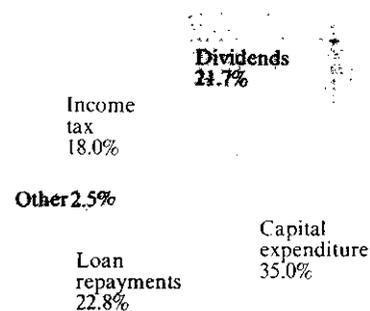
Source of funds

| 1976 K'000 | | 1977 K'000 |
|----------------|--|----------------|
| 41 368 | Net earnings | 28 531 |
| | Charges against earnings not requiring current outlays: | |
| 20 303 | – Income tax | 13 724 |
| 31 103 | – Depreciation | 36 203 |
| (1 601) | – Exchange gains on loans | (2 177) |
| 2 578 | – Royalty provided | 2 490 |
| 1 259 | – Other | 1 654 |
| | | 51 894 |
| 13 120 | Borrowings | 28 047 |
| 221 | Miscellaneous | 1 032 |
| – | Decrease in working capital | 3 490 |
| <u>108 351</u> | | <u>112 994</u> |

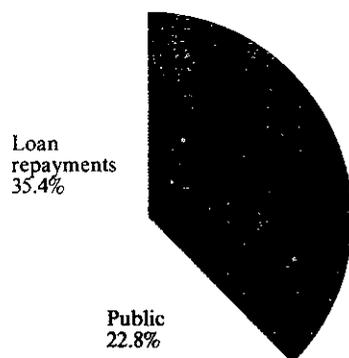


Application of funds

| 1976 K'000 | | 1977 K'000 |
|----------------|---|----------------|
| 13 369 | Dividends - Final 1976 | 13 369 |
| 13 369 | – Interim 1977 | 10 695 |
| 2 604 | Royalty paid | 2 455 |
| 19 544 | Repayment of long term borrowings | 25 635 |
| 36 176 | Expenditure on fixed assets | 39 695 |
| 15 604 | Income tax paid | 20 340 |
| 158 | Miscellaneous | 805 |
| 7 527 | Increase in working capital | – |
| <u>108 351</u> | | <u>112 994</u> |



Distribution of cash



Cash Distributed

Cash distributed by the business (after spending for new plant).

P.N.G.

P.N.G. Government and Investment Corporation – dividends, royalty, taxation and withholding tax.

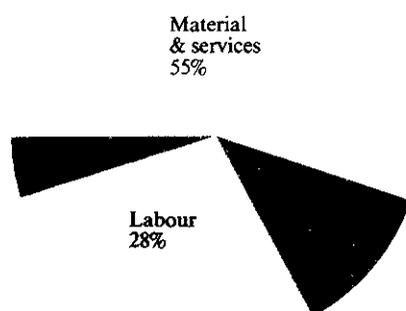
Public

Public dividends after withholding tax.

| | K million | |
|-------------------------|-----------|------|
| | 1977 | 1976 |
| CASH DISTRIBUTED | 72.2 | 72.0 |
| P.N.G. | 30.3 | 31.4 |
| Public | 16.5 | 18.4 |
| Loan Repayments | 25.6 | 19.5 |
| Working Capital | (0.2) | 2.7 |
| | 72.2 | 72.0 |

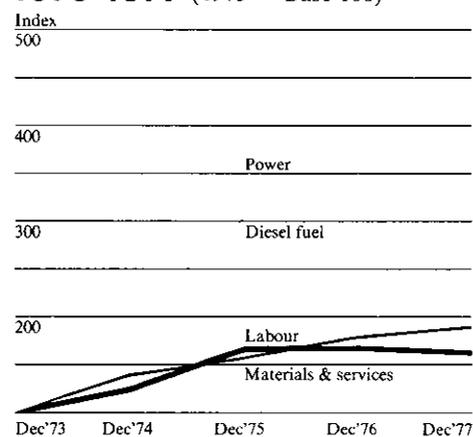
Complete details of Bougainville Copper's Source and Application of funds are shown on page 22.

