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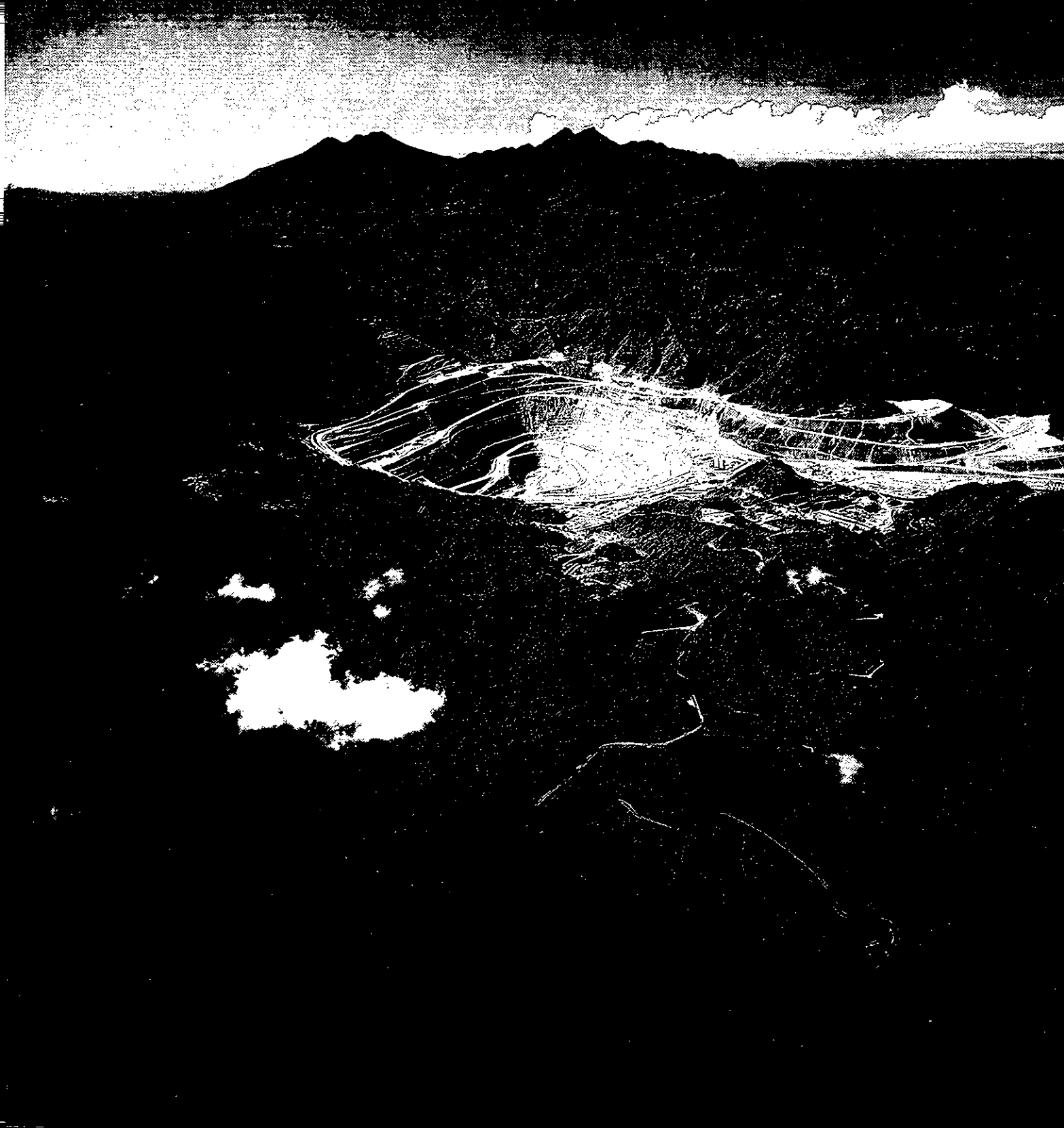
Bougainville Copper Limited
Annual Report 1988



Notice of Meeting

The Annual General Meeting of Bougainville Copper Limited will be held at 10.00 a.m. on Wednesday, 12th April, 1989 in the Panguna Cinema, Panguna, North Solomons Province, Papua New Guinea.

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



Bougainville Copper Limited – the Company

Bougainville Copper Limited operates a large open pit mine and processing facility at Panguna on Bougainville Island in the North Solomons Province of Papua New Guinea. It produces copper concentrate containing significant quantities of gold and silver. The concentrate is sold primarily under long term contracts to smelters in Asia and Europe.

During 1988 the Company mined 89.8 million tonnes of material. Of this, 47.7 million tonnes of ore were treated to produce 552 012 tonnes of concentrate. This concentrate contained 165 957 tonnes of copper, 13 862 kilograms of gold and 48 414 kilograms of silver. Concentrate sales of 570 783 tonnes had a gross sales value of K561.0 million (of which copper and gold contributed 68% and 30% respectively).

The mine commenced commercial production in 1972 and since inception has produced concentrate containing 3.0 million tonnes of copper, 299 tonnes of gold and 763 tonnes of silver. The production had a value of K4.9 billion which represents approximately 45% of the country's exports over that period. During this time contributions to the Government in the form of dividends, taxes and royalties totalled K997 million which represent approximately 17% of internally generated Papua New Guinea Government revenue. Further, the Company's presence in the North Solomons Province has promoted the development of significant local business enterprises to provide goods and services required for the mining operations and for the residents of the Province.

The Company is a major employer in the country employing 3 560 persons of whom 2 950 are Papua New Guinea citizens.

Company training programs have resulted in considerable progress in the localisation of the Company's employees and have also added significantly to the number of skilled workers in the country's workforce.

Bougainville Copper Limited is owned 53.6% by CRA Limited. The Papua New Guinea Government owns 19.1% while the remaining 27.3% of the share capital is held by public shareholders.

Theme of the 1988 Report

Bougainville Copper has been the major corporate contributor to PNG revenue. The theme chosen for this year's Report is the impact of the Company on the Economy of Papua New Guinea.

Directors

D. S. Carruthers (Chairman)
G. Billard
R. J. Cornelius
W. J. N. Davis
P. G. F. Henderson, A.C.
R. B. Moaina
J. T. Ralph, A.O.
D. C. Vernon

Officers

R. J. Cornelius
(Managing Director)
J. L. Auna
(General Manager – Personnel Services)
C. S. Evanson
(General Manager – Business Analysis)
I. Garside
(General Manager – Technical Services)
S. J. Jopling
(General Manager – Support Services)
K. R. Perry
(General Manager – Commercial)
L. K. Tan
(General Manager – Mine)
C. G. Thorne
(General Manager – Concentrator)
G. W. Ewing
(Secretary)

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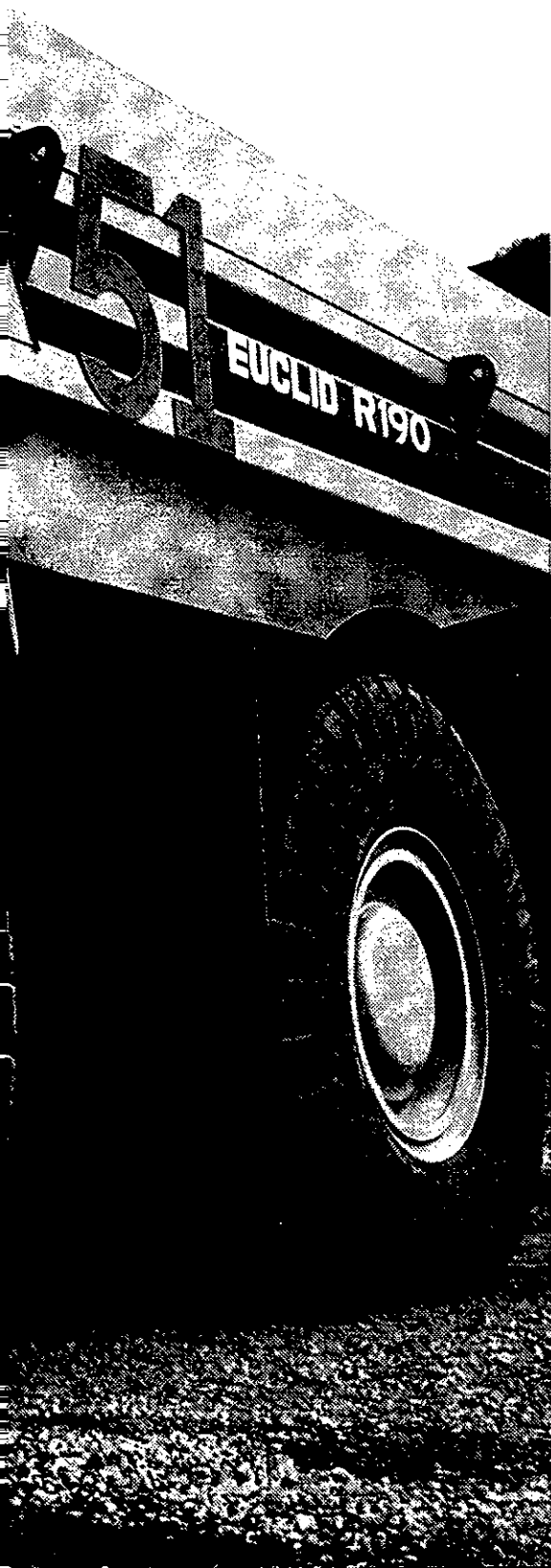
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Year in Brief

- A year of records:
 - Gross sales K561.0 million.
 - Earnings before tax K201.8 million.
 - Taxation K93.2 million.
 - Net earnings K108.6 million (best since 1974).
 - Dividends total K108.3 million.
 - Capital expenditure K87.6 million.
 - Material mined 89.8 million tonnes.
 - Pre-concentration screening plant throughput 31.3 million tonnes.
- 422 employees, including 281 apprentices attended formal training courses and a further 533 attended supervisory and management courses.
- 14th ball mill commissioned; 15th ball mill due for completion early 1989.
- 6 new Euclid R190 haul trucks commissioned; remaining 24 due throughout 1989.
- Sabotage and deliberate destruction of Company property to the value of K1.3 million resulting in 8 days loss of production.



		1988	1987
Concentrate production	(tonnes)	552 012	585 503
containing copper	(tonnes)	165 957	178 211
gold	(kilograms)	13 862	15 088
silver	(kilograms)	48 414	50 599
Net sales revenue	(K'000)	482 776	411 710
Net earnings after tax	(K'000)	108 588	93 629
Earnings per share	(toea)	27.1	23.3
Shareholders' funds	(K'000)	586 256	585 954
Return on shareholders' funds	(per cent)	18.5	16.0
Gross dividends	(K'000)	108 287	92 245
per one kina share	(toea)	27.0	23.0
Depreciation and amortisation	(K'000)	43 941	49 438
Government royalties and taxation	(K'000)	99 190	55 911
Number of employees at 31 December		3 560	3 724

The first of 30 new Euclid R190 haul trucks.

C

Chairman's Statement



D. S. Carruthers, Chairman

Net earnings for 1988 increased by 16% from the 1987 level to K108.6 million. This represents a return of 18.5% on shareholders' funds. Net sales revenue of K483 million and earnings before tax of K202 million were records, reflecting the extremely high copper prices which prevailed throughout the year.

