

B.O. 1631

"SCANNED"



BOUGAINVILLE COPPER LIMITED
ANNUAL REPORT 2003

THE COMPANY

From 1972 until 1989 Bougainville Copper Limited operated a large open pit mine and processing facility at Panguna on Bougainville Island in the North Solomons Province of Papua New Guinea producing copper concentrate containing significant quantities of gold and silver. On 15 May, 1989 production was brought to a halt by militant activity.

In the seventeen years before cessation of operations in 1989 the mine had produced concentrate containing 3 million tonnes of copper, 306 tonnes of gold and 784 tonnes of silver. The production had a value of K5.2 billion which represented approximately 44% of Papua New Guinea's exports through that period.

Contributions to the National Government in the form of taxes, duties and dividends were approximately 17% of internally generated Papua New Guinea Government revenue over that period.

A total of K1088 million has been contributed to the National Government which represents 62% of the net cash generated by the project. In addition, payments to the North Solomons Provincial Government and Panguna landowners, together with provisions made since 1990, amount to K114 million. Further, the company's presence in the North Solomons Province had promoted the development of significant local business enterprises to provide goods and services required for the mining operation and for the residents of the province.

Company training programs for some 12 000 employees, including approximately 1 000 completing full trade apprenticeships and some 400 completing graduate and post graduate studies, had previously resulted in considerable progress in the localisation of the company's employees and also added significantly to the number of skilled workers elsewhere in the country's work-force. At the end of 2003, the company had no employees. The activities of the company are being managed on a contracted services basis by a small team of Rio Tinto Minerals (PNG) Limited staff based in Port Moresby.

Since the mine closed the company has retained, in good standing, its mine lease and other leases on Bougainville. Four years ago the company announced a change in strategic direction. Rather than maintain readiness to redevelop the mine the company announced

its desire to dispose of the Bougainville assets. It has developed a portfolio of cash and equities, including investments in PNG projects. Bougainville Copper Limited has let the National Government know it is ready to discuss disposal of the Bougainville assets when Bougainville leaders and the National Government consider it appropriate.

Bougainville Copper Limited is owned 53.58% by Rio Tinto Limited. The Papua New Guinea Government owns 19.06% while public shareholders hold the remaining 27.36% of the share capital.

NOTICE OF MEETING

The Annual General Meeting of Bougainville Copper Limited will be held at 10.00am on the 5th day of May, 2004 at the Crowne Plaza, Hunter Street, Port Moresby, Papua New Guinea.

A separate Notice of Meeting is enclosed.

All shareholders are cordially invited to attend.

DIRECTORS

P. R. Taylor (Chairman)

B. R. Alexander

K. Aua OBE

B. L. Cusack (Chairman to 21 October 2003)

D. H. McLellan

M. A. Moramoro OBE

SECRETARY

P. D. Coleman

CONTENTS

Introduction	1
The Year in Brief	2
Chairman's Statement and Year in Review	3 - 5
Directors' Report	6 - 7
Corporate Governance Statement	8 - 11
Financial Statements	12 - 20
Independent Audit Report	21 - 22
Corporate Information	23 - 24
Distribution of the Benefits	25
Statistical Summary	26 - 27

THE YEAR IN BRIEF

* *Mine remained closed. Access to Panguna mine still not possible.*

* *Slow progress towards autonomous government.*

* *Continued diversification of investments into equities.*

* *Tax dispute of substantial proportions*

		2003	2002
Investment income	(K'000)	19 234	11 973
Operating profit	(K'000)	14 497	7 870
Earnings per share	(toea)	3.61	1.96
Shareholders' funds	(K'000)	316 104	301 607
Return on shareholders' funds	(per cent)	4.6	2.6

CHAIRMAN'S STATEMENT & YEAR IN REVIEW

Chairman Retires

Mr Barry Cusack retired as Chairman at the October 2003 Board meeting. Barry joined the Board in 1997 and was elected Chairman. He retired from the Rio Tinto Group in 2001 and has been gradually relinquishing non-executive positions associated with the Group since that time. I wish to record the Board's appreciation of Barry's leadership over six years and my personal thanks for his assistance to me as Managing Director. The Board elected me Chairman and I will continue as Managing Director. As a result this report combines the reports of both positions.

Results

In 2003 net profit was K14.5 million compared to K7.87 million the previous year. Results at year-end in Australian dollars were A\$6.07 million and A\$3.59 million respectively. The improved result reflects the impact of the strengthening Australian dollar, higher average PNG interest rates and improved share prices in Australia.

Investment Strategy

Over the past year the company has substantially achieved its goal of shifting the investment focus from cash deposits in PNG to equity investments. Approximately 80% of the company's liquid assets are now in Australian listed equities. In addition the Company has substantial investments in PNG companies, Lihir Gold Limited and Ramu Sugar Limited. The decision to invest in equities was driven by the volatile nature of the PNG economy, particularly the company's considerable exposure to any depreciation of the kina. I am pleased to report that the investment strategy has helped the company take advantage of the stronger Australian dollar and the stronger Australian stock market.

Tax Dispute

It was reported last year that the Internal Revenue Commission [IRC] was conducting a tax review of the company. The IRC has since issued the company with a demand for additional tax of K13.24 million which together with penalties totals K32.98 million. This represents approximately 21% of our non-mining assets. The company has been following normal practice in depreciating its assets on Bougainville and charging

depreciation against revenue. The IRC has decided to amend tax assessments it has previously made which allowed depreciation beyond 1997. Any tax losses arising from the cessation of mining operations expired in 1997, however depreciation carries forward.

The company has received expert advice on the matter, including that of senior Australian legal counsel. The company has lodged formal objections and will strenuously defend the claim. The IRC and the PNG Attorney General have been given notice that the company seeks arbitration pursuant to the Bougainville Copper Agreement. Lengthy and expensive legal proceedings for both parties are expected.

Dividend Policy

Notwithstanding improved results the company does not propose to pay a dividend this year because of the transaction costs, the tax dispute and exchange control restrictions. At a dividend of 2 toea per share the cost of paying a dividend would exceed the value of the actual dividend for approximately 13,000 of BCL's 16,000 shareholders. In effect the large shareholders are subsidising the transaction cost of paying a dividend to this large group of small shareholders.

As a result of the tax dispute the IRC has indicated BCL will not be permitted to remit funds (including dividend) offshore until the matter is resolved.

Share Buy Back

The company has been investigating a compulsory buyback of non-marketable parcels of shares. A large number of shareholders cannot sell their shares on market because they have insufficient shares to make up a marketable parcel. Furthermore, brokerage costs would exceed the value of many smallholdings. For the company the cost of maintaining many smallholdings exceeds the market value of the shares. There is also an unsatisfactorily high number of shareholders the company cannot find. This means any dividend due to these shareholders must be paid to the PNG government as unclaimed money. Ideally, the buyback will take place in the current year.

CHAIRMAN'S STATEMENT & YEAR IN REVIEW

Bougainville

The situation on Bougainville has changed little since the last annual report, as far as access to the mine is concerned. The mine site is still a 'no go zone'. The move towards giving Bougainville a new constitution is proceeding, but slowly. A date for the election of the first 'autonomous' government under the new constitution is yet to be announced. When the terms of the constitution are settled and a local government is in place, the company will be in a better position to plan and implement a strategy for the future of the mine site.