Composition of operating costs 1977



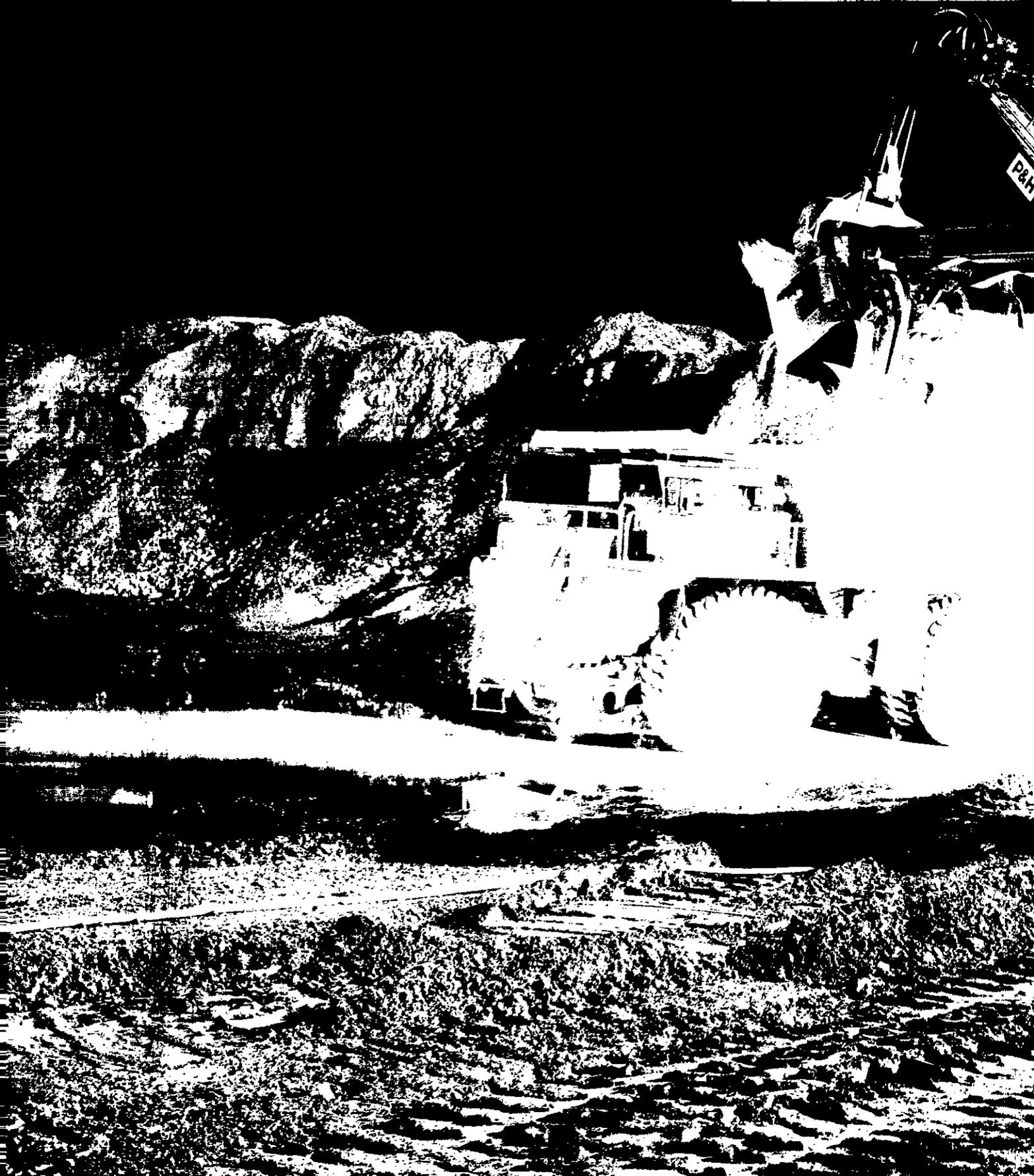
Relative cost indices

1973-1977 (1973 = Base 100)