Income tax also reached the record level of K93 million including K23 million in Additional Profits Tax. Total direct payments to the National and Provincial Governments in respect of 1988 operations amount to K151 million, including income tax, dividends and dividend withholding tax, customs duties, royalties and retail sales tax.

Material mined at 89.8 million tonnes was a record, reflecting the greater waste stripping capacity which has been installed. Production of copper and gold contained in concentrate was lower than in 1987, however, as a result of interruptions to operations through local disturbances late in the year, and repairs required to rectify minor cracks in some of the ball mills.

Developments:

A capital program designed to replace certain major items of equipment, achieve marginally increased output and reduce unit costs was commenced in 1987. In total this program will cost more than K300 million over a period of some four years, and will contribute significantly to the cost effectiveness of operations well into the 1990s. To date approximately half of this program of expenditure has been completed.

Expenditure in 1988 totalled K88m, the largest annual outlay since the commencement of the project.

Conditions in Bougainville:

As has been reported in the press, in late November and early December, part of the Company's operations came under attack resulting in damage to some facilities. Explosives were stolen from the mine magazine by armed men, two buildings were burnt down and a number of other buildings and items of equipment were damaged. On two occasions, transmission pylons carrying power from the coastal power station to the mine were felled using explosives. Although the power supply was rapidly restored on both occasions, in order to minimise further loss and interruption to business, production could not be resumed after the second incident until steps were

taken by the National Government to secure the Company's employees and assets.

In all, damage to facilities is estimated at K1.3 million and eight days production was lost involving 13 700 tonnes of concentrate.

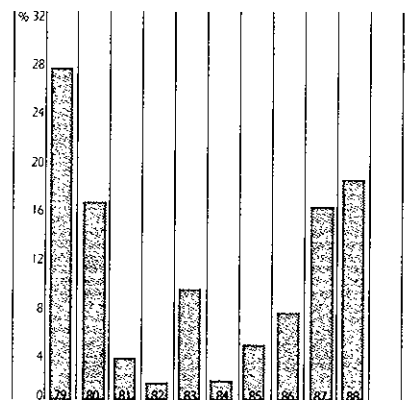
The exceptional efforts of the Company's employees during these disturbances and subsequently deserve special mention. They enabled the normal high operating standards to be maintained, and the most rapid possible resumption of operations following the stoppages.

Disturbances in Bougainville have continued in 1989, but have not been directed particularly at the Company's facilities, and operations have continued normally.

The situation in Bougainville appears to stem from dissatisfaction on the part of some of the villagers with the share of the income they receive from the mining operation and with the distribution of this among various claimants. Since the commencement of operations, total income generated has been disbursed as follows:

	Kmillion	%
Landowners (from compensation payments and royalty)	22	1
Provincial Government (from royalty, and sales and other taxes)	75	5
National Government (from income tax, dividends, dividend withholding tax, and customs duties and other taxes)	919	58
Non-government shareholders (from dividends)	577	36

In addition, there have been substantial indirect benefits to the Nation and the Province from taxes paid by employees (K113 million) and from local businesses servicing the mining operation.



Return on shareholders' funds

It is not clear at this stage how the problems in Bougainville will be resolved. They are part of a wide-spread issue about how the income from mining operations in Papua New Guinea should be distributed. Resolution of this issue will require a strong lead on the part of the National Government. The Company stands ready at all times to participate with the Government in any discussion of these problems.

The Bougainville Copper Agreement:

The operations of the Company are governed by the Bougainville Copper Agreement, as amended and enacted by the House of Assembly in 1974.

The Agreement provides for the National Government and the Company to meet every seven years to review whether the Agreement continues to operate fairly. Such a review was due in 1988. The Company indicated its readiness to commence this review in late 1987 and subsequently during the year.

The review will provide an opportunity for the Company again to press for the lifting of the moratorium on mineral exploration in the North Solomons Province. The moratorium has been in place since 1971. Despite dissatisfaction on the part of some people in the vicinity of the Panguna operation with their share of the benefits from the operation, there are indications that other people in the Province would welcome exploration in the hope that it might lead to development opportunities through mining.

Human Resources:

It is clear that other copper mining operations around the world have significantly improved efficiency and labour productivity in recent years. This highlights the need for Bougainville Copper to increase its efforts in this regard, if it is to maintain its competitive position. A program to

achieve this is being put in place. At the same time the Company's program of increasing localisation of employees will be continued.

I have already referred to the exceptional performance of our employees during and following the disturbances of late last year. This reflects a spirit and a commitment on their part which have been the key to the performance of Bougainville Copper over the years, and of which the employees and the Company can be truly proud. I want to place on record the heartfelt appreciation of Directors for the contribution of our employees during an operationally difficult year.

In addition, I would like to thank Mr. W. D. Searson who has retired as a Director. Mr. Searson is Secretary of the Department of Minerals and Energy, and has been the Government appointee on the Board since 1983. We have been fortunate to have the contribution of such a conscientious, mature and knowledgeable Director.

At the same time, I am pleased to welcome his replacement, Mr Robin Moaina, Deputy Chief Government Geologist.

Outlook:

Growth of the world economy in 1988 continued at a healthier rate than most observers expected. With much of this being driven by higher levels of capital investment than earlier in the decade, demand for metals has remained buoyant. In the case of copper, supply problems in central Africa and South America combined with the buoyant demand to keep inventories low and prices high.

Official forecasts are for only marginally reduced economic growth this year with investment remaining relatively strong. Copper prices will again be influenced by the extent to which producers can overcome problems of supply.

The price of gold declined progressively during the year, in response to increasing supplies of newly mined gold, rising interest rates and reduction of international tensions. Our feeling is that the gold price is likely to remain subdued for some time.

While the world economic outlook is better than most people expected twelve months ago, it is as well to remember that the major issues of the twin deficits of the United States, imbalance in world trade, and the scale of world debt have not been resolved. If interest rates continue to increase, then a continuation of economic expansion could be at some risk.

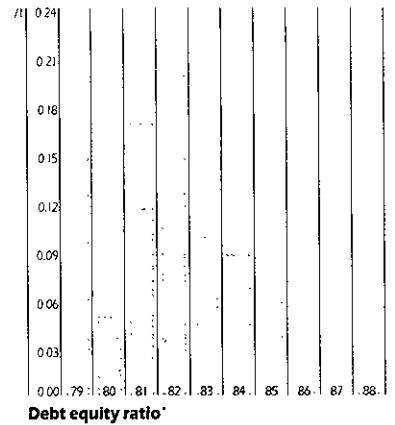
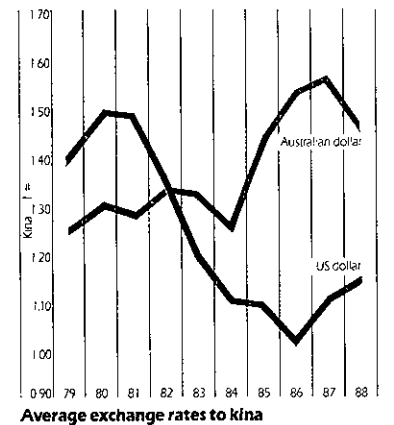
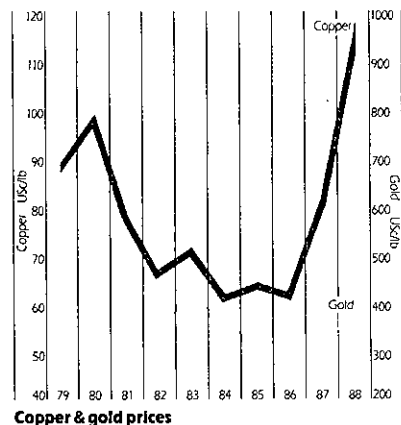
Papua New Guinea Economy:

Overall economic growth in Papua New Guinea in recent years has been sluggish, with growth in private sector employment having been lower than population growth. This represents a serious problem for the country in terms of employment opportunities for the rapidly increasing young population, and much attention is being given to this problem by the National Government.

Two years ago I referred to the emergence in Papua New Guinea of unreasonable expectations of windfall gains from mining developments. Mining represents one of the few industries which offers the prospect of economic growth in the near future, but ways must be found to contain short term expectations if new developments are to materialise and make a contribution.



D.S. Carruthers
Chairman
14 February, 1989



*Ratio of year end loans outstanding to shareholders' funds

Review of Operations



R. J. Cornelius, Managing Director

Ore Reserves:

The recoverable proved ore reserves at the end of 1988 are estimated at 510 million tonnes at 0.42% copper and 0.55 grams per tonne gold.

The recovery of this ore will require the mining of an additional amount of measured mineral resource which is estimated at 530 million tonnes at 0.22% copper and 0.18 grams per tonne gold.

This material is suitable for upgrading by screening, yielding an estimated 200 million tonnes of mill feed averaging 0.34% copper and 0.28 grams per tonne gold.

Accordingly, total available mill feed at the end of 1988 is estimated at 710 million tonnes averaging 0.40% copper and 0.47 grams per tonne gold.

Production:

Production statistics were as follows:

	Year Ended 31/12/88	Year Ended 31/12/87
Material mined (millions of tonnes)		
Ore	47.7	48.2
Waste	42.1	35.3
Waste/Ore ratio	0.88/1	0.73/1
Ore grade		
Copper (per cent)	0.41	0.41
Gold (grams/tonne)	0.41	0.43
Silver (grams/tonne)	1.25	1.33
Concentrate produced (dry tonnes)		
	552 012	585 503
Concentrate grade		
Copper (per cent)	30.1	30.4
Gold (grams/tonne)	25.1	25.8
Silver (grams/tonne)	87.7	86.4
Contained metal in concentrate		
Copper (tonnes)	165 957	178 211
Gold (kilograms)	13 862	15 088
Silver (kilograms)	48 414	50 599

Mine:

Total production from the pit during the year increased to a record of 89.8 million tonnes comprising 47.7 million

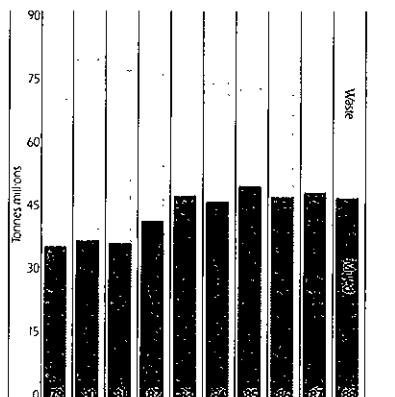
tonnes of mill feed and 42.1 million tonnes of waste. Material processed at the pre-concentration screening plant contributed 13.2 million tonnes to mill feed and 18.1 million tonnes to waste. Copper grade, inclusive of pre-concentration product, remained at 0.41% and gold grade decreased marginally to 0.41 grams/tonne. The increase in the amount of waste dumped reflects the move towards the higher rates required to achieve long-term planned production levels.

As foreshadowed last year, ore reserve estimates have been reviewed. As set out under "Ore reserves" above, there has been a substantial increase in the estimated quantity of contained copper and gold which can be recovered from the Panguna resource. Experience with the operation of the pre-concentration screening plant has contributed to this increase.