The recent strong world prices for gold and copper may give some encouragement that reopening the mine will be an economic proposition. However metal prices alone will not determine the future of mining on Bougainville. There is no indication from landowners or Bougainville leaders that mining will be welcome. It must also be assumed that mine site assets continue to deteriorate with time and therefore the cost of a restart increases. Although some assets like the port, access road and pre-stripped ore are all positives, any potential developer seeking funding to restart the project is faced with the additional issues of PNG country risk and the long period of civil disturbance originating in the violent closure of the mine. For the record the company is not doing any mining feasibility work nor is it planned. That is not to say the mine and the prospective exploration licences have no long term value but rather the circumstances on Bougainville are not yet conducive to realising any underlying value.

Company policy is still to ultimately divest the Bougainville assets.

Litigation

It is now over three years since a group from Bougainville commenced a 'class action' in the US Federal Court against the company's largest shareholder Rio Tinto Limited and Rio Tinto plc. The claims relate largely to acts of the PNG Government. Rio Tinto is alleged to have 'partnered' the Government in the project and, as a consequence, is alleged to be vicariously liable for the alleged wrong doings. Rio Tinto has denied liability. The court of first instance dismissed the action and an appeal was heard in 2003. The appeal court has given the parties notice a decision will not be given until the

US Supreme Court hears another case, with some common legal questions, later this year. The appeal decision may not be the end of the matter because further appeal processes are available.

BCL is not a party to any litigation in the USA.

There is also a landowner claim in the National Court of PNG seeking declarations on landowner representation and compensation for the period of mine closure. BCL is defending the matter.

Corporate Governance

Although the company is registered in PNG and is subject to PNG company law it is listed on the Australian Stock Exchange and is subject to ASX listing rules. The ASX recently issued new corporate governance guidelines. These are not mandatory rules in the sense that each recommendation must be followed but listed companies must report against them and explain why any recommendation is not followed. This year's annual report has a statement in compliance with those guidelines. It needs to be borne in mind that BCL does not have any employees of its own, but is managed under an agreement with a Rio Tinto service company. The guidelines, in part, assume the listed entity has employees and a management structure different to that of BCL. In many instances BCL adopts the standards and policies of its parent company, Rio Tinto Limited. Detail of the Rio Tinto policies can be obtained from its website, www.riotinto.com. During the year it is intended that BCL will be linked to the Rio Tinto website and information about the company, including this annual report, will be listed.

Year Ahead

The aim in the coming year is to bring the PNG government and the Bougainville leadership together to resolve the future of BCL's assets. Some progress has been made already with leaders on Bougainville indicating a willingness to engage in dialogue over the mine, past and present. The National Government, like the company, has been waiting for an appropriate time to bring the mine onto the agenda. We believe that time has come.

There are many stakeholders, especially on Bougainville, who want a say. There are the Panguna landowners, other landowners within the road, port and tailings areas and others on Bougainville who have made sacrifices arising from the conflict as well as those who will be responsible for the future of Bougainville. The National Government is a party to the Bougainville Copper Agreement as well as being the second largest shareholder. Last there are the thousands of shareholders, including many from Bougainville, who have seen the value of their equity and dividend stream substantially diminished.

Tributes

Sadly I report that two of the great pioneers of the Company, Sir Frank Espie and Mr Don Vernon, passed away since the last annual report.

Sir Frank Espie became Executive Director of BCL in 1968 and Chairman in 1971. He was knighted in 1979. Sir Frank was ahead of his time in terms of social consciousness when it came to the development of the Panguna mine. He employed not just the best technicians but also the best social scientists. He instituted policies aimed at ensuring the least disruption to the local community. He insisted that his top managers spend time working in the community relations section to ensure they were exposed to and better understood the needs and aspirations of the local community.

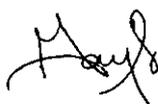
Don Vernon served with the Company for 15 years. He became Managing Director in 1975 and Chairman in 1979. He retired from BCL in 1986. Don was not only one of the best managers I ever met but also one of the finest gentlemen. He was chairman of BCL when I

joined the company and as company secretary I got to deal with him frequently. He had the gift of being able to empathise with just about everyone. I marvelled at how he was able to speak individually to everyone at a social function or meeting no matter how many people attended. He seemed to know something personal about everyone and always seemed to make just the right enquiry that would reassure all that they really mattered.

Directors Elections

As mentioned earlier Mr. Cusack retired during the year. The board decided not to appoint a replacement director. Given the nature of the company's current activities and level of experience and expertise of my fellow directors it is proposed the board consist of the current five directors.

The company's constitution has a formula that requires directors to retire annually by rotation. This year Mr David McLellan and Mr Bruce Alexander retire and offer themselves for re-election. I support the re-election of both retiring directors.



PETER R TAYLOR

Chairman & Managing Director

26 February 2004

DIRECTORS' REPORT

The directors of Bougainville Copper Limited present their report on the audited financial statements of the company for year ended 31 December, 2003.

REVIEW:

The Panguna mine has not operated since 15 May, 1989 due to the crisis on Bougainville and the activities of armed militants, and it has not been possible for company employees to return to the mine since their withdrawal early in 1990.

Following withdrawal of employees from the island, a small management team was established in Port Moresby. This team has now been incorporated into Rio Tinto Minerals (PNG) Limited (RTM), a wholly owned subsidiary of Rio Tinto Limited. BCL has a management service agreement with Rio Tinto. RTM performs this agreement on behalf of Rio Tinto.

The strategy to invest cash in equities has continued. This is considered the best option until the future of the Bougainville assets is finalised. The Government and Bougainville parties have been made aware of the company's willingness to resolve matters relating to Bougainville.

DIRECTORS:

The directors of Bougainville Copper Limited at balance date are:

P. R. Taylor

Age 57 BA BSc LLB LLM

Lawyer formerly in private practice.

Within the Rio Tinto Group formerly Company Secretary Bougainville Copper Limited, General Manager Commercial CRA Exploration Pty Limited, CRA Projects and General Corporate Counsel CRA Services Limited. Appointed director of Bougainville Copper Limited April, 1997 and Managing Director March, 2000. Appointed Chairman 21 October 2003. Currently a Director of AESOP Business Volunteers and Vice President of the Australia Papua New Guinea Business Council.

B. R. Alexander

Age 61 FAIB FAICD

Forty years with Westpac Banking Corporation including five years as Chief Executive, Pacific Regional Banking and Chairman, Westpac Bank (PNG) Limited (1994-1999). Former President, Australia PNG Business Council. Former Chairman, AESOP Business Volunteers, Chairman Hunter Olive Co-operative Limited. Appointed director of Bougainville Copper Limited May, 1999.

K. Aua OBE

Age 48 Bsc

Former First Assistant Secretary, Department of Foreign Affairs & Trade. Managerial roles in the private sector until joining the Department of Mining and Petroleum as Deputy Secretary in 1994. Appointed Secretary, Department of Mining in 1998. Director of Mineral Resources Corporation, Director of Mineral Resources Lihir, Director of Mineral Resources Star Mountains and Deputy Chairman of the PNG Water Board. Appointed director of Bougainville Copper Limited October, 1998.

D. H. McLellan

Age 68

Extensive experience of commercial business in Papua New Guinea as former Managing Director of Burns Philp (PNG) Ltd. Former President of PNG Employers Federation. Former Chairman of Australian Executive Overseas Program Ltd. Appointed director of Bougainville Copper Limited July, 1998.