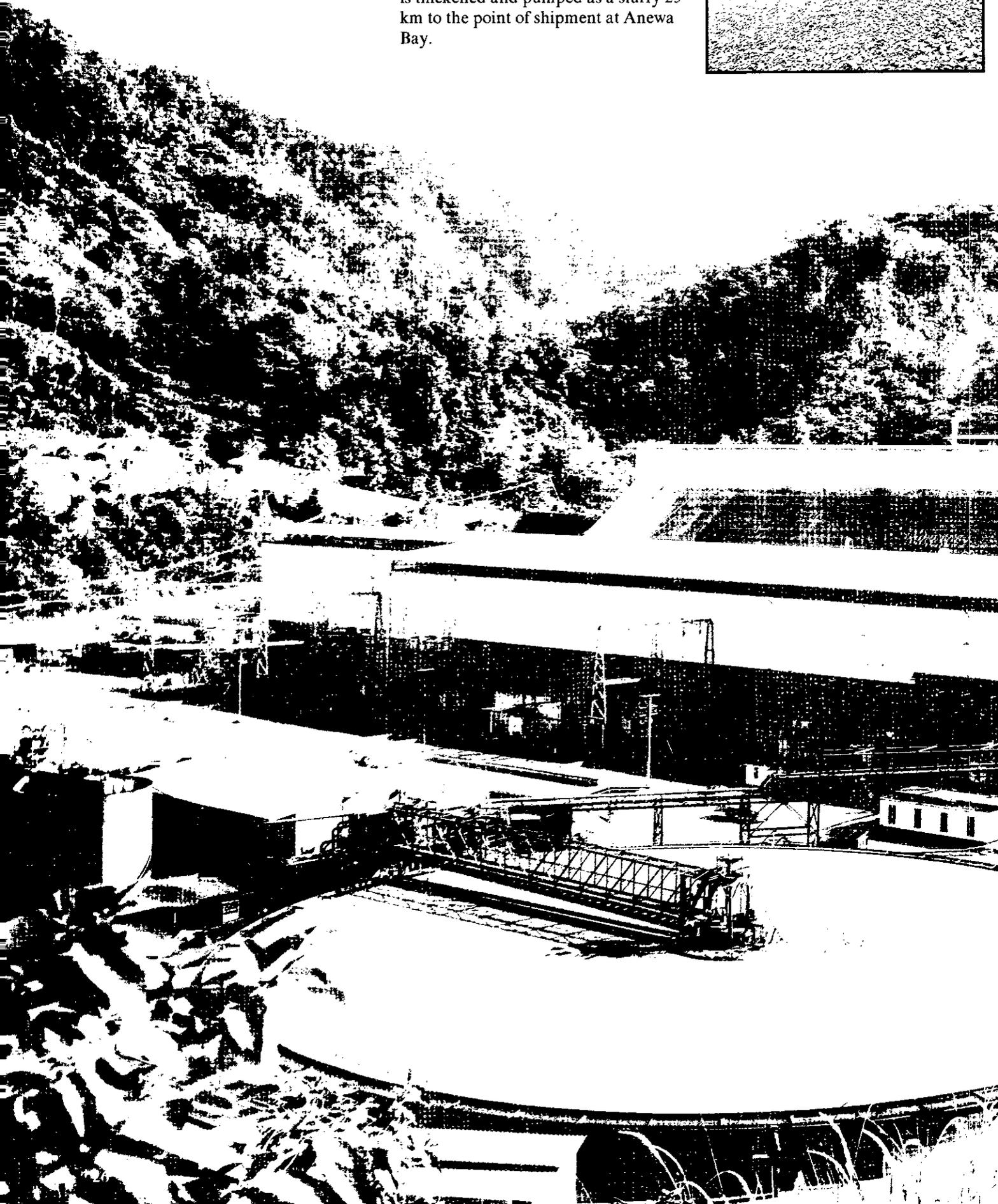
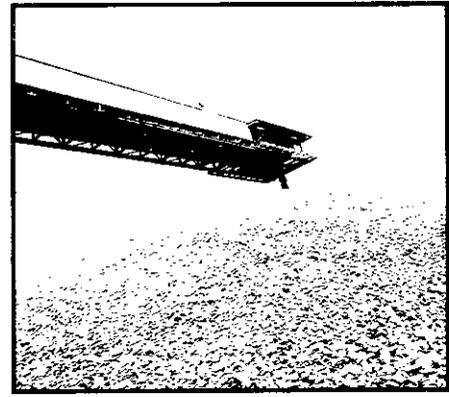
**24 hours a day . . .
7 days a week**