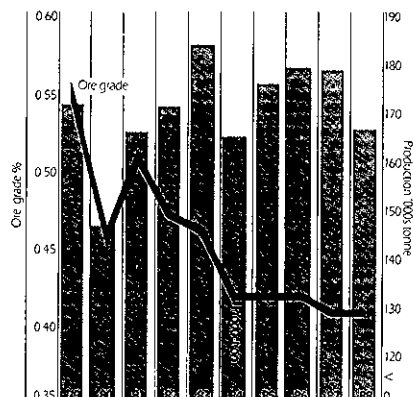
At year end, six of the thirty Euclid R190 replacement haul trucks had been commissioned. The balance will be delivered progressively through 1989. The increased size and improved technology of these new trucks make them 25% more cost efficient than the existing fleet. The in-pit crushing and conveying system, now under construction, will be operational in 1990. Economic studies undertaken to date indicate this new system will be 40% more cost efficient for haulage from deep within the pit.

Three new P&H 2800 XPA electric rope shovels have been ordered to replace four of the existing smaller units. The new shovels have double the digging capacity and, with the remaining seven smaller existing models, will increase mining capacity while still providing the production flexibility to maintain grade control.

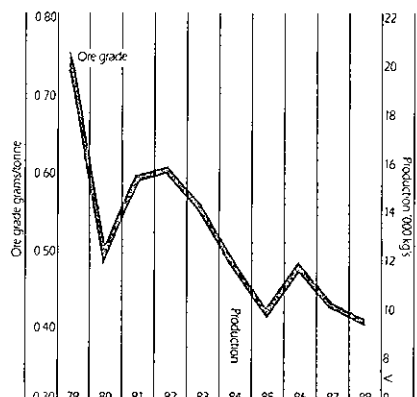
A drilling program commenced in November to define the mineralisation of selected sites within the Special Mining Lease.



Material mined



Copper ore grade & production of contained copper



Gold ore grade & production of contained gold

Concentrator:

Concentrate production was 552 012 (1987: 585 503) tonnes containing 165 957 (1987: 178 211) tonnes of copper, 13 862 (1987: 15 088) kilograms of gold and 48 414 (1987: 50 599) kilograms of silver.

The pre-concentration screening plant reached its design capacity during 1988. Throughput of 31.3 million tonnes was achieved, despite downtime associated with modifications to increase plant reliability and reduce maintenance costs.

Concentrator throughput decreased from 48.2 million tonnes in 1987 to 47.7 million tonnes in 1988. In late May, fatigue cracking was detected in the shell of No.11 ball mill. The cracks were diagnosed as having propagated in the weld zone at the end of the mill. Closer inspection revealed similar but less severe cracks in eight of the original nine ball mills. By year end, six of the damaged mills had been repaired. The remaining mills will be repaired in the first half of 1989. The rewelding has been performed to a high standard by specialist teams.

In late October, the new No.14 ball mill was commissioned on regrind duty. The No.15 mill which will provide capacity for full regrind will be commissioned in April 1989. The configuration of thirteen throughput mills and two regrind mills will permit annual throughput in excess of 52 million tonnes with full regrind.

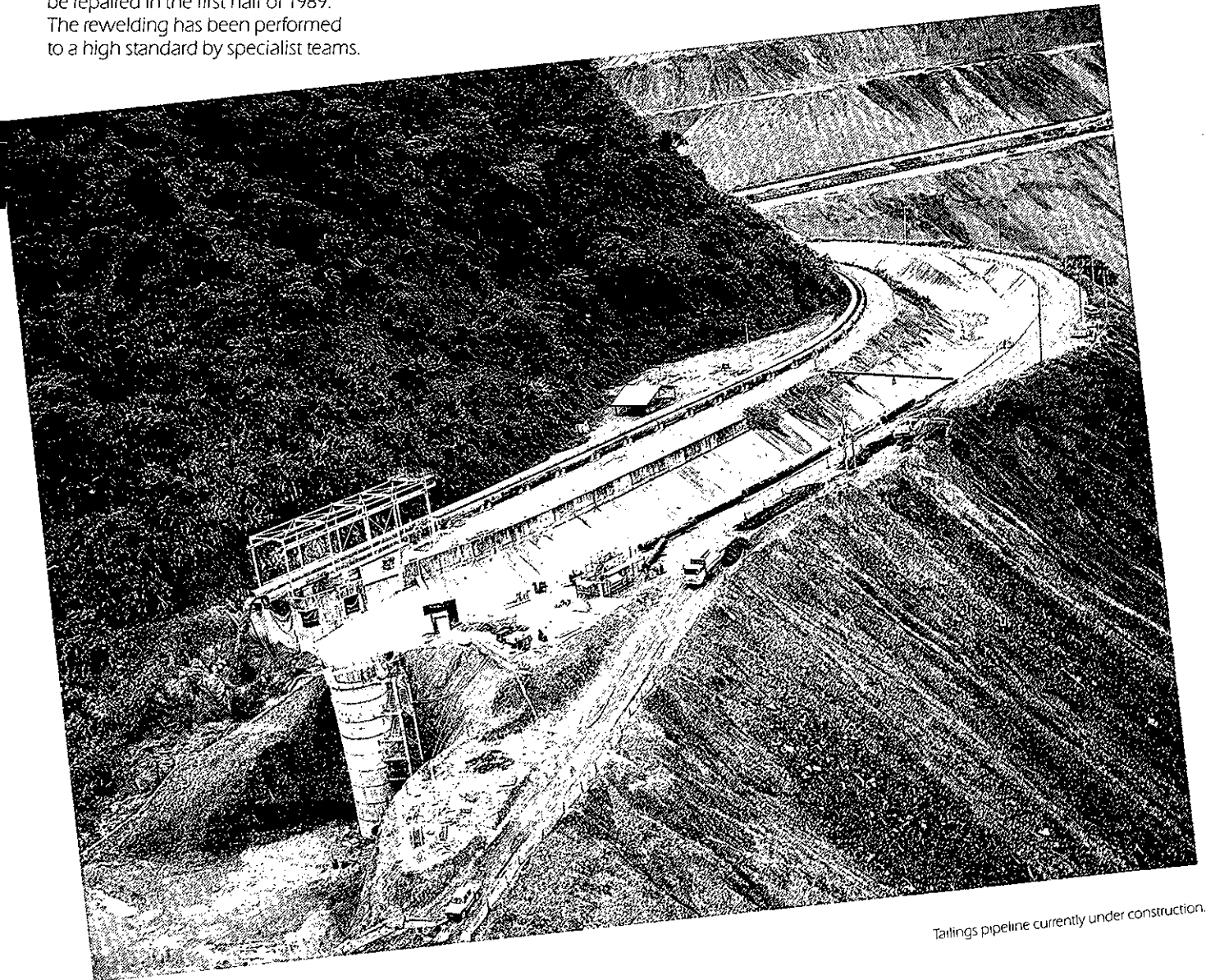
Two development projects which have been under investigation for two years will also lead to productivity improvement in processing operations.

- conventional flotation cells in cleaning and recleaning duty will be replaced during 1989 with flotation columns. Operating cost savings and a slightly higher grade of concentrate will result.
- hydrocyclones in the primary grinding circuits are being re-oriented. Grinding efficiencies will improve as a result and savings in power and maintenance costs are expected.

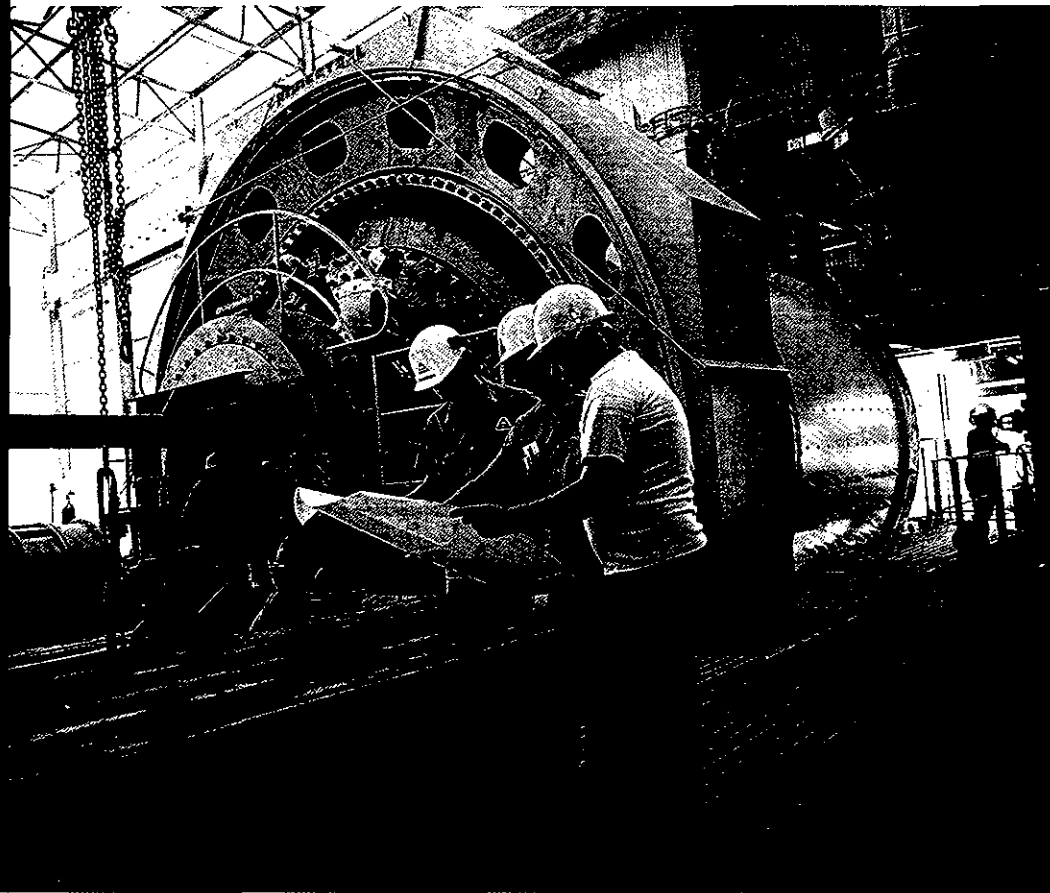
Operating Costs:

Total production costs were 3% up on the 1987 result. Savings due to lower oil prices were more than offset by additional unexpected costs for repairs to ball mills and within the power station.