M. A. Moramoro OBE

Age 51 BCom MSc

Former Vice Chancellor, PNG University of Technology. Former Executive of Rio Tinto Minerals (PNG) Pty Limited and Chevron Niugini Limited. Currently Chairman of the Independent Public Business Corporation (formerly Privatisation Commission). A member of the Boards of Westpac Bank (PNG) Limited, SP Brewery Limited, National Superannuation Fund and Highlands Pacific Limited. Appointed director of Bougainville Copper Limited April, 1993.

ACTIVITIES:

Bougainville Copper Limited has produced copper concentrate containing gold and silver from a mine at Panguna, Bougainville, Papua New Guinea, from 1972 until operations were suspended due to militant activity in May, 1989. The Company now derives investment income. The company has no subsidiaries.

NET EARNINGS:

The net profit of Bougainville Copper Limited for 2003 was K14 497 252 (2002 K7 869 622).

TAXATION:

No future income tax benefits have been recognised in the accounts.

SHARE CAPITAL:

There was no change in the company's capital structure during the year.

LONG TERM LOANS:

The company has no loans and no lines of credit are in place.

DIVIDENDS:

The directors have not declared a dividend for 2003.

ACCOUNTING POLICIES:

There have been no changes made in the company's accounting policies during 2003.

DIRECTORS' INTERESTS:

Directors' interests in the share capital of the company and its related companies as at 26 February, 2004 were:

P. R. Taylor	600	Rio Tinto Limited Shares
	1 875	Options - Rio Tinto Share Savings Plan
	8 419	Options - Rio Tinto Share Option Plan
B. R. Alexander	No interests	
K. Aua	No interests	
D. H. McLellan	No interests	
M. A. Moramoro	No interests	

INTEREST'S REGISTER:

There were no transactions recorded in the Interest's Register during the year, other than the directors' interests in the shares of the company as shown above.

AUDITORS:

The retiring auditors, PricewaterhouseCoopers, being eligible, offer themselves for re-appointment. Details of amounts paid to the auditors for audit and other services are shown in note 2 to the financial statements.

REMUNERATION OF EMPLOYEES:

The company had no employees during the year.

REMUNERATION OF DIRECTORS:

The amount of directors' remuneration, including the value of benefits, received during the year is shown in note 11 to the financial statements.

DONATIONS:

The company made no donations during the year. The Company does not make donations to political parties. The Bougainville Copper Foundation continues to provide educational and other support. BCL provides administrative support to the Foundation.

ENVIRONMENT:

Mining operations of the company ceased in 1989 and it has been denied access to its mine site because of the civil disorder since that year. The company is not aware of any liability being incurred under any environmental legislation.

ADDITIONAL INFORMATION:

The directors also state that:

1. There were no significant changes in the state of affairs of the company during the year.
2. The results of the company during the financial year have been, in the opinion of the directors, substantially affected by events of a material and unusual nature as contained in this report, and as set out in the notes to the accounts.
3. Except as reported in this annual report, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect:
 - (i) the operations of the company
 - (ii) the results of those operations or
 - (iii) the state of affairs of the company in the financial year subsequent to 31 December, 2003.
4. The directors do not have an interest in any contract or proposed contract with the company, are not parties to any material contract involving directors' interests, and are not in receipt of any loans or benefits other than the aggregate amount of emoluments received or due and receivable by directors shown in the accounts and the amount of fixed salary derived from the company or from a related corporation.
5. No options over shares of the company have been granted by the company during the financial year or since the end thereof; no shares of the company were issued during the year or have been issued since the end thereof by virtue of the exercise of any option granted by the company; and no options over shares of the company are outstanding at the date of this report. Signed this 26th day of February 2004 in accordance with a resolution of the directors of Bougainville Copper Limited.

P. R. Taylor
Chairman and Managing Director

M. A. Moramoro
Director



CORPORATE GOVERNANCE STATEMENT

For the financial year ended 31 December 2003

Governance Overview

The Board is responsible to ensure that Bougainville Copper Limited (BCL) is managed in a way that meets the objectives of all its shareholders, while paying proper regard to the interests of external stakeholders. This statement outlines the main corporate governance practices that were followed during the financial year ended 31 December 2003. The Directors are committed to high standards of corporate governance. The recommendations of the ASX Corporate Governance Council ("Council") on corporate governance practices have been considered by the Board. The Directors concluded that the corporate governance structures and processes in place at BCL are substantially in compliance with the Council's recommendations. In some areas, minor changes were required which have been concluded or are in the process of implementation.

The Board has noted that the Council described corporate governance as "the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimized. There is no single model of good corporate governance. What constitutes good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet those circumstances."

The Directors are aware of the valuable contribution made to the company by its major shareholder Rio Tinto Limited ("RTL") in terms of policies and practices.

Notwithstanding this, the Directors acknowledge that they must, and do act in the best interests of all shareholders.

Board Responsibilities & Charter

The Board has instituted a Charter and will review its suitability on an annual basis.

In carrying out its responsibilities and powers, the Board at all times recognises its over-riding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Company's shareholders and employees and the community.

The Directors approve strategy and business plans and monitor the performance of the Company against these plans. The Directors also monitor compliance with policies prescribed by the Board in areas such as health and safety, environment, business ethics, internal control and risk

management. These policies are designed to ensure that Bougainville Copper Limited meets or exceeds the regulatory requirements governing its operations.

The Board is aware that related party transactions must be considered carefully and these are vetted by the independent Directors on the Audit Committee. Directors associated with the relevant related party do not vote on transactions involving the related party.

In addition to the matters expressly required to be approved by the Board by law, the powers specifically reserved for the Board are:

- (a) the confirmation of the appointment of the Managing Director;
- (b) all matters in excess of discretions that it may have delegated to the Managing Director; and;
- (c) approval of each of the following:
 - (i) the acquisition, divestments or establishment of any significant business assets;
 - (ii) changes to the discretion delegated from the Board;
 - (iii) business strategy and the annual operating plan;
 - (iv) changes to the capital and operating approval limits of the Managing Director;
 - (v) the annual report and full-year/half-year results;
 - (vi) interim and final dividends payable;
 - (vii) significant changes in accounting policies or practices;
 - (viii) auditor remuneration and recommendations for appointment or removal of auditors; and
 - (ix) proposed business ventures not in the ordinary course of the Company's business.

The Company's formalisation and disclosure of the functions reserved to the Board and those delegated to management are consistent with recommendation 1.1 of the Council.

Board Composition

During the reporting period the Board of Directors of Bougainville Copper Limited consisted of six directors up to October 2003 and five directors thereafter. The Chairman was Mr Barry Cusack until October 2003 and thereafter Mr. Peter Taylor. Mr. Cusack was a former executive of Rio Tinto Limited and Mr. Taylor is a current executive of Rio Tinto Limited. RTL holds a 53.58% interest in the share capital of BCL. Mr Kuma Aua is an employee of the Papua New Guinea Government, which holds a 19.06% interest in BCL.

Details of the Directors, their qualifications and experience are set out on page 6.

Qualification for Board membership is related to the mix of skills and knowledge that the Board considers will best serve the interests of BCL and all of its shareholders.

Decisions relating to appointment of Directors are made by the full Board. Directors appointed by the Board are required by BCL's Constitution to submit themselves for election by shareholders at the Annual General Meeting following their appointment. There is no share ownership qualification for appointment as a Director. The Board has not established a nomination committee. The Board recognises that this is not compliant with recommendation 2.4 of the Council, but considers that existing practices are satisfactory.