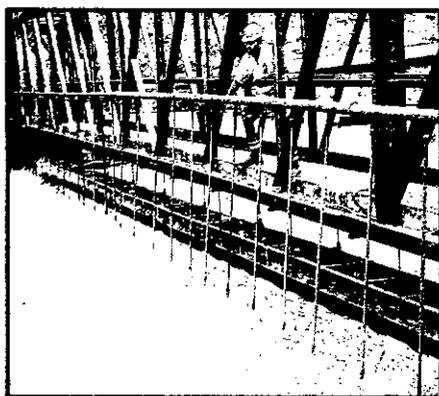
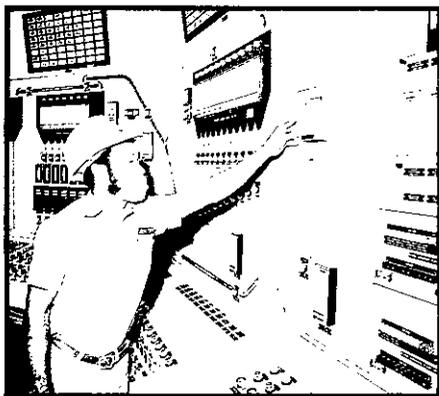
The giant 22 tonne capacity shovels and the 155 tonne trucks move 8,500 tonnes of material an hour from the mine. Half of this is waste material. The balance is trucked to the primary crusher which produces a coarse ore product of less than 200 mm diameter. The ore is carried by conveyor belts to the coarse ore stockpile.



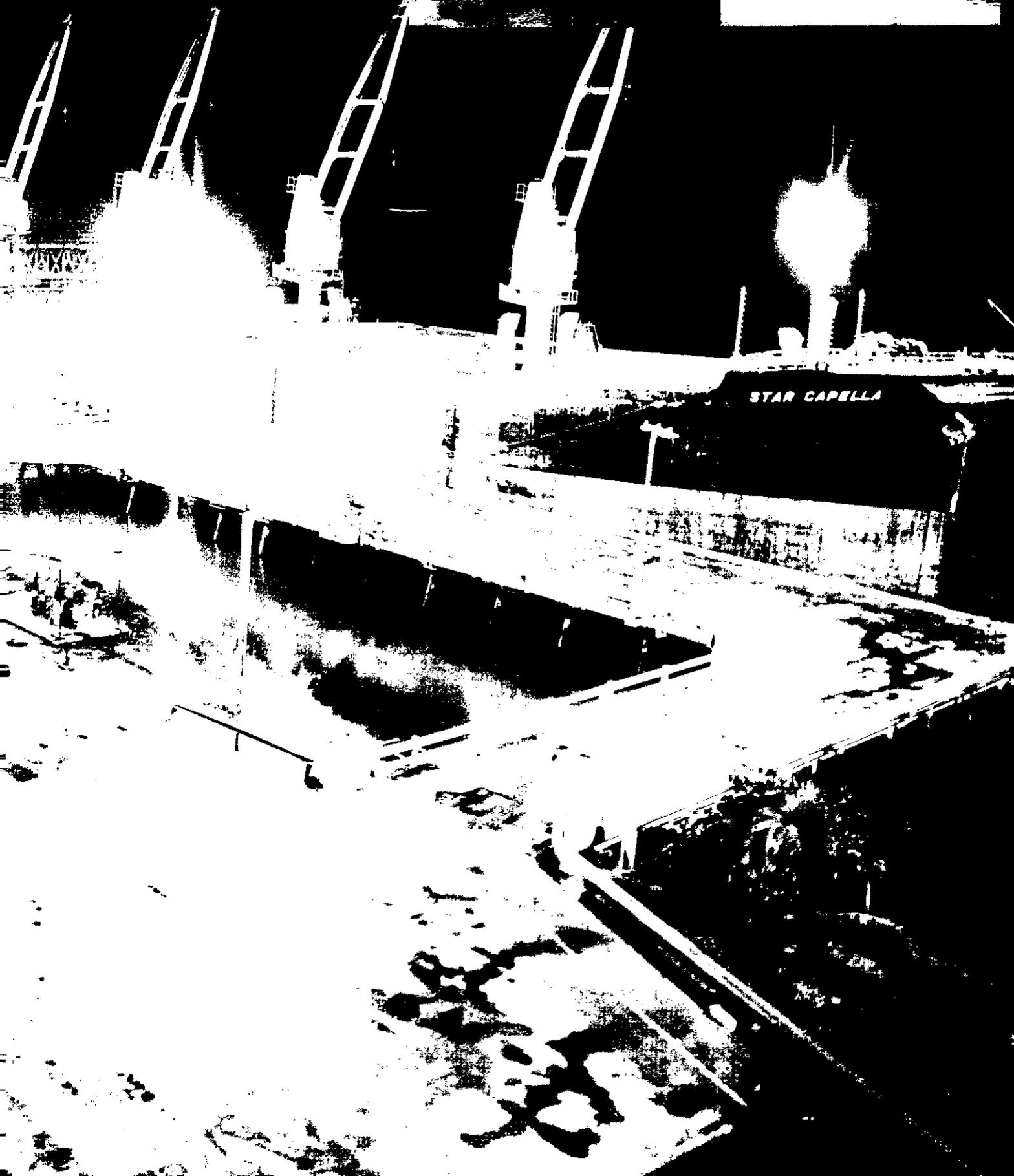
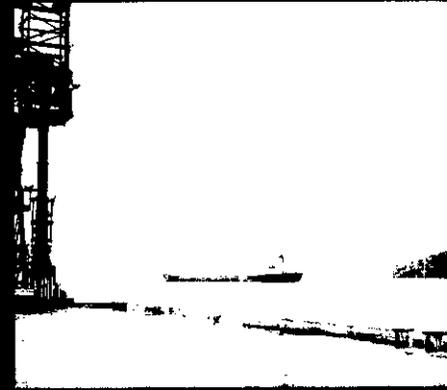
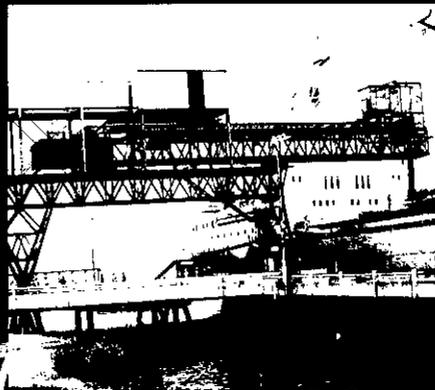