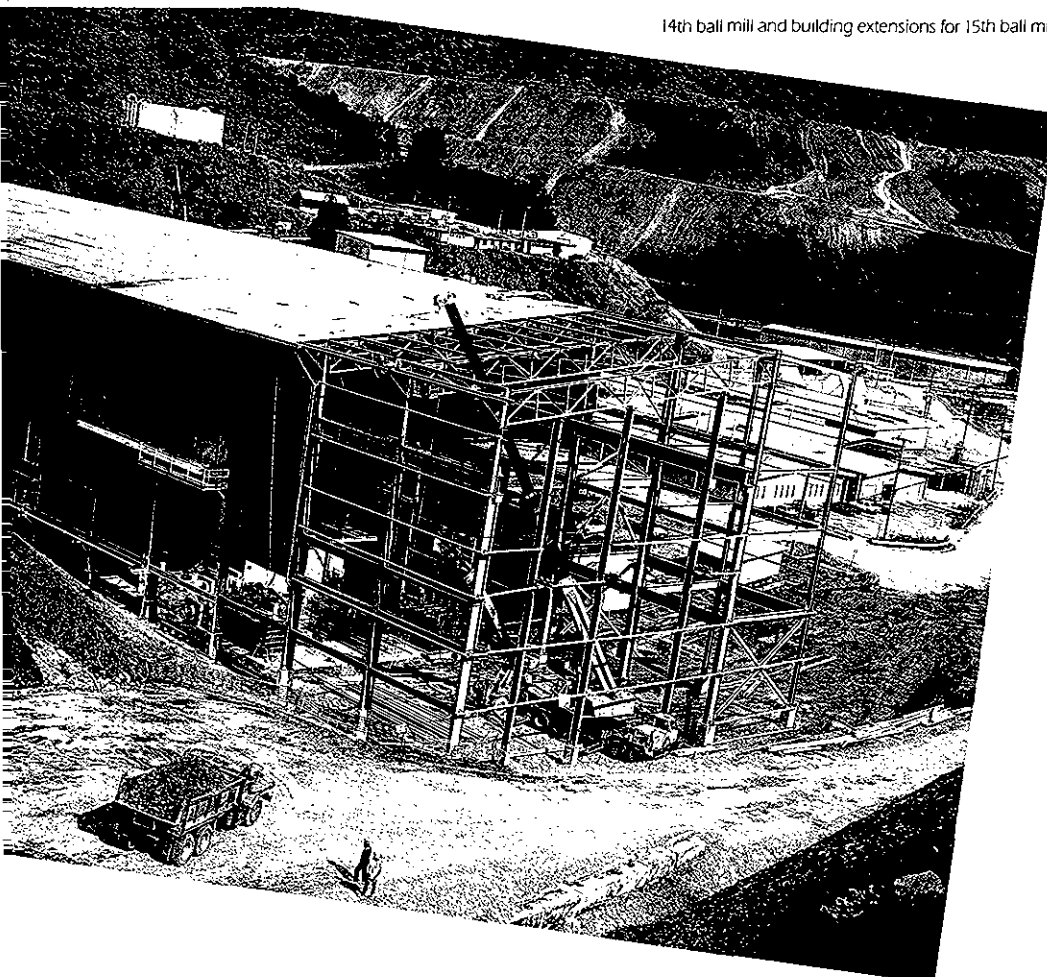
Following a review of the Company's competitive position, an enhanced cost reduction and control program was initiated during 1988. This review confirmed the importance of continuing the Company's capital expenditure program and thrust towards cost effective technology. In addition, the review highlighted the need for increased labour efficiency. As opportunities arise, the organisation structure will be rationalised, providing increased productivity and ensuring the continued international competitiveness of Bougainville Copper as a supplier of copper concentrate.



Tailings pipeline currently under construction.



14th ball mill and building extensions for 15th ball mill.



Capital Expenditure:

Capital expenditure totalled a record K88 million for 1988. In addition to the projects detailed in the Mine and Concentrator reports, major other works were the commencement of the powerhouse turbine upgrade and the continuation of the tailings pipeline project.

The tailings pipeline project will cost an estimated K70 million and is the largest single project undertaken since the mine commenced. The pipeline will be commissioned late in 1989 and now will include a slurry turbine (instead of conventional chokes) to convert excess flow energy into electricity. A major benefit of the tailings pipeline project is that it will allow the rehabilitation program for the Jaba River system to commence as soon as the pipeline is commissioned.

The Company remains committed to improving its competitive cost position. Its capital expenditure program is an important contributor to this objective. Capital expenditure for projects approved and in progress at the end of 1988 totalled K238 million of which K146 million remains to be spent.

Marketing:

Sales of concentrate during 1988 totalled 570 783 (1987: 567 644) dry tonnes containing 171 470 (1987: 173 353) tonnes of copper, 14 382 (1987: 14 746) kilograms of gold and 49 873 (1987: 49 353) kilograms of silver.

During the year, deliveries to West Germany and Spain were continued under long-term contracts, although the former at reduced levels. Contracts were renewed with Japanese, Korean and Philippine customers. Tonnage to the Philippine Smelter was increased reflecting a policy initiated some years ago of reducing the Company's exposure to the relatively expensive European market.

As the year progressed, the copper concentrate market was characterised by announcements of extended mine lives and expanded mine productions resulting from the high copper prices. In the event, predicted supply increases were largely offset by mine disruptions caused by operational problems and labour and political unrest.

The copper price dropped rapidly from its opening peak of US\$ 1.45 per pound due to a mixture of producer forward selling and anticipated increased copper metal production

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

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

Finance:

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

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

Personnel:

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

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

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

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

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

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

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

Environmental:

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

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

Community Relations:

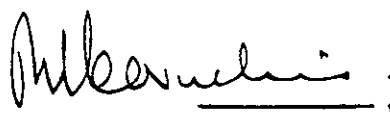
The Company makes cash payments to local Landowners by way of restitution for various losses associated with the operations of the mine. The amounts paid in 1988 totalled K1.5 million. The level of payments is based on a 1986-1990 Agreement with the Landowners, and is well in excess of amounts required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

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

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

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

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

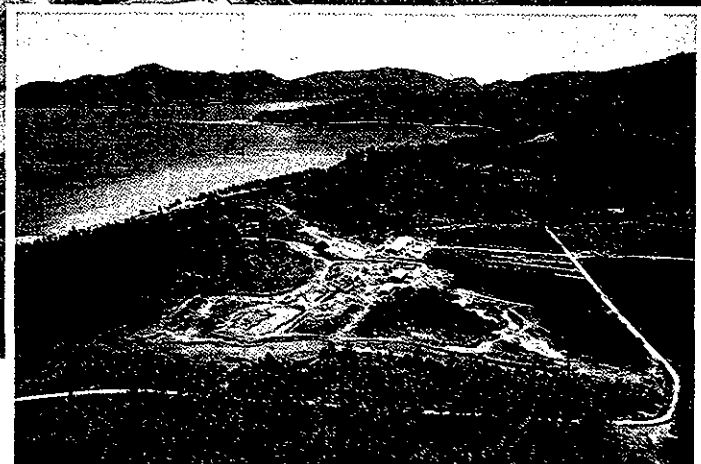
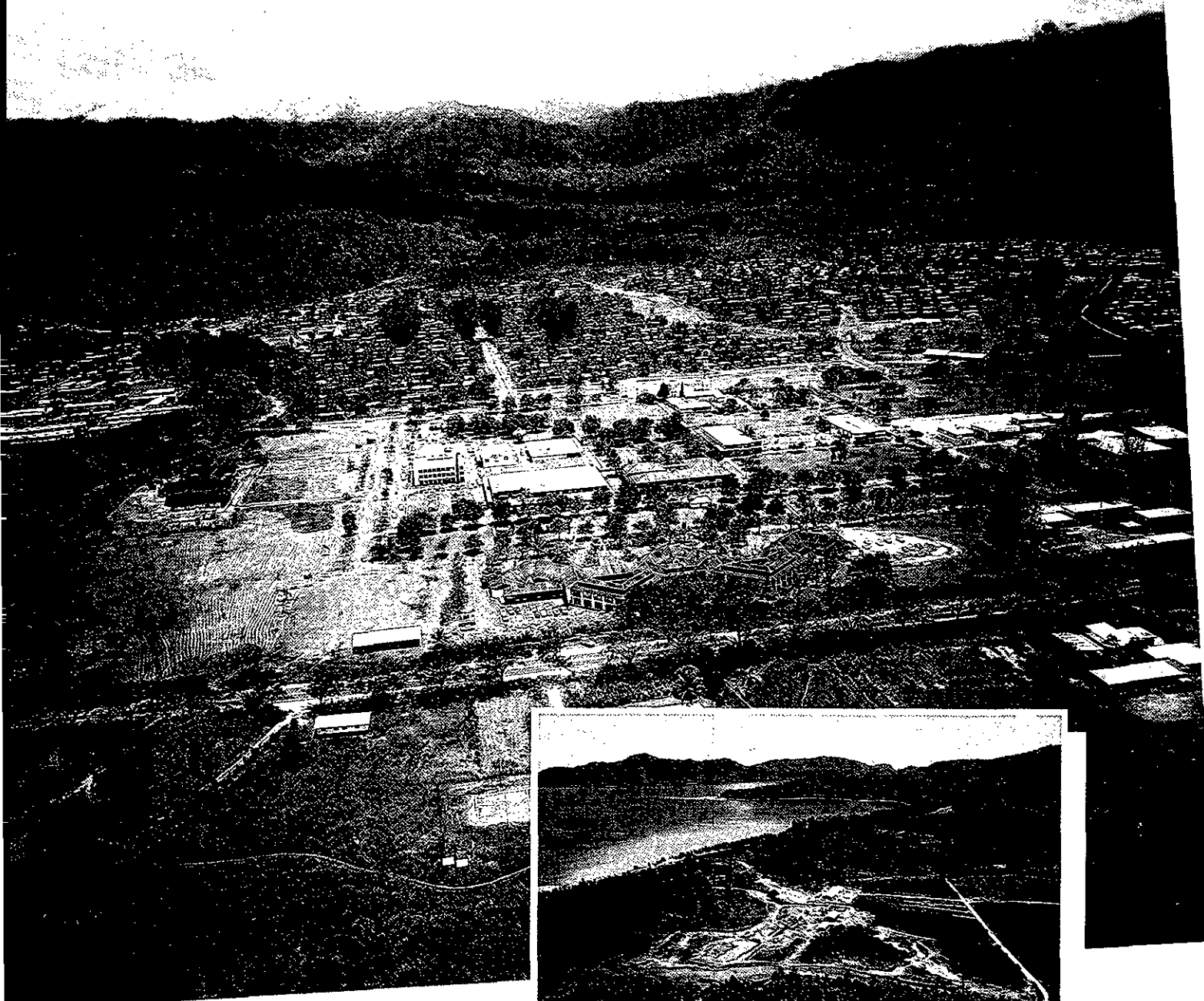


R.J. Cornelius
Managing Director
14 February, 1989

Bougainville Copper's impact on the Economy of Papua New Guinea

An issue of active debate is the role mining has played in the PNG economy and the extent to which it should be encouraged. As far as BCL's contribution is concerned, one way to look at this is to consider what the PNG economy would have looked like since independence without BCL. Exports would have been reduced by 45%, Government internal revenue would have been 17% lower, and the Gross National Product would have been much reduced by the loss of the indirect effects of the Company's operations. It is not apparent that any other economic activity would have emerged to take the place of this contribution.

Arawa Township today with North Solomons Provincial Government offices in the foreground.

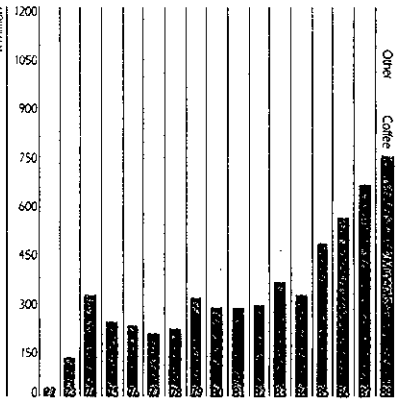


Arawa prior to development

Bougainville Copper is recognised as the major pioneer investor in Papua New Guinea. Since operations commenced in 1972, the Company has provided directly and indirectly, a significant proportion of all wealth created in the Nation. This wealth has underwritten the growth of the Nation since before Independence and the Company is proud of its record of achievement.

Q. What role does mining, in general, play in the Papua New Guinea economy?

A. For any country to prosper and grow in a 20th century economy it must sell its goods and services to other countries in order to be able to purchase those goods it requires but does not itself produce. From 1972 to 1988, 51% of export earnings came from mining compared to 15% from coffee, the second highest export earner. The graph below gives the details.