Directors are subject to retirement by rotation in accordance with BCL's Constitution, but may offer themselves for re-election. The person holding the position of Managing Director is not subject to retirement by rotation while holding that position.

Independence

The Board of Directors does not consist of a majority of "independent" Directors. Mr Kuma Aua is an employee of the PNG Government, a substantial shareholder; Dr Moseley Moramoro is a former executive of Rio Tinto, the majority shareholder and Mr Peter Taylor is a current executive of Rio Tinto. In those circumstances BCL is in non-compliance with recommendation 2.1 of the Council. The composition of the Board recognises Rio Tinto Limited's majority shareholding, the Papua New Guinea government's major shareholding and the PNG experience Dr. Moramoro brings to the Board. The Directors are required to, and do, act in accordance with their statutory duties of good faith and for a proper purpose. All related party transactions, including those with Rio Tinto Limited, have been determined to be in the interests of the Company. In particular, the Board's decision to approve a Management Services Agreement with Rio Tinto Services Ltd (a wholly-owned subsidiary of RTL) was made after the related party transaction was considered by Directors not associated with Rio Tinto.

The Directors believe that it is appropriate for Mr. Taylor to have the dual responsibility of Chairman and Managing Director. Whilst this is not compliant with recommendation 2.2 of the Council, the Board considers that Rio Tinto's 53.58% shareholding warrants this appointment, and given the respective roles of Managing

Director and Chairman have been codified with authority levels set for each position to ensure the combined roles do not result in unfitted power being held by a single member of the Board.

Audit Committee

The Audit Committee is appointed by the Board and comprises three non-executive Directors of whom two are independent. Mr David McLellan, an independent Director, is the Chairman of the Audit Committee. The Board has approved a formal Charter for this committee.

The Committee provides a formal structure for reviewing BCL's financial statements, accounting policies, control systems, risk management practices and liaising with the external and internal auditors.

The Committee advises the Board of any matters that might have a significant impact on the financial condition of Bougainville Copper Limited and has the authority to investigate any matters within the terms of reference, having full access to the information and resources of Bougainville Copper Limited to fulfill its function. Related party transactions are considered by the Audit Committee. The Committee reviews compliance with PNG law, BCL being a PNG registered company, and the requirements of the Australian Stock Exchange and other regulatory requirements.

Attendance details of the 2003 meetings of the Audit Committee are set out in the table below.

DIRECTOR	Meetings Attended	Meetings Whilst in Office
D McLellan (Chairman)	4	4
B Alexander	4	4
M Moramoro	4	4

Any work to be conducted by the external auditor other than the audit is approved by the Audit Committee.

Among the Committee's responsibilities is the review of the adequacy of existing internal and external audit arrangements, accounting policies, financial reporting and procedures, risk management, taxation and the oversight of compliance with internal control systems and regulatory requirement.

The Committee seeks to ensure that the Board is made aware of any matters that might have a significant impact on the financial condition or affairs of the Company. The financial reporting practices and the composition of the Audit Committee complies with recommendations 4.1, 4.2, 4.3 and 4.4 of the Council.

Risk Identification & Management

Bougainville Copper Limited has in place a range of policies and procedures to manage the risks associated with its operating activities. These policies have been adopted by the Board to ensure that potential business risks are identified and appropriate action taken. The management of risk is an integral part of the responsibility of both the Board and Management and is carried out through an integrated risk management assurance process. BCL benefits from the knowledge, policies and practices adopted by Rio Tinto Limited to manage its diverse business activities covering a variety of commodities and operation locations.

The Board has in place a number of systems to identify and manage risk. These include:

- the identification and regular review of all of the significant business risks facing the Company;
- the provision of information by Management to the Board, on a periodic basis, as to the status of any plans, controls, policies and/or procedures to manage the significant business risks;
- guidelines for ensuring that capital expenditure and revenue commitments exceeding certain approved limits are placed before the Board for approval;
- limits and controls for all financial exposures;
- a regulatory compliance program; and
- safety, health and environment policies which are supported by a set of standards and management systems which recognise the Company's commitment to achieving high standards of performance in all its activities in these areas

The Board, having reviewed and adopted them as appropriate for the Company, acknowledges that BCL has agreed to comply with all relevant Rio Tinto Limited health, safety and environment policies and believes there are considerable advantages.

These policies and procedures satisfy recommendation 7.1 of the Council.

The Managing Director and the Rio Tinto Chief Financial Officer responsible for BCL state in writing to the Board that: "the financial reporting and operational results are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board". This process satisfies recommendation 7.2 of the Council.

Board Meetings

The Board normally has four scheduled meetings per year and may meet at other times to deal with urgent issues. In 2003 there were 4 meetings of the Board and the attendance details for Directors are set out in the table above.

DIRECTOR	Meetings Attended	Meetings Whilst in Office
*B Cusack	4	4
B Alexander	4	4
K Aua	3	4
D McLellan	4	4
M Moramoro	4	4
P Taylor	4	4

* Mr Cusack retired on 21 October 2003.

Independent Professional Advice

Directors may seek independent professional advice, both individually and collectively at BCL's expense. Directors are required to give prior notice to the Chairman of their intention to seek independent professional advice and provide the names of any professional advisers they propose to instruct together with a brief summary of the subject matter. Any advice obtained by a Director must be made available to the other Directors.

Remuneration

BCL has no employees of its own. The Company's day to day management is conducted pursuant to the Service Agreement with Rio Tinto Services Limited.

Remuneration of senior executives providing management services to BCL under the Agreement is administered by Rio Tinto in conformance with Rio Tinto Limited senior management remuneration systems.

The Board considers that application of Rio Tinto's Remuneration Policy complies with recommendations 9.1, 9.3 and 9.4 of the Council. The Board does not consider it necessary to establish a Remuneration Committee as proposed by the Council (Recommendation 9.2) given the size of the Board and any remuneration matters are dealt with at Board level.

The maximum limit for Directors' remuneration is determined by shareholders in a General Meeting. Within that allowance the remuneration of Directors is generally determined by the full Board after taking into account data on market remuneration levels. During 2003 there was no increase in Directors remuneration. Neither the Managing Director nor the PNG Government nominated director receives directors' fees.

Details of Directors' remuneration and superannuation are set out in the financial statements.

There are no executive based share schemes provided by BCL.

Purchase and Sale of Company Securities

BCL complies with the Rio Tinto Limited policy that reinforces to all directors and officers the prohibition against insider trading. The Share Trading Policy is available for inspection on RTL's website in compliance with recommendation 3.2 of the Council.

Under the policy:

- Directors and senior managers must advise the Chairman if they intend to purchase securities in the Company or any other company with which BCL is conducting business. In regard to his own dealings the Chairman is required to notify the full Board.
- No dealings in securities by directors and officers of the Company may take place during the period two months immediately preceding the announcement of the Company's annual results or half year results.

Particulars of Directors' Interests in Shares and Options

The particulars of the Directors' interests in shares in the Company and related bodies corporate as at 31 December 2003 are set out on page 7.

Each of the Directors has given a general notice in accordance with PNG corporations law (and consistent with the Australian Corporations Act 2001) stating that he is an officer and/or member of certain specified corporations and, as such, is to be regarded as having an interest in any contract which may be made between BCL and those corporations.

Performance Self-Assessment

The Board does not currently have a formal process for Board performance evaluation. This matter is currently under review by the Board.