Ore is subsequently passed through the fine crushing system to the ten overflow ball mills which grind the ore. From there the mixture of ore and water is agitated with added reagents and air and a concentrate of approximately 30 per cent copper is recovered by flotation. The concentrate is thickened and pumped as a slurry 25 km to the point of shipment at Anewa Bay.





At the port site the slurry is filtered and dried to reduce the moisture content and the final concentrate product is stored ready for loading and shipment.

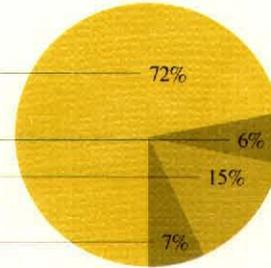


Simplified Balance Sheet

Bougainville Copper Limited

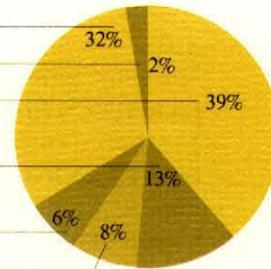
What we own (assets)

| | K Million | |
|---|--------------|--------------|
| | 1976 | 1977 |
| Mine leases, treatment plant, housing, power station, port facilities, etc. | 350.4 | 352.2 |
| Copper concentrate in storage awaiting shipment and stores on hand | 31.2 | 30.1 |
| Money held by banks on deposit and in cash | 53.2 | 71.0 |
| Amounts owed to your company mainly for copper concentrates recently shipped..... | 51.7 | 36.1 |
| | <u>486.5</u> | <u>489.4</u> |