PNG export earnings

Q. How has Bougainville Copper directly impacted PNG's economy?

A. Since 1972, BCL has directly contributed almost K1.0 billion to Government revenue. This is about 17% of all Government internal revenue. In respect of 1988 earnings, BCL contributed directly K151 million. This is over 20% of the 1988 PNG Budget internal revenue. In addition, BCL's exports have accounted for 45% of all exports from Papua New Guinea since 1972.

Q. What has been the direct impact within the North Solomons Province?

A. Within the Province, since 1972 the Company has contributed directly K75 million with K7 million in 1988. In addition, the Landowners have cumulatively received K3 million in royalties and K19 million in cash compensation although this must be seen as restitution for losses rather than a benefit of the mining operations.

Employment



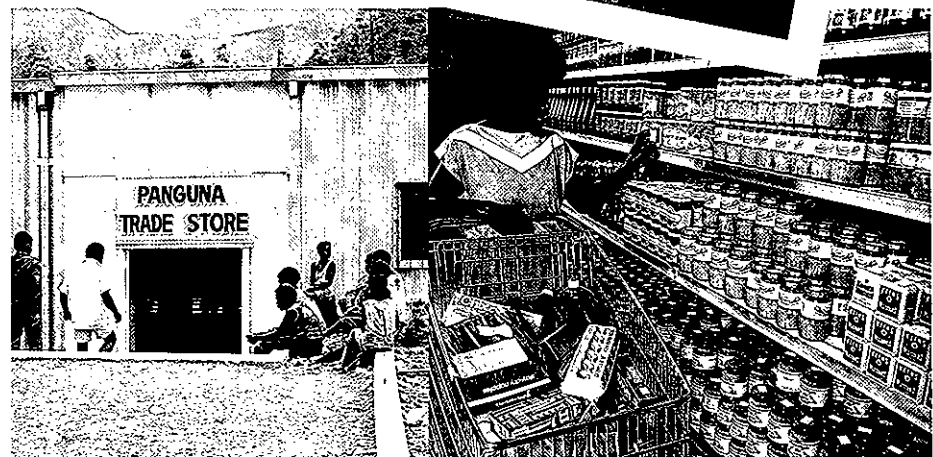
Education



Port facilities



Shopping



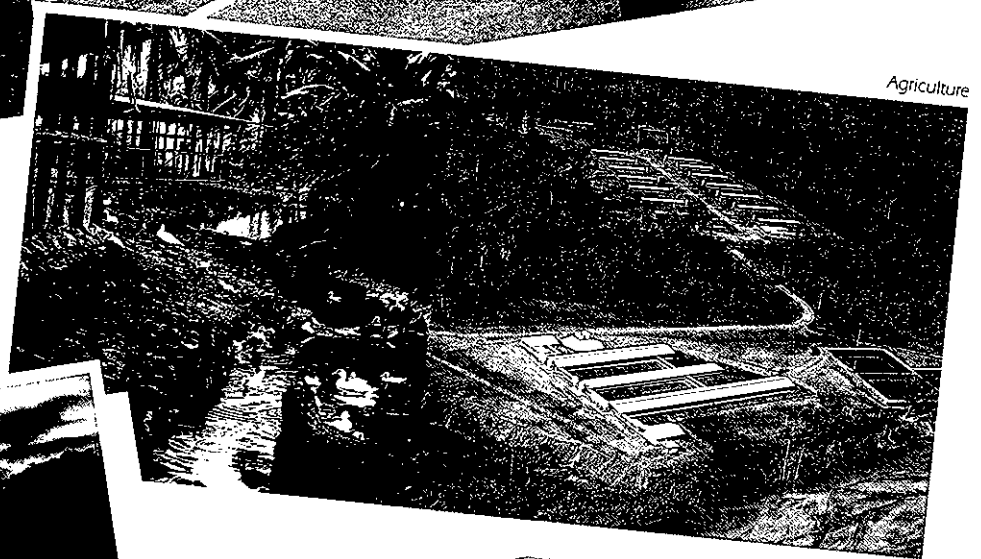
Training



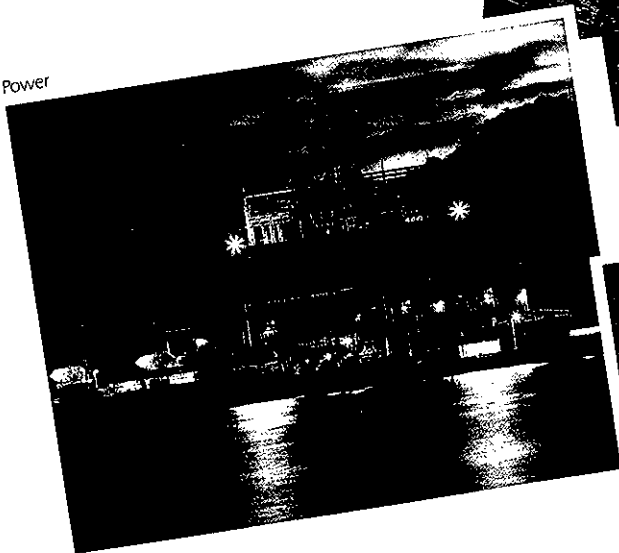
Health



Agriculture



Power



Transport



Q. How much have shareholders earned?

A. CRA (53.6%) and the PNG Government (19.1%) are the major shareholders. On the funds invested, the 1988 profit provided an 18.5% return on shareholders' funds. Since 1972, non-Government shareholders have received K577 million in dividends. Assuming shareholders realised the current value of BCL shares, the original 1972 investment would have earned only a 9-10% return. Comparable Australian Government Bond return for this period would have been close to 12%.

Q. What are the indirect impacts of Bougainville Copper's operation within Papua New Guinea?

A. The Company provides employment, employees pay tax (K113 million since 1972) and spend money; the Company buys goods and services from PNG Companies who pay taxes, employ people and so on; the Company's operations provide training, roads, business opportunities, all of which benefit the National and Provincial economies.

Q. How big is the total economic impact?

A. Flow-on effects are difficult to measure. The 1982 North Solomons Provincial Development Study suggests total wealth created was about 2.5 times earnings with 25% staying in the Province, 45% within the remainder of PNG, and 30% going in overseas payments. Since 1972, the distribution of direct payments was 1% to Landowners (including compensation), 5% to the Province, 58% to the National Government, and 36% to non-Government shareholders. An updated and more definitive study is urgently needed so that the full economic impact of direct payments can be better understood.

Q. Do the Landowners get a fair share of the benefits?

A. The Company has paid K19 million by way of compensation for losses and disruptions suffered by Landowners since 1972. This amount of restitution is well in excess of amounts required by legislation, but should not be regarded as a benefit. The only direct benefit from the Company is the Landowners' K3 million share of royalties. Other benefits flow indirectly from the spin-off effects of the Company's operations, such as works programs, employment and business opportunities; and indirect payments and services provided from the Provincial and National Governments. Whether the Landowners' share of benefits is adequate is a matter of current public debate.

Q. How much money does Bougainville Copper Limited pay to local contractors and suppliers?

A. In 1988 over K30 million was spent on locally supplied services. In addition to this, all of Bougainville Copper's employees would have spent part of their earnings on locally supplied goods and services.

Q. What tangible evidence is there to show improvements on Bougainville since the commencement of mining?

A. The pictures tell part of the story. For example, Arawa has changed from a plantation to a modern community:

Employment	Health
Education	Power
Port facilities	Agriculture
Shopping	Transport
Training	Roads

Q. How does the Espie Highway that links the mine with the port and Arawa township benefit the Bougainville residents?

A. The Espie Highway was built by the Company at a cost of K15 million. At today's costs, it would cost K50 million. It is maintained by the Company at an average annual cost of K1.0 million. Obviously, the road is of most benefit to Bougainville Copper Limited. However, community benefit is substantial as it gives safe, all weather access to villages in the rugged heart of Bougainville and provides the only cross-island link to Government roads to the west and south of the Province.

Q. Does the Company provide significant employment for Papua New Guinea citizens?

A. Bougainville Copper Limited provides direct employment for 3 560 employees:

National employees	2 669
National apprentices	281
Expatriate employees	610

Of the 2 950 national employees, 1 027 come from Bougainville.

In addition, local contractors wholly dependent on servicing Bougainville Copper's requirements employ about a further 1 200 with many others being employed as an indirect consequence of the Company's presence.

Q. Does the Company do enough to train its national employees?

A. Bougainville Copper employs 84 full time training staff and has a Mine Training College with facilities second to none. Since 1972, over 17 000 certificates have been earned by employees who have successfully completed training both at home and away from Bougainville. In 1988, 1 900 qualifications were completed by employees at a direct cost to the Company of K7.4 million. Several hundred citizens trained by Bougainville Copper have ventured into their own businesses or moved to other employers to contribute to the future prosperity of Papua New Guinea.

Q. Has Bougainville Copper provided any other long lasting benefits to the economy?

A. The Bougainville Copper Foundation was established by the Company in 1971 to provide ongoing community benefits. The Foundation is now largely self funding and encompasses the following activities:

- North Solomons Medical Centre
- North Solomons Agricultural Foundation (crops, pig farming, poultry and egg production, stock feed, and agricultural advice)
- Scholarships
- Community and welfare donations.

Roads



Directors' Report

The Directors of Bougainville Copper Limited present their report on the audited financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 December, 1988.

Directors:

The Directors of Bougainville Copper Limited at the date of this report are:

D. S. Carruthers (Chairman)
Age 58 B.Sc. Joined CRA in 1955. Extensive exploration and operational mining experience. CRA Group Executive since November 1984 and currently responsible for CRA's interests in base metals, gold, salt and engineering. Appointed Chairman of BCL July 1986.

G. Billard
Age 44 B.Ec.(Hons), B.Com., A.A.U.O., F.A.S.A. Joined CRA 1969. Nine years with BCL, including three years as Executive Manager - Commercial. Currently Managing Director Pasmenco Metals.

R. J. Cornelius (Managing Director)
Age 56 B.Met.E., M.Eng.Sc. Joined CRA in 1958. Commenced BCL in 1982. General Manager - Concentrator until appointed Managing Director in 1987.

W. J. N. Davis
Age 54 B.Met.Eng., F.R.M.T.C. Joined CRA in 1958. Commenced with BCL in 1967 and appointed Executive Manager - Concentrator in 1979. Currently Group Project Leader Kelian Gold, CRA.

P. G. F. Henderson, A.C.
Age 60 M.A. Oxon. Joined Australian Department of Foreign Affairs 1951. Ambassador to the Philippines 1973-74. Deputy Secretary 1976-79. Secretary 1979-84. Retired Commonwealth Public Service 1985.

R. B. Moaina
Age 39 B.Sc. Deputy Chief Government Geologist, Geological Survey Division, PNG Department of Minerals and Energy since February 1986. Experience in mineral and petroleum industry. Citizen of Papua New Guinea.

J. T. Ralph, A.O.
Age 56 F.A.S.A., C.P.A., F.A.I.M. Thirty-nine years with CRA Group. Director of CRA since 1971; appointed Managing Director CRA 1983, and Chief Executive Officer 1987. Chairman of Comalco Limited since 1980.