Code of Conduct

BCL has adopted Rio Tinto's Code of Conduct and statement of business practice, "**The Way We Work**". (conforms with Recommendation 10.1)

All employees of Rio Tinto Limited providing services to BCL are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations applicable to the Company. These employees are required to comply with RTL's statement of business practice - "**The Way We Work**" and as a consequence, BCL conforms with Recommendation 3.1 of the Council.

Rio Tinto policy applies to all staff and Directors at BCL in relation to disclosure and trading in Rio Tinto and BCL shares. (conforms with Recommendation 3.2)

Rio Tinto Limited has a confidential whistleblower program known as "Speak-Out". Employees of RTL engaged in BCL business are encouraged to report any unethical or illegal practices through this process.

Public Statements & Disclosure Matters

BCL makes full and timely disclosures to its shareholders and the market in accordance with its legal and regulatory obligations. Established systems are in place to ensure compliance. The Managing Director and Company Secretary are responsible for such disclosures. The Company's policies and procedures comply with recommendation 5.1 of the Council.

Shareholder Communication

The Board informs shareholders and others of all major developments and complies with its continuous disclosure requirements. Any material information is announced to the Stock Exchange in accordance with the Listing Rules. The Company has under development a more comprehensive communication strategy to achieve more effective communications with its stakeholders. This is in accordance with recommendation 6.1 of the Council.

In compliance with recommendation 6.2 of the Council, the external auditor attends the annual general meeting to answer shareholder questions.

STATEMENT OF EARNINGS

Bougainville Copper Limited year ended 31 December, 2003		2003	2002
	Notes	K'000	K'000
Income			
Interest		7 547	9 202
Net exchange gain	5	3 087	289
Unrealised gain on revaluation of investments		6 404	1 839
Realised gain on disposal of investments		357	469
Dividends		1 839	174
		19 234	11 973
Costs and Expenses			
General and administration expenses	2	(4 737)	(4 103)
Operating Profit		14 497	7 870
Income Tax	4	-	-
Operating Profit After Tax		14 497	7 870
Earnings per share (toea)		3.61	1.96

STATEMENT OF
MOVEMENTS IN EQUITY

	Paid up Capital K'000	Asset revaluation reserve K'000	Accumulated losses K'000	Total K'000
Brought forward at 01.01.02	401 063	31 276	(130 588)	301 751
Operating profit - 2002	-	-	7 870	7 870
Dividends paid - 2002	-	-	(8 014)	(8 014)
Balance at 31.12.02	401 063	31 276	(130 732)	301 607
Operating profit - 2003	-	-	14 497	14 497
Dividends paid - 2003	-	-	-	-
	401 063	31 276	(116 235)	316 104

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

BALANCE SHEET

Bougainville Copper Limited year ended 31 December, 2003		2003	2002
		K'000	K'000
FUNDS EMPLOYED:			
Shareholders' Funds			
Paid up capital	10	401 063	401 063
Asset revaluation reserve	8	31 276	31 276
Accumulated losses		(116 235)	(130 732)
		<u>316 104</u>	<u>301 607</u>
NON - CURRENT LIABILITIES			
Provisions	6(b)	22 073	22 073
Other creditors	6(b)	4 518	4 520
Income tax	4(b)	6 759	6 759
		<u>33 350</u>	<u>33 352</u>
CURRENT LIABILITIES			
Creditors	6(a)	1 028	1 264
TOTAL FUNDS		<u>350 482</u>	<u>336 223</u>
THESE FUNDS ARE REPRESENTED BY:			
NON - CURRENT ASSETS			
Investments	3	121 249	18 882
Other debtors	9(b)	3 909	3 909
Mine assets	7	197 894	197 894
		<u>323 052</u>	<u>220 685</u>
CURRENT ASSETS			
Cash and cash equivalents		22 976	110 216
Other debtors	9(a)	4 454	5 322
		<u>27 430</u>	<u>115 538</u>
TOTAL ASSETS		<u>350 482</u>	<u>336 223</u>

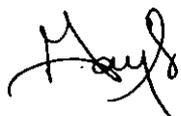
*Details of contingent liabilities and assets are shown in note 12.
All amounts are expressed in Papua New Guinea kina.
Rounding to the nearest thousand kina has been adopted.
The notes commencing on page 15 form part of these accounts
and are to be read in conjunction with them.*

STATEMENT OF CASH FLOWS

Bougainville Copper Limited year ended 31 December, 2003	2003 K'000	2002 K'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers	(5 451)	(3 999)
Interest received	8 404	9 619
Dividends received	1 839	174
Net Operating Cash Flows	4 792	5 794
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	-	(8 014)
Net financing cash flows	-	(8 014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of shares in non-related entities	(98 749)	(16 758)
Proceeds from sales of shares in non-related entities	3 630	3 148
Proceeds from sales of property, plant and equipment	-	-
Net investing cash flows	(95 119)	(13 610)
NET INCREASE / (DECREASE) IN CASH HELD		
Net cash flow	(90 327)	(15 830)
Cash and cash equivalents at beginning of year	110 216	125 757
Effect of exchange rate changes on cash held	3 087	289
Cash and cash equivalents at end of year	22 976	110 216

*All amounts are expressed in Papua New Guinea kina.
Rounding to the nearest thousand kina has been adopted.
The notes commencing on page 15 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 and
Managing Director



M. A. Moramoro
Director

26 February 2004

NOTES TO ACCOUNTS

These notes form part of the 2003 accounts of Bougainville Copper Limited and should be read in conjunction with them.

1. (a) BASIS OF PREPARATION

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. At the same time, because the assets are not in use, normal depreciation charges, to reflect wear and tear from their utilisation in production, are not technically appropriate.

Nevertheless, 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 general provision 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 which 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, despite the current cessation of operations.

1. (b) ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are stated to assist in a general understanding of the financial statements. It should be noted that the principal policies set out below are applicable only because of the basis of accounting adopted for the reasons set out above. Accounting policies relevant to mining operations are not presented. The policies generally comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea. They are consistent with those adopted in the previous period 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:

Following cessation of mining activities, in 1991 a general provision of K350 million was made for deterioration, damage or pilferage of company assets on Bougainville. The accuracy of that provision cannot be proved, because 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 general provision has been made since 1991. The Directors consider that any further review of the general provision 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:

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 rate 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.

PROVISIONS:

Provision is made for compensation, rehabilitation and stabilisation for which the company may be liable as a consequence of cessation of operations. The amount previously shown as a liability for landowners' compensation has been classified as a provision.

INVESTMENTS:

Investments in marketable securities (shares in other corporations) are classified as 'available for sale'. 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 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 recognized 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. Realised and unrealized gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

Investments in treasury bills issued by the Bank of Papua New Guinea are classified under cash and cash equivalents. These are all intended to be held to maturity, which is typically one to three months. These are measured at cost with accrued interest included in other debtors.

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.

Bougainville Copper Limited year ended 31 December, 2003

	2003 K'000	2002 K'000
2. GENERAL AND ADMINISTRATIVE EXPENSES		
Remuneration of Directors (Note 11)	955	660
Auditors' remuneration - auditing the accounts	22	30
- taxation and exchange control services	537	153
(The auditors have received no other benefits)		
Insurance	161	223
Management fees - related party (Note 16)	1 596	1 486
Other general and administrative expenses	1 466	1 551
	4 737	4 103
3. INVESTMENTS		
Non-current		
Quoted shares in other corporations - at market value	121 249	18 882
	121 249	18 882

Bougainville Copper Limited year ended 31 December, 2003	2003 K'000	2002 K'000
----------------------------------------------------------	---------------	---------------

4. TAXATION

(a) The following reconciliation discloses the items which caused the charge for income tax in the statements of earnings to vary from the income tax prima facie payable on reported earnings:

Operating profit before taxation	14 497	7 870
Prima facie income tax @ 30%	4 349	2 361
Future tax benefit now recognised	(4 349)	(2 361)
Income tax expense	-	-

(b) An agreement between the Independent State of Papua New Guinea and Rio Tinto Limited provides for the deferral of income tax payable in respect of the 1989 year until certain criteria have been met following successful recommencement of operations.