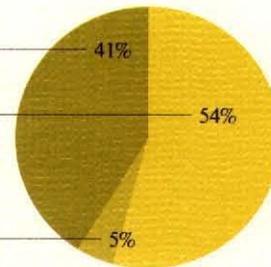
Less what we owe (liabilities)

| | | |
|--|--------------|--------------|
| Long term loan borrowings to be repaid after 1978 | 100.7 | 52.0 |
| Short term overdraft | 2.0 | 3.9 |
| Loan borrowings to be repaid during 1978 | 20.3 | 63.7 |
| Amounts owing to suppliers and others for goods and services | 18.3 | 21.1 |
| Money set aside for payment of dividends to the Company's shareholders | 13.4 | 10.7 |
| Money set aside for payment of income tax | 20.3 | 13.7 |
| | <u>175.0</u> | <u>165.1</u> |



Amount remaining

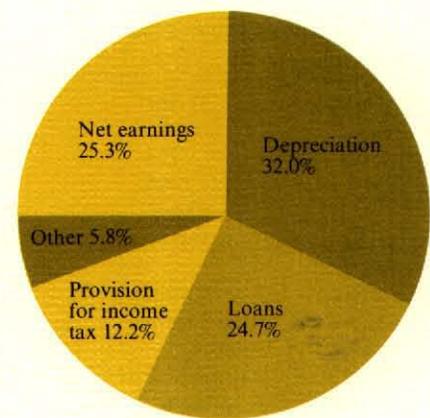
| | | |
|--|-------|-------|
| This amount (K324.3 million) is retained to finance operations of the business and represents: | 311.5 | 324.3 |
| Contributions by the Company's shareholders..... | 133.7 | 133.7 |
| Profits which Directors currently intend to retain in the business..... | 168.8 | 176.0 |
| The gain (based on present exchange rates and not yet realised) on future United States loan repayments. This gain results from the increase in the value of the kina compared with the United States dollar | 9.0 | 14.6 |



Source and application of funds

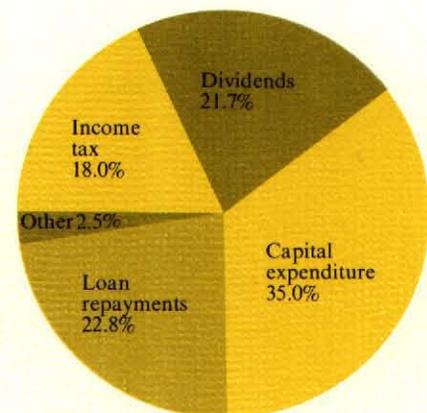
Source of funds

| 1976 K'000 | | 1977 K'000 |
|----------------|--|----------------|
| 41 368 | Net earnings..... | 28 531 |
| | Charges against earnings not requiring current outlays: | |
| 20 303 | – Income tax | 13 724 |
| 31 103 | – Depreciation..... | 36 203 |
| (1 601) | – Exchange gains on loans | (2 177) |
| 2 578 | – Royalty provided..... | 2 490 |
| 1 259 | – Other..... | 1 654 |
| | | 51 894 |
| 13 120 | Borrowings..... | 28 047 |
| 221 | Miscellaneous | 1 032 |
| – | Decrease in working capital | 3 490 |
| <u>108 351</u> | | <u>112 994</u> |

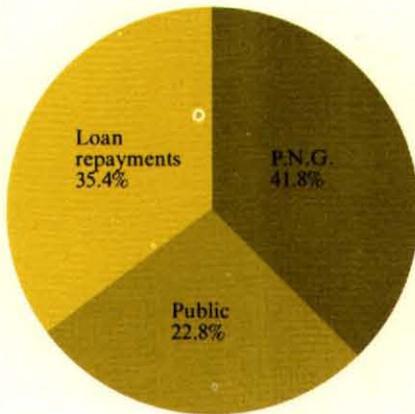


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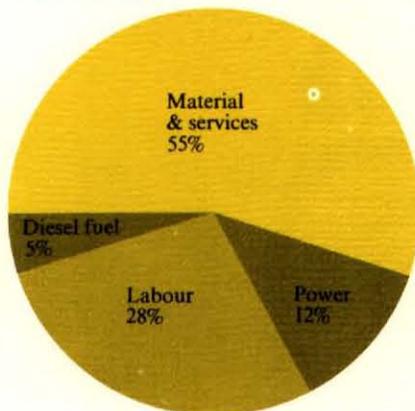
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Composition of operating costs 1977



Relative cost indices 1973-1977 (1973 = Base 100)