D. C. Vernon

Age 60 Dipl.Chem.Eng. Commenced CRA Group 1953 and Director of CRA 1979-86. Joined BCL in 1966; appointed General Manager 1973 and Managing Director 1975. Chairman of BCL from 1979 to July 1986. Patron of Australia-PNG Business Co-operation Committee.

D. S. Carruthers, W. J. N. Davis, P. G. F. Henderson, A.C. and R. B. Moaina retire in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election as Directors of the Company.

Activities:

Bougainville Copper Limited has produced copper concentrate containing gold and silver from a mine at Panguna, North Solomons Province, Papua New Guinea, since 1972. The Company has two subsidiaries. BCL (Hong Kong) Limited arranges shipping contracts on behalf of the Company. BCL Services Pty. Ltd. leases an aircraft to the Company.

Net Earnings:

The net earnings of Bougainville Copper Limited and its subsidiaries for 1988 totalled K108 588 000 after providing K43 941 000 for depreciation and amortisation, K5 953 000 for royalties and K93 237 000 for income tax.

Taxation:

Taxation of K93 237 000 charged to earnings comprises K95 664 000 current tax and a decrease of K2 427 000 in the provision for future tax.

Subsidiaries:

No dividends were paid by BCL (Hong Kong) Limited or BCL Services Pty. Ltd.

Share Capital:

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

Exchange Fluctuations:

Exchange gains of K89 000 were recorded on overseas borrowings; of K2 493 000 from the translation of overseas bank balances; and of K466 000 from stores and services purchases. In addition exchange losses of K2 828 000 resulted from management of foreign currency exposures; K551 000 on payment of dividends; K2 505 000 on foreign currency receivables; and K72 000 on other items.

Long Term Loans:

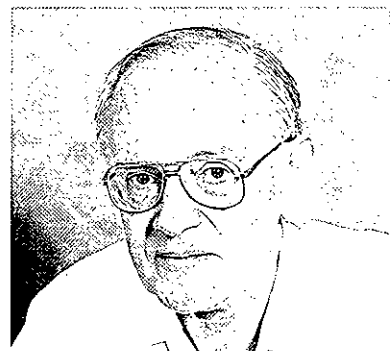
No drawdowns were made during the year against long term loan arrangements. Repayments of K1 437 000 were made against existing loans, leaving a nil balance at the end of the year. The Multiple Option Facility remains available for draw-down if needed.



D. S. Carruthers



R. J. Cornelius



P. G. F. Henderson, A.C.



J. T. Ralph, A.O.



G. Billard



W. J. N. Davis



R. B. Moaina



D. C. Vernon

Dividends:

An interim dividend of twelve toea per share was paid in November. A final dividend of fifteen toea per share has been declared and is payable on 12 May, 1989 to those shareholders registered at 5 pm on 27 April, 1989. Withholding tax is deducted from dividends where required by the Chief Collector of Taxes.

Review of Operations:

A review of the operations of the Company during the financial year and the results of those operations are set out in the section entitled "Review of Operations"; in this Annual Report (Pages 6-9).

Auditors:

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

Statutory Information:

In accordance with the provisions of Section 171 of the Companies Act (Chapter 146), the Directors state that:

1. In their opinion, the results of the Group'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. In their opinion, the current assets will realise at least the value at which they are shown in the accounts and the value is an amount that these current assets might reasonably be expected to realise in the ordinary course of business.
3. No circumstances have arisen which render adherence to the method of valuation of assets or liabilities misleading or inappropriate.
4. No contingent liabilities have arisen since the balance date of the Group accounts, 31 December, 1988, and the date of this report, 14 February, 1989.
5. No contingent liabilities have become enforceable or are likely to become enforceable within twelve months from the date of this report which will materially affect the Group in its ability to meet its obligations as and when they fall due.

Additional Information:

The Directors also state that:

1. Except as reported in this Annual Report, there were no significant changes in the state of affairs of the Group that occurred during the financial year.
2. Save as contained in the Report, and as set out in the notes to the accounts, the results of the operations of the Group or of a corporation in the

Group during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

3. Save as reported in this Annual Report, there were no matters or circumstances which have arisen since the end of the financial year and which significantly affected or may significantly affect:

- (i) the operations of the Group
- (ii) the results of those operations or
- (iii) the state of affairs of the Group in the financial year subsequent to 31 December, 1988.

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 or its subsidiaries have been granted by the Company or its subsidiaries during the financial year or since the end thereof; no shares of the Company or its subsidiaries were issued during the financial year or have been issued since the end thereof by virtue of the exercise of any option granted by the Company or its subsidiaries; and no options over shares of the Company or its subsidiaries are outstanding at the date of this Report.

Signed this 14th day of February, 1989 in accordance with a resolution of the Directors of Bougainville Copper Limited.

D. S. Carruthers
Chairman

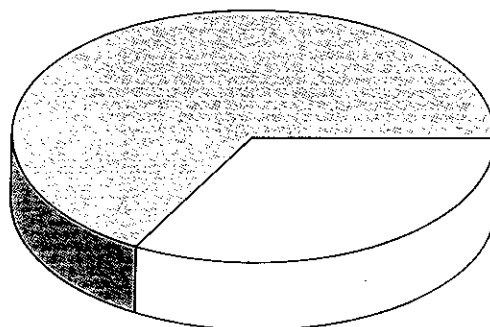
R. J. Cornelius
Managing Director

S Statement of Value Added

	1988 K mill.	1987 K mill.
Value Added		
Sales made to external customers	482.8	411.7
Other income	10.6	3.7
Total income	493.4	415.4
Less: Materials and services brought in from outside the Company	163.3	150.1
Total Value Added available for distribution	330.1	265.3
Distribution		
To EMPLOYEES		
Wages, salaries, benefits, etc. (net of PAYE tax)	51.6	44.1
To GOVERNMENT		
Taxation, customs duties, royalties and other charges	115.6	70.6
Employees PAYE tax	10.0	9.4
Dividends withholding tax	14.5	12.2
Dividends	20.6	17.6
To PROVIDERS OF CAPITAL (other than government)		
Dividends to shareholders (net of withholding tax)		
Overseas shareholders	71.9	61.4
PNG shareholders	1.3	1.0
Interest to lenders	0.3	1.4
RETAINED in business to provide for asset replacement, expansion and protection of the Company and its employees in less favourable times.		
Depreciation and amortisation	43.9	49.4
Retained earnings	0.4	(1.8)
Total Value Added distributed	330.1	265.3

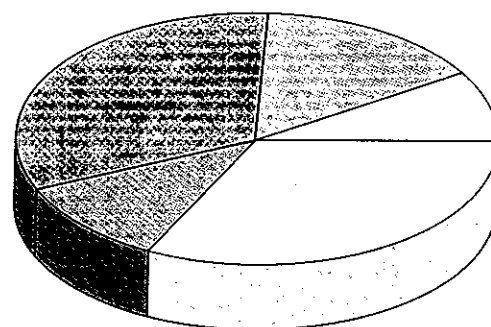
Distribution of Value Added

Income K493.4m



Less materials and services of K163.3m.

Leaves K330.1m for value added distribution



⊙ Employees K51.6m.

⊙ Government K160.7m.

⊙ Providers of capital K73.5m.

⊙ Retained in business K44.3m.

Funds Statements

year ended 31 December, 1988
Bougainville Copper Limited

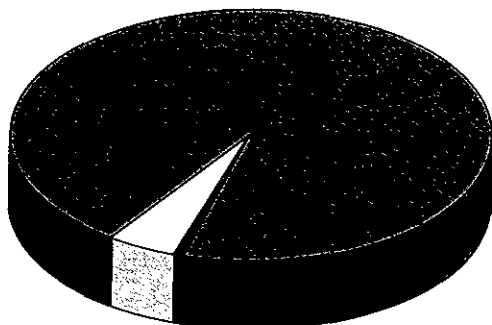
	Consolidated		Bougainville Copper Limited	
	1988 K'000	1987 K'000	1988 K'000	1987 K'000
Sources of Funds				
From operations				
Earnings before tax	201 825	144 192	201 820	144 184
Add items not using funds				
Depreciation and amortisation	43 941	49 438	43 569	49 326
Loss on disposal of non-current assets	1 004	1 989	1 004	1 989
Other items not using funds	4 958	(317)	4 988	(317)
	251 728	195 302	251 381	195 182
Proceeds from loan drawdowns	—	69 337	—	69 337
Proceeds on disposal of non-current assets	1 181	1 312	1 181	1 312
Total sources of funds:	252 909	265 951	252 562	265 831

Applications of Funds				
Distribution to shareholders				
Dividend payment	124 329	44 117	124 329	44 117
Retiring debt				
Loan repayments	1 437	93 037	1 437	93 037
Acquiring non-current assets				
Property, plant and equipment	87 581	30 486	87 581	28 797
Income tax payment	47 326	31 065	47 314	31 054
Long service leave payments	2 738	985	2 738	985
Investments	—	—	—	1 236
Loan	2 000	—	2 000	—
Total applications of funds:	265 411	199 690	265 399	199 226
Increase/(Decrease) in working capital for the year	(12 502)	66 261	(12 837)	66 605

Movements in working capital				
Bank balances and short term deposits	(4 399)	27 606	(4 381)	27 587
Debtors for sale of concentrate	(5 041)	27 295	(5 041)	27 295
Other debtors	3 011	3 580	2 674	3 933
Stocks and stores	(3 785)	11 778	(3 785)	11 778
Creditors	(2 288)	(3 998)	(2 304)	(3 988)
Increase/(Decrease) in working capital for the year	(12 502)	66 261	(12 837)	66 605

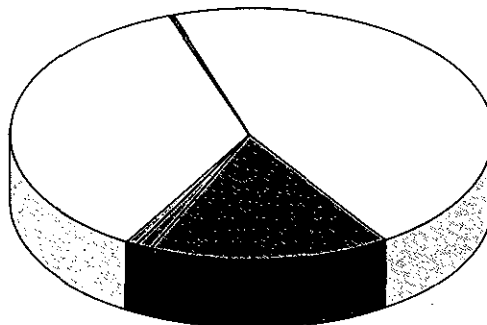
Simplified Funds Statement

Source of Funds



- From operations K251.7m.
- Disposal of non-current assets K1.2m.
- Decrease in working capital K12.5m.

Application of Funds



- Acquiring non-current assets K87.6m.
- Retiring debt K1.4m.
- Distribution to shareholders K124.3m.
- Income tax paid K47.3m.
- Long service leave K2.8m.
- Loan K2.0m.