(c) The future income tax benefit relating to tax losses has not been brought to account because their realisation is not probable.

Available tax losses carried forward amount to K 109 737 855 (2002 K 115 242 969).

5. EXCHANGE FLUCTUATION

(a) The net exchange gain reflected in earnings arose from:

Overseas cash balances	3 087	289
------------------------	-------	-----

(b) Foreign currency amounts included in current assets, non-current assets and current liabilities that are not effectively hedged are:

Current assets: kina equivalent of Australian dollars	4 756	555
Non current assets: kina equivalent of Australian dollars	112 344	17 890
Current liabilities: kina equivalent of Australian dollars	9	189

No foreign currency amounts are included in non-current liabilities.

6. LIABILITIES

Creditors

(a) Current

Provision for care and maintenance	830	830
Trade creditors	10	191
Related corporations	188	243
	1 028	1 264

(b) Non-current

Other creditors	4 518	4 520
-----------------	-------	-------

Creditors that have been carried forward since the mine closure have been classified as non-current liabilities, as the directors consider they are unlikely to be settled within the following year. Aged creditors that are no longer considered payable have been written back.

Provision for compensation, rehabilitation and stabilisation	22 073	22 073
--------------------------------------------------------------	--------	--------

The company has a provision for compensation, rehabilitation and stabilisation for which it may be liable as a consequence of cessation of operations.

The directors consider that the provision held of K 22.07 million is adequate to cover claims for which the company may be liable.

Bougainville Copper Limited year ended 31 December, 2003	2003 K'000	2002 K'000
7. MINE ASSETS		
(a) Mine development and buildings.		
- at directors' 1980 valuation	292 165	292 165
Less accumulated depreciation	159 721	159 721
	132 444	132 444
- at cost	102 988	102 988
Less accumulated depreciation	38 664	38 664
	64 324	64 324
Net mine development and buildings	196 768	196 768
(b) Plant, machinery & equipment		
- at directors' 1980 valuation	245 177	245 177
Less accumulated depreciation	148 866	148 866
	96 311	96 311
- at cost	304 486	304 486
Less accumulated depreciation	104 703	104 703
	199 783	199 783
Net plant, machinery & equipment	296 094	296 094
(c) Mine property		
- at cost	62 121	62 121
Less accumulated amortisation	46 204	46 204
Net mine property	15 917	15 917
(d) Capitalised works in progress		
- at cost	29 112	29 112
Total property, plant & equipment		
- at cost or valuation	1 036 049	1 036 049
Less accumulated depreciation/amortisation	498 158	498 158
Net book value	537 891	537 891
Stores	10 003	10 003
Total mine assets	547 894	547 894
Less general impairment provision	350 000	350 000
Net book value	197 894	197 894
Reconciliation of Movement in Net Book Value.		
Net Book Value at beginning of year	197 894	197 894
Additions	-	-
Disposals	-	-
Net Book Value at end of year	197 894	197 894

The basis of valuation of these assets are set out in note 1.(b) of the accounts and attention is drawn to note 1.(a) titled "Basis of Preparation". Due to the loss of complete historical information following the closure of the mine it is not possible to reliably estimate the carrying amount that would have been included had mine assets been carried at original cost less accumulated depreciation.

Bougainville Copper Limited year ended 31 December, 2003	2003 K'000	2002 K'000
----------------------------------------------------------	---------------	---------------

8. ASSET REVALUATION RESERVE

Asset revaluation reserve	31 276	31 276
---------------------------	--------	--------

In 1980 mine assets were revalued by K300 million. A majority of the reserve created by this revaluation was distributed to shareholders by way of bonus shares leaving a residual amount as shown in this note that has been carried forward.

9. OTHER DEBTORS

(a) Current		
Sundry debtors	1	12
Interest receivable	48	905
Withholding tax receivable	4 405	4 405
	4 454	5 322
(b) Non-current		
Other debtors	7 136	7 136
Provision for doubtful debts	(3 227)	(3 227)
	3 909	3 909

Debtors that have been carried forward since the mine closure have been classified as non-current assets, as the directors consider they are unlikely to be settled within the following year. A significant proportion of these other debtors are receivable from State owned entities, and are considered subject to offset on settlement against amounts owing to the State owned entities included in other creditors [Note 6 (b)]. Aged debtors that are no longer considered collectable have been written off.

10. CAPITAL

The issued capital of the company is 401 062 500 ordinary shares, fully paid. No change in issued capital occurred during 2003.

11. REMUNERATION OF DIRECTORS

Directors' remuneration, including the value of benefits, received during the year is as follows:

B. L. Cusack *	94	108
B. R. Alexander	70	65
K. Aua	-	-
D. H. McLellan	70	65
M. A. Moramoro	70	65
P. R. Taylor **	651	357

* Mr Cusack retired on 21 October 2003

** Mr Taylor is the Managing Director and is employed by the Rio Tinto Group which pays his salary and entitlements. A portion of the benefits are re-charged under the Management Services Agreement. The amount indicated in the above table is the proportion of the remuneration benefits which have been re-charged to the company.

12. CONTINGENT LIABILITIES AND ASSETS

Bougainville Copper Limited is defendant to an action commenced in the National Court by two plaintiffs seeking declarations that they are the lawful representatives of the mine site and the tailings disposal area landowners and that the Mining Warden is the proper judicial officer to determine what, if any, compensation is due to landowners for the period since the mine closed. The company has made a provision in its accounts to cover an award of landowner compensation.

The Internal Revenue Commission conducted an audit over several months as reported in last year's annual report. The audit covered the period from 1990 to 2001 inclusive. The Internal Revenue Commission has issued assessments claiming additional tax and penalties of K 32 986 495 arising out of the audit. BCL's tax returns for those and all other years were prepared on BCL's considered view of the appropriate tax law. BCL believes its view of the law is correct. The company has received expert advice on the matter including that of senior Australian legal counsel. The company has lodged formal objections and will strenuously defend the claim.

The directors do not expect the company to suffer any material loss as a result of the cancellation of purchase orders for either revenue or capital contracts.

Bougainville Copper Limited year ended 31 December, 2003

13. MINING TENEMENTS

The company holds 100% interest in leases: 1, B9, B6, B8, B7, B2, B10, B3; and prospecting authorities: 1, 2, 3, 4, 5, 6, 7A and 7B on Bougainville Island.

14. HOLDING COMPANY

The holding company is Rio Tinto Limited (incorporated in Australia).

15. SEGMENTAL INFORMATION

The company carried on investment activities during the year. Its assets are the Panguna mine and associated facilities on Bougainville Island, Papua New Guinea, cash and equities listed on the Australian Stock Exchange.

16. RELATED PARTY TRANSACTIONS

Transactions with directors are disclosed in note 11.