Statements of Earnings

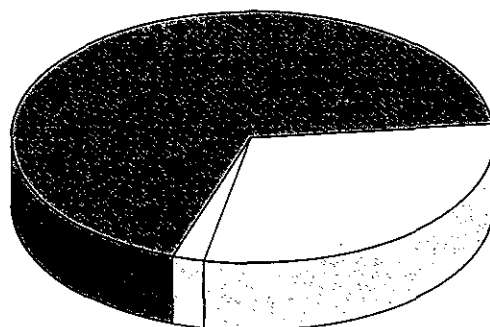
year ended 31 December, 1988
Bougainville Copper Limited

	Notes	Consolidated		Bougainville Copper Limited	
		1988 K'000	1987 K'000	1988 K'000	1987 K'000
Income					
Net sales revenue		482 776	411 710	482 776	411 710
Other income (net)		10 642	3 668	10 640	3 666
		493 418	415 378	493 416	415 376
Costs and expenses					
Costs of sales, general and administration expenses		238 531	220 722	238 906	220 840
Depreciation and amortisation	1	43 941	49 438	43 569	49 326
Government royalties		5 953	5 348	5 953	5 348
Interest		260	1 426	260	1 426
		288 685	276 934	288 688	276 940
Net exchange gain/(loss)	5	(2 908)	5 748	(2 908)	5 748
Earnings before taxation	2	201 825	144 192	201 820	144 184
Income tax	3	93 237	50 563	93 236	50 551
Net earnings for year		108 588	93 629	108 584	93 633
Add:					
Retained earnings brought forward		153 615	155 401	153 605	155 387
Less:					
Exchange fluctuation prior years	5	—	3 170	—	3 170
Retained earnings brought forward (adjusted)		153 615	152 231	153 605	152 217
Less:					
Ordinary dividends					
Interim paid		48 127	16 043	48 127	16 043
Final payable		60 159	76 202	60 159	76 202
		108 286	92 245	108 286	92 245
Retained earnings carried forward		153 917	153 615	153 903	153 605
Net earnings per share (toea)		27.1	23.3	27.1	23.3

All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The notes commencing on page 20 form part of these accounts and are to be read in conjunction with them.

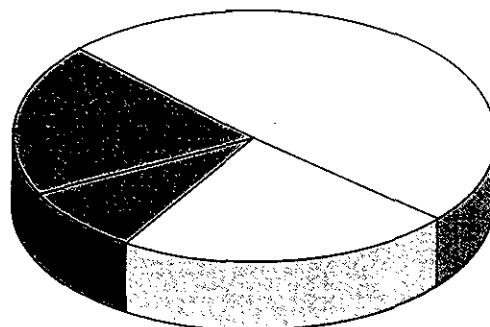
Simplified Earnings Statement

Sales & other income K493.4m.



● Copper
○ Gold
□ Silver & other

Distribution K493.4m.



● Depreciation and amortisation K43.9m.
● Taxation & royalties K99.2m.
○ Cost of sales & other expenses K241.7m.
□ Net earnings K108.6m.

Balance Sheets

at 31 December, 1988
Bougainville Copper Limited

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

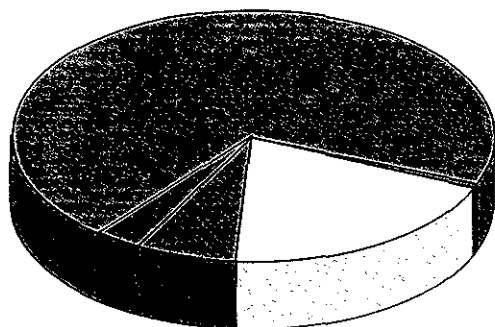
Details of commitments and contingent liabilities and assets are shown in notes 14 and 15.

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

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

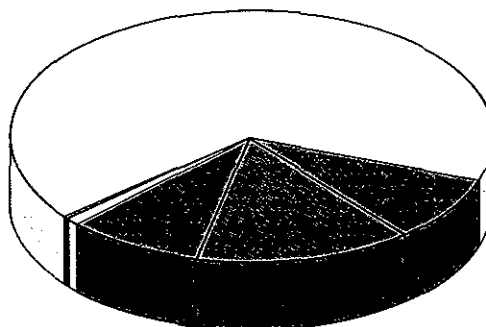
Simplified Balance Sheet

Total funds K831.5m.



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

Total assets K831.5m.



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

Notes to the Accounts

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

1. Statement of significant accounting policies

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

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

Cost Convention:

The results of operations and the financial position of the Company are accounted for under the historical cost convention, except that they reflect the revaluation in 1980 of certain major items of property, plant and equipment.

Depreciation and Amortisation:

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

Exploration, Research and Development Expenditure:

Expenditure on exploration within the mining lease and on research and development is normally written off or provided for as incurred. Exploration has not been undertaken outside the mining lease.

Repairs and Maintenance:

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

Valuation of Stocks and Stores:

Concentrate stocks are valued at the lower of direct production cost or net realisable value. Cost includes direct materials, services and overheads, but excludes depreciation and indirect overheads. Stores are valued at weighted average cost, excluding transportation costs, less an allowance for inventory writedown.

Net Sales Revenue:

Sales are recognised when the risk passes from the seller which is at the time when the concentrate enters the ship's hold. The final sales value can only be determined from weights, assays, prices and treatment charges applying after a shipment has arrived at its destination. Estimates based on world metal prices ruling up to year end are used for those shipments not due for final valuation until the following year. In addition, the estimated results of forward contracts existing at year end in relation to concentrates shipped are reflected in sales revenue. Variations in revenue arising from final pricing and outturn adjustments are recognised in the following year. Unrealised gains and losses on forward metal sales, not related to shipments, are included in earnings before tax.

Taxation:

Tax effect accounting procedures are followed. The current liability for income tax is based on estimated taxable income for the year. The components of this taxable income differ from those which make up the earnings before tax for the year and these differences are either permanent differences or timing differences. Permanent differences are disclosed in Note 3.

Timing differences arise because some items of revenue and expenditure are recognised for tax purposes during periods which differ from the periods in which they are included in earnings before tax. The tax effect of these timing differences is classified as either deferred income tax liability or future income tax benefit in the balance sheets.

Foreign Currency:

Monetary assets and liabilities in foreign currencies are translated into Papua New Guinea currency at the rates of exchange ruling at balance date. All other overseas transactions are translated at the rates of exchange applying when they occurred. Exchange gains and losses on overseas borrowings are recognised as they occur to reflect the full effect of exchange rate movements. Other monetary gains and losses are also recognised as they occur.

Gains and losses on hedges (excluding hedges relating to specific commitments) are included in earnings for the period during which the exchange rate movements occurred.

Subsidiaries:

The Company has two wholly owned subsidiaries. BCL (Hong Kong) Limited, incorporated in Hong Kong, arranges shipping contracts on behalf of the Company. BCL Services Pty Ltd, incorporated in Australia, leases an aircraft to the Company. These companies have been consolidated in accordance with conventional consolidation principles.

	Consolidated		Bougainville Copper Limited	
	1988 K'000	1987 K'000	1988 K'000	1987 K'000

2. Earnings before taxation

Earnings before taxation have been determined after allowing for the following income and expense items:

Income:				
Interest on short term deposits	10 642	3 668	10 640	3 666
Expenses:				
Interest — on long term loans and standby facilities	249	1 419	249	1 419
— other	11	7	11	7
Provision for doubtful debts in respect of other debtors	—	(31)	—	(31)
Bad debts in respect of other debtors	—	26	—	26
Depreciation — on buildings	17 537	20 548	17 537	20 548
— on plant, machinery and equipment	24 634	27 120	24 263	27 008
Amortisation — of mine property	1 770	1 770	1 770	1 770
Loss on disposal and retirement of fixed assets	1 004	1 989	1 004	1 989
Research and development expenditure	1 040	1 033	1 040	1 033
Directors' emoluments (Note 13)	24	15	24	15
Auditors' remuneration — auditing the accounts	97	98	96	96
— other services	12	21	12	21
(The auditors have received no other benefits)				

3. Taxation

(a) Taxation on earnings for the year comprises:

Current	95 824	49 228	95 823	49 216
Future	(2 595)	1 965	(2 595)	1 965
	93 229	51 193	93 228	51 181
Adjustments relating to previous years:				
Current	(160)	(796)	(160)	(796)
Future	168	166	168	166
	93 237	50 563	93 236	50 551

(b) 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:

Income tax prima facie payable	70 638	50 468	70 637	50 465
Additional Profits Tax	23 242	—	23 242	—
Permanent differences				
— double deduction allowable	(1 281)	(1 157)	(1 281)	(1 157)
— non-allowable depreciation	432	2 632	432	2 632
— net losses not deductible	(65)	(793)	(65)	(793)
— other	263	43	263	34
Adjustments relating to previous years	8	(630)	8	(630)
	93 237	50 563	93 236	50 551

(c)

Deferred income tax liability:

Balance 1 January	23 276	22 021	23 276	22 021
Charged to earnings: current year	(869)	1 170	(869)	1 170
— prior year adjustments	183	85	183	85
Balance 31 December	22 590	23 276	22 590	23 276

(d)

Future income tax benefit:

Balance 1 January	7 423	8 299	7 423	8 299
Credited to earnings: current year	1 726	(795)	1 726	(795)
— prior year adjustments	15	(81)	15	(81)
Balance 31 December	9 164	7 423	9 164	7 423

The foregoing future income tax benefits will only be obtained when and if the Company earns future assessable income sufficient to enable these benefits to be realised.

	Consolidated		Bougainville Copper Limited	
	1988	1987	1988	1987
	K'000	K'000	K'000	K'000

4. Capital

The authorised capital of K425 000 000 consists of 425 000 000 ordinary shares of one kina each. The issued capital of the Company is 401 062 500 ordinary shares of one kina each, fully paid. No change in authorised or issued capital occurred during 1988.

5. Exchange fluctuation

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

Overseas borrowings	89	2 266	89	2 266
Overseas cash balances	2 493	(1 647)	2 493	(1 647)
Foreign currency hedging	(2 828)	4 352	(2 828)	4 352
Dividend payments	(551)	777	(551)	777
Foreign currency receivables	(2 505)	—	(2 505)	—
Stores and services purchasing variances	466	—	466	—
Other	(72)	—	(72)	—
Net exchange gain/(loss)	(2 908)	5 748	(2 908)	5 748
(b) Deferred gain on hedge of specific commitments	158	251	158	251
(c) Balance of unrealised losses — 1 January	—	(3 170)	—	(3 170)
Transfer to retained earnings	—	(3 170)	—	(3 170)
(d) Foreign currency amounts included in current assets and current liabilities that are not effectively hedged are:				
Current assets: kina equivalent of US dollars	128 800	96 215	128 800	96 215
kina equivalent of Australian dollars	33 716	14 735	33 716	14 735
Current liabilities: kina equivalent of US dollars	1 659	2 019	1 659	2 019
kina equivalent of Australian dollars	1 328	3 117	1 328	3 117

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

6. Long term loans

(a) Total long term loans are repayable as follows:

Within one year	1 348	1 437	1 348	1 437
Later than one year	—	1 437	—	1 437
Total outstanding obligations	1 348	2 874	1 348	2 874

All loans are unsecured.