In 2003 the company paid fees of K 73 872 (2002 K129 441) to Rio Tinto Services Limited for managing investment funds and K 1 522 558 (2002 K 1 356 626) to Rio Tinto Minerals (PNG) Limited for the provision of office space, staff and related services.

With the exception of the above the company did not enter into any other transactions with related parties.

17. FINANCIAL INSTRUMENTS

The company's financial instruments include cash and cash equivalents, equity investments, receivables and accounts payable.

(a) Financial Risk Management

The company's activities expose it to a variety of financial risks, including the effects of changes in market prices, foreign currency exchange rates and interest rates. The company monitors these financial risks and seeks to minimize the potential adverse effects on the financial performance of the company. The company does not use any derivative financial instruments to hedge these exposures.

(b) Foreign exchange risk

The company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currencies arise. It is not the company's policy to hedge these foreign currency risks. Details of exchange fluctuations and foreign currency amounts are shown in note 5.

(c) Credit Risk

The company has no significant concentrations of net credit risk.

(d) Liquidity Risk

The company aims to prudently manage liquidity risk by maintaining sufficient cash and other liquid assets or the availability of funding through uncommitted credit facilities.

(e) Fair Value Estimation

The company is not in a position to determine the fair values of its receivables and payables due to the significant uncertainties arising from the closure of the mine. The face value of bank balances and short term liquid investments are assumed to approximate their fair values. Equity investments are carried at their fair value, being market price.

INDEPENDENT AUDIT REPORT

Independent Audit Report to the Members of Bougainville Copper Limited

Qualified Audit Opinion

Because of the existence of the limitation in the scope of our work and the fundamental uncertainties, including the matters described in the qualification paragraphs below, and the effects of such adjustments, if any, as might have been determined to be necessary had the uncertainties not existed:

- (a) we have not obtained all the information and explanations that we have required, and
- (b) we are unable to, and do not express, an opinion as to whether the financial report of Bougainville Copper Limited:
 - (i) gives a true and fair view of the financial position of Bougainville Copper Limited as at 31 December 2003 and its performance for the year then ended; and
 - (ii) is presented in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

In our opinion proper accounting records have been kept by the company as far as appears from our examination of those records.

This opinion must be read in conjunction with the qualification paragraphs below and the rest of our audit report.

Qualification

The financial report of Bougainville Copper Limited for the year ended 31 December 2003 has been prepared with the inclusion of the Company's mine assets at their 1 January 1991 book value, with a separate general provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in note 1(a) 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 2003. 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 as a consequence of cessation of operations. The Company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The mine assets, which represent 56% of the book value of total assets and 63% of the book value of net tangible assets, and the liability for compensation, rehabilitation and stabilisation, are of fundamental importance to the presentation of the accounts. In view of the significant uncertainty over the carrying amount of the mine assets and the liability for compensation, rehabilitation and stabilisation as set out above, we are unable to form an opinion as to whether or not the financial report gives a true and fair view of the financial position of the Company as at 31 December 2003 and its performance for the year ended on that date.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of movements in equity, statement of cash flows, and the accompanying notes to the financial statements for Bougainville Copper Limited (the company) for the year ended 31 December 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of the Papua New Guinea Institute of Accountants and the Companies Act 1997.

PricewaterhouseCoopers

by J.C. Seeto

**Registered under the Accountants Registration Act (1996) Port Moresby,
on this 26th day of February, 2004**

CORPORATE INFORMATION

BOUGAINVILLE COPPER LIMITED

(Incorporated in Papua New Guinea)

Registered Office:

6th Floor, Pacific Place,
Cnr Champion Parade & Musgrave Street, Port
Moresby Papua New Guinea
Telephone: +(675) 309 2800 Facsimile: +(675) 321 3634

Principal Registered Office in Australia:

Bougainville Copper Limited A.R.B.N. 007 497 869
Level 33, 55 Collins Street, Melbourne, VIC. 3000.
Telephone: (03) 9283 3333 Facsimile: (03) 9283 3707

Share Registers:

c/o Deloitte Touche Tohmatsu
12th Floor, Deloitte Tower,
Douglas Street, Port Moresby Papua New Guinea
Telephone: +(675) 3087000 Facsimile: +(675) 3087001

c/o Computershare
Registry Services Pty Ltd
Level 12, 565 Bourke Street, Melbourne, VIC. 3000.
Telephone: (03) 9611 5711 Facsimile: (03) 9611 5710

Postal Address:

GPO Box 2975EE Melbourne, VIC. 3001.

Stock Exchanges:

Listed with the Australian Stock Exchange Limited.

Auditors:

PricewaterhouseCoopers
PO Box 484 Port Moresby Papua New Guinea

Bankers:

Commonwealth Bank of Australia
Papua New Guinea Banking Corporation

Solicitors:

Allens, Arthur Robinson
Gadens Lawyers

TWENTY LARGEST SHAREHOLDERS

The twenty largest shareholders as at 26 February, 2004 and the number of shares held by each were:

Name and Registered Address	Shares	% of Issued Shares
1 Rio Tinto Limited Melbourne VIC	214 887 966	53.58
2 The Independent State of Papua New Guinea	76 430 809	19.06
3 ANZ Nominees Limited Melbourne VIC	30 924 606	7.71
4 Citicorp Nominees Pty Limited Melbourne VIC	26 398 336	6.58
5 Westpac Custodian Nominees Limited Sydney NSW	7 821 685	1.95
6 National Nominees Limited Melbourne VIC	3 132 780	0.78
7 Public Officers Superannuation Fund Board Port Moresby PNG	2 361 500	0.59
8 J P Morgan Nominees Australia Limited Sydney NSW	2 140 810	0.53
9 Franz Heinrich Rast Bulli NSW	1 657 440	0.41
10 Dr Thomas John Beresford Wheelers Hill VIC 3150	1 620 157	0.40
11 James West Brisbane QLD	1 529 511	0.38
12 Hong Kong Toys Limited Cook Islands	1 000 000	0.25
13 BB Nominees Pty Limited Melbourne VIC	900 000	0.22
14 Deep Investments Pty Limited Pymble NSW	629 343	0.16
15 Mr Anthony Patrick Cahill Ascot Vale VIC	425 600	0.11
16 Miss Madeline Anne Eldridge Glen Waverley VIC	410 000	0.10
17 The Abdelmalek Family Pty Limited Condell Park NSW	400 000	0.10
18 Mr Geok Loo Goh Singapore	400 000	0.10
19 Mr Donald Ranaweera MBE Columbo Sri Lanka	400 000	0.10
20 Deep Valley Pty Limited Virginia QLD	377 000	0.09
	373 847 543	93.20

CORPORATE INFORMATION**DISTRIBUTION OF SHARES**

As at 26 February 2004: The issued shares of the company were 401 062 500 fully paid one kina shares, each carrying one voting right.

The number of shareholders was 16 374.

The distribution of holdings of the issued shares was:

1 - 1 000	shares	13 517	82.55
1 001 - 5 000	shares	2 011	12.28
5 001 - 10 000	shares	433	2.65
10 001 - shares and over		413	2.52
Total Shareholders		<u>16 374</u>	<u>100.00</u>

There were 14 156 holdings of shares (86.45%) which do not form a marketable parcel.

93.20% of the total issued shares were held by or on behalf of the twenty largest shareholders.

The substantial shareholders were:

Rio Tinto Limited and its wholly-owned subsidiary Rio Tinto Base Metals Pty Limited 214 887 966 shares (53.58%); Rio Tinto plc has an interest in the same shares through its wholly-owned subsidiaries' (Tinto Holdings Australia Pty Limited, Melbourne Vic; Rio Tinto Australian Holdings Limited, Rio Tinto Pacific Holdings Limited and Rio Tinto International Holdings Limited, all of London, UK) interests in Rio Tinto Limited and Rio Tinto Base Metals Pty Limited; The Independent State of Papua New Guinea - 76 430 809 shares (19.06%).

APPLICABLE JURISDICTION

The company is incorporated in Papua New Guinea and is not generally subject to Australian Corporations Law including, in particular, Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and take-overs), but is instead subject to the provisions of the Papua New Guinea Companies Act 1997 and Securities Act 1998.

DISTRIBUTION OF THE BENEFITS

Bougainville Copper Limited year ended 31 December, 2003	2003	K million	1972-2003
PNG GOVERNMENT			
Corporate income tax*	-		514.2
Additional profits tax*	-		72.6
Group tax (PAYE)	-		122.2
Customs duty	-		104.1
Miscellaneous	-		10.1
Dividends*	-		167.4
Dividends WHT*	-		97.6
	-		<u>1 088.2</u>
NSP GOVERNMENT			
Royalties (95% to NSPG)	-		61.4
Non Renewable Resources Fund	-		1.8
Other taxes	-		12.0
	-		<u>75.2</u>
LANDOWNERS			
Royalties (5% to Landowners)	-		3.2
Compensation	-		35.0
	-		<u>38.2</u>
NON-GOVERNMENT SHAREHOLDERS			
Dividends net of dividend WHT*	-		582.1
EMPLOYEES			
Wages (less PAYE)	-		575.6
TOTAL	-		<u>2 359.3</u>

Not included in the above table are the benefits received by the providers of goods and services to Bougainville Copper Limited. A company survey in 1989 revealed that there were approximately 200 Bougainville based business enterprises dependent largely upon Bougainville Copper Limited's operation. These enterprises employed in excess of 4,000 people prior to the mine closure.

* These amounts relate to the referable year (i.e. the year in which the amount became due) and hence the cash effect on the PNG economy has a delayed impact.

BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

Statistical Summary

FINANCIAL	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Earnings (K million)													
Net sales revenue and other income*****	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****	4.7	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	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)	3.1	0.3	-	-	0.4	0.5	-	-	6.6	9.2	(0.3)	1.5	0.1
Earnings/(loss) before taxation	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)	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	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)
Balance Sheet (K million)													
Property, plant & equipment	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	121.2	18.9	3.1	-	-	-	-	-	-	-	-	-	-
Current and other non-current assets	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	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	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	33.4	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	1.0	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	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
PRODUCTION / SALES													
Mined													
Ore and waste removed (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore milled (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore grade													
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-
Produced													
Concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-
Contained copper (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-
Concentrate grade													
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-
Silver (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipped													
Total concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-
Destination:													
Japan (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asian (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
All other (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Values													
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution by:													
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER													
US\$/Kina exchange rate	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)	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)	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)	4.6	2.6	2.8	5.4	5.0	2.9	0.5	2.2	2.9	3.2	-	-	-
Earnings per share** (toea)	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
Number of shareholders at end of year	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

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972*
Net sales revenue and other income*****	80.2	231.6	493.4	415.4	342.7	317.6	310.9	392.9	283.2	296.4	338.7	343.1	225.1	205.3	208.9	193.1	292.6	252.4	95.9
Operating and other expenses****	36.8	181.7	244.8	227.5	223.7	221.5	234.8	228.1	207.2	210.8	174.8	144.1	125.0	126.8	117.5	107.2	92.5	81.8	53.3
Depreciation*****	51.5	47.3	43.9	49.4	47.3	47.6	46.5	47.0	44.2	43.3	43.8	40.7	40.4	36.2	31.1	29.6	28.5	24.8	14.5
Earnings/(loss) before taxation and exchange gains	(8.1)	2.6	204.7	138.5	71.7	48.5	29.6	117.8	31.8	42.3	120.1	158.3	59.7	42.3	60.3	56.3	171.6	145.8	28.1
Exchange gains/(losses)	(0.5)	2.5	(2.9)	2.6	2.3	(1.4)	(2.8)	(16.3)	(3.3)	1.1	2.6	3.5	10.3	(0.1)	1.3	2.3	9.5	12.9	(0.4)
Earnings/(loss) before taxation	(8.6)	5.1	201.8	141.1	74.0	47.1	26.8	101.5	28.5	43.4	122.7	161.8	70.0	42.2	61.6	58.6	181.1	158.7	27.7
Income tax	6.0	25.7	70.0	50.6	28.7	19.0	15.2	46.9	17.3	20.6	39.6	57.5	22.0	13.7	20.3	12.4	49.1	0.3	-
Additional profits tax	-	-	23.2	-	-	-	-	-	-	-	11.6	20.4	-	-	-	-	-	-	-
Net earnings/(loss)	(14.6)	(20.6)	108.6	90.5	45.3	28.1	11.6	54.6	11.2	22.8	71.5	83.9	48.0	28.5	41.3	46.2	114.6	158.4	27.7
Dividends paid	-	-	108.3	92.2	44.1	28.1	16.0	52.1	10.0	20.1	80.2	106.9	40.1	21.4	26.7	26.7	73.5	81.4	11.0
Earnings/(losses) retained	(14.6)	(20.6)	0.3	(1.7)	1.2	-	(4.4)	2.5	1.2	2.7	(8.7)	(23.0)	7.9	7.1	14.6	19.5	41.1	77.0	16.7
Balance Sheet (K million)																			
Property, plant & equipment	545.9	595.8	570.0	527.8	550.1	568.5	576.2	584.9	622.8	611.2	610.8	325.4	340.1	352.2	350.4	346.0	352.2	371.7	378.7
Investments and loans	-	-	2.2	0.7	0.7	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current and other non-current assets	64.7	59.5	250.1	260.3	190.1	160.4	152.9	185.3	155.9	148.7	148.4	201.0	125.8	137.1	136.0	129.5	205.6	130.4	73.9
Total assets	610.6	655.3	822.3	788.8	740.9	719.1	729.3	780.5	778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
Shareholders' funds	551.1	565.6	586.2	586.0	587.7	586.5	586.5	590.9	588.4	587.2	584.5	294.5	317.5	309.7	302.5	287.9	268.4	227.4	146.7
Exchange fluctuation	-	-	0.2	0.3	(3.2)	(5.9)	(5.3)	(4.7)	(5.4)	1.5	5.1	5.4	9.0	14.6	9.0	11.5	19.1	39.5	24.2
Long term liabilities	47.7	46.9	23.7	24.8	48.1	52.4	52.5	51.6	125.6	80.1	25.7	36.2	42.1	53.3	101.7	106.8	121.1	127.5	204.0
Current liabilities	11.8	42.8	212.2	177.7	108.3	86.1	95.6	142.7	70.2	91.2	144.0	190.4	97.4	111.8	73.3	69.4	149.3	107.8	77.7
Funds employed	610.6	655.3	822.3	788.8	740.9	719.1	729.3	780.5	778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
PRODUCTION / SALES																			
Mined																			
Ore and waste removed (millions of tonnes)	-	33.27	89.78	83.53	79.16	73.62	74.40	81.00	76.22	77.56	79.76	75.97	79.05	70.79	58.54	56.40	56.00	56.65	46.75