(b) The following are the individual loans which make up the total outstanding loan obligations:

	Interest Rate 1988	Terminating/ Repayable		
Other loans				
John Brown Engineering (US dollars)	7.75%	1989	1 348	2 874
Total outstanding obligations			1 348	2 874

7. Creditors

Trade creditors	35 283	35 897	35 283	35 897
Other creditors	15 624	14 177	15 621	14 155
Related corporations:				
Subsidiary companies	—	—	—	3
Other	3 163	1 708	3 163	1 708
Total	54 070	51 782	54 067	51 763

	Consolidated		Bougainville Copper Limited	
	1988	1987	1988	1987
	K'000	K'000	K'000	K'000
8. Investments				
Advances to subsidiary companies	—	—	1 361	1 236
Unquoted shares at cost in:				
Subsidiary companies	—	—	—	9
Other companies	156	756	156	756
Total	156	756	1 517	2 001
9. Property, plant and equipment				
(a) Mine development and buildings				
— at directors' 1980 valuation	292 300	293 628	292 300	293 628
Less accumulated depreciation	133 885	122 224	133 885	122 224
	158 415	171 404	158 415	171 404
— at cost	101 364	96 344	101 364	96 344
Less accumulated depreciation	27 896	22 706	27 896	22 706
	73 468	73 638	73 468	73 638
Net mine development and buildings	231 883	245 042	231 883	245 042
(b) Plant, machinery & equipment				
— at directors' 1980 valuation	245 453	248 068	245 453	248 068
Less accumulated depreciation	131 334	123 910	131 334	123 910
	114 119	124 158	114 119	124 158
— at cost	205 852	179 207	203 996	177 519
Less accumulated depreciation	65 788	54 567	65 293	54 455
	140 064	124 640	138 703	123 064
Net plant, machinery & equipment	254 183	248 798	252 822	247 222
(c) Mine property				
— at cost	62 121	62 121	62 121	62 121
Less accumulated amortisation	42 663	40 893	42 663	40 893
Net mine property	19 458	21 228	19 458	21 228
(d) Capitalised works in progress				
— at cost	64 515	12 759	64 515	12 759
Total property, plant & equipment — at cost or valuation	971 605	892 127	969 749	890 439
Less accumulated depreciation/amortisation	401 566	364 300	401 071	364 188
Net book value	570 039	527 827	568 678	526 251
10. Other debtors				
Other debtors and payments in advance	13 844	10 910	13 844	10 909
Provision for doubtful debts	—	(1)	—	(1)
Related corporations				
Subsidiary companies	—	—	—	338
Other	77	1	77	1
Total	13 921	10 910	13 921	11 247
11. Stocks and stores				
Unshipped concentrate	9 632	15 428	9 632	15 428
Stores	46 713	44 702	46 713	44 702
Provision for stores obsolescence	(1 500)	(1 500)	(1 500)	(1 500)
Total	54 845	58 630	54 845	58 630
12. Loan				
During the year the Company made a loan of K2 000 000 to Bougainville Limestone Pty. Limited.				

	1988		1987	
	Company K'000	Related Corporations K'000	Company K'000	Related Corporations K'000
13. Directors' emoluments				
The total of the emoluments received, or due and receivable (whether from the Company or from related corporations) by:				
(a) Directors of the Company engaged in the full-time employment of the Company or its related corporations (including all bonuses and commissions received or receivable by them as employees but not including the amount received or receivable by them by way of fixed salary as employees), was				
	-	-	-	-
(b) other Directors of the Company, was				
	24	-	15	-
No commissions for subscribing for, or agreeing to procure subscriptions for any shares in or debentures of the Company or any related corporations, were received or are due and receivable by any Director.				
14. Commitments				
Approved capital expenditure				
(a) Committed	114 000	6 000	114 000	6 000
(b) Uncommitted	32 500	111 000	32 500	111 000
	146 500	117 000	146 500	117 000
Operating lease commitments not reflected in the financial statements	6 330	3 126	6 330	3 126

15. Contingent liabilities and assets

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

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

16. Mining tenements

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

17. Holding company

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

D eclarations

Statement by Directors

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

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

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

Declaration by Secretary

I, Geoffrey William Ewing, Secretary of Bougainville Copper Limited, do solemnly and sincerely declare that the accompanying balance sheets, statements of earnings and funds statements of the Company and its subsidiaries are, to the best of my knowledge and belief, correct. And I make this solemn declaration by virtue of the Oaths, Affirmations and Statutory Declarations Act (Chapter 317), conscientiously believing the statements contained herein to be true in every particular.

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

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

Auditors' Report to the Members

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

In our opinion:

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

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

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

Twenty largest shareholders

The twenty largest shareholders at 14 February, 1989 and the number of shares held by each were:

Name & Registered Address	Shares
CRA Limited, Melbourne, Vic.	210 788 514
The Independent State of Papua New Guinea	76 430 809
ANZ Nominees Limited, Melbourne, Vic.	16 730 146
National Nominees Limited, Melbourne, Vic.	11 141 067
Indosuez Nominees Pty. Ltd., Melbourne, Vic.	8 468 008
The National Mutual Life Association of Australasia Limited, Melbourne, Vic.	7 976 270
Australian Mutual Provident Society, Sydney, N.S.W.	4 974 941
CRA Base Metals Pty. Limited, Melbourne, Vic.	4 099 452
Bougainville Copper Foundation, Panguna, P.N.G.	3 600 000
Bank of New South Wales Nominees Pty. Ltd., Sydney, N.S.W.	3 289 746
The Colonial Mutual Life Assurance Society Limited, Melbourne, Vic.	3 262 509
State Government Insurance Commission, Adelaide, S.A.	3 079 436
State Authorities Superannuation Board, Sydney, N.S.W.	2 640 900
MLC Life Limited, North Sydney, N.S.W.	2 150 700
Suncorp Insurance & Finance, Brisbane, Qld.	2 011 058
Citicorp Nominees Pty. Ltd., Melbourne, Vic.	1 569 987
Government Insurance Office of New South Wales, Sydney, N.S.W.	1 086 100
ISIT Nominees Pty. Ltd., Melbourne, Vic.	902 027
ISMG Nominees Pty. Ltd., Melbourne, Vic.	782 323
Zurich Australian Life Insurance Ltd., North Sydney, N.S.W.	663 900
	<u>365 647 893</u>

Distribution of shares

As at 14 February, 1989:

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 21 966.

The distribution of holdings of the issued shares was:

1- 1 000 shares	17 714
1 001- 5 000 shares	3 480
5 001-10 000 shares	416
10 001 shares and over	356
Total shareholders	<u>21 966</u>

There were 6 683 holdings of shares numbering less than 100 shares which do not form a marketable parcel.

91.2% of the total issued shares were held by the 20 largest shareholders.

The substantial shareholders were: CRA Limited and its wholly-owned subsidiary CRA Base Metals Pty. Limited — 214 887 966 shares (53.6%); The RTZ Corporation PLC has an interest in the same shares through its wholly-owned subsidiaries' (Tinto Holdings Australia Pty. Limited, Melbourne, Vic., R.T.Z. Australian Holdings Limited, RTZ Pacific Holdings Limited and RTZ International Holdings Limited, all of London, UK) interests in CRA Limited and CRA Base Metals Pty. Limited; The Independent State of Papua New Guinea — 76 430 809 shares (19.1%).

Directors' interests

Directors' interests in the share capital of the Company and its related companies as at 14 February, 1989 were:

D. S. Carruthers	50 000 CRA (A) options 800 CRA (B) options
G. Billard	150 BCL shares 30 000 CRA (A) options 800 CRA (B) options
R. J. Cornelius	402 BCL shares 2 088 CRA shares 20 000 CRA (A) options 800 CRA (B) options 194 Comalco shares
W. J. N. Davis	800 CRA (B) options
P. G. F. Henderson, A.C.	No interests
R. B. Moaina	No interests
J. T. Ralph, A.O.	171 BCL shares 798 CRA shares 100 000 CRA (A) options 800 CRA (B) options
D. C. Vernon	No interests

Abbreviations:

BCL — Bougainville Copper Limited

CRA — CRA Limited

CRA (A) — Options to acquire CRA shares allocated pursuant to the Senior Executive Share Plan 1987.

CRA (B) — Options to acquire CRA shares allocated pursuant to the CRA Group Employee Participation Scheme 1987.

Comalco — Comalco Limited

Bougainville Copper Limited

(Incorporated in Papua New Guinea)

Registered Office:

Panguna, Province of North Solomons,
Papua New Guinea.

Principal Registered Office in Australia:

Level 31, 55 Collins Street,
Melbourne, Vic. 3000.

Share Registers:

Victoria: c/o Touche Ross Services
Pty. Limited,
Level 38, 525 Collins Street,
Melbourne, Vic. 3000.
Telephone (03) 618 0618.

Postal Address:

G.P.O. Box 2975EE,
Melbourne, Vic. 3001.

A.C.T.: c/o Touche Ross Services
Pty. Limited,
80 Northbourne Avenue,
Canberra City 2601, A.C.T.

P.N.G.: Panguna, Province of North
Solomons.

United Kingdom: c/o Central Registration
Limited, 1 Redcliff Street, Bristol
BS1 6NT.

Stock Exchanges:

Listed with the Australian Stock
Exchange Limited and the New Zealand
Stock Exchange.

Auditors:

Coopers & Lybrand.

Bankers:

Bank of America NT & SA.
Commonwealth Bank of Australia.
Papua New Guinea Banking
Corporation.

Solicitors:

Arthur Robinson & Hedderwicks.
Gadens.

S Statistical Summary

	1988	1987	1986	1985	1984	1983	
Financial							
Earnings (K million)							
Net sales revenue and other income	493.4	415.4	342.7	317.6	310.9	392.9	
Operating and other expenses	244.8	227.5	223.7	221.5	234.8	228.1	
Depreciation	43.9	49.4	47.3	47.6	46.5	47.0	
Earnings before taxation and exchange gains	204.7	138.5	71.7	48.5	29.6	117.8	
Exchange gains/(losses)	(2.9)	5.7	2.3	(1.4)	(2.8)	(16.3)	
Earnings before taxation	201.8	144.2	74.0	47.1	26.8	101.5	
Taxation	93.2	50.6	28.7	19.0	15.2	46.9	
Net earnings	108.6	93.6	45.3	28.1	11.6	54.6	
Dividends	108.3	92.2	44.1	28.1	16.0	52.1	
Earnings retained	0.3	(1.8)	1.2	—	(4.4)	2.5	
Balance sheet (K million)							
Property, plant and equipment	570.0	527.8	550.1	558.5	576.2	594.9	
Investments and loans	2.2	0.7	0.7	0.2	0.2	0.3	
Current assets	250.1	260.3	190.1	160.4	152.9	185.3	
Total assets	822.3	788.8	740.9	719.1	729.3	780.5	
Shareholders' funds	586.2	586.0	587.7	586.5	586.5	590.9	
Exchange fluctuation	0.2	0.3	(3.2)	(5.9)	(5.3)	(4.7)	
Long term liabilities	23.7	24.8	48.1	52.4	52.5	51.6	
Current liabilities	212.2	177.7	108.3	86.1	95.6	142.7	
Funds employed	822.3	788.8	740.9	719.1	729.3	780.5	
Production/Sales							
Mined							
Ore and waste removed	(millions of tonnes)	89.78	83.53	79.16	73.62	74.74	81.00
Ore milled	(millions of tonnes)	47.69	48.20	47.89	50.07	46.52	47.73
Ore grade							
Copper	(per cent)	0.41	0.41	0.42	0.42	0.42	0.46
Gold	(grams/tonne)	0.41	0.43	0.48	0.42	0.48	0.55
Produced							
Concentrate	(thousands of dry tonnes)	552.0	585.5	586.6	581.8	542.3	636.9
Contained copper	(thousands of dry tonnes)	166.0	178.2	178.6	175.0	164.4	183.2
Concentrate grade							
Copper	(per cent)	30.1	30.4	30.5	30.1	30.3	28.8
Gold	(grams/tonne)	25.1	25.8	27.9	24.7	28.9	28.3
Silver	(grams/tonne)	87.7	86.4	85.9	79.3	81.9	74.4
Shipped							
Total concentrate	(thousands of dry tonnes)	570.8	567.6	589.4	560.0	550.8	636.1
Destination:							
Japan	(per cent)	45.4	32.6	43.2	44.1	51.9	47.0
Other Asian	(per cent)	23.4	33.5	15.4	15.7	12.3	11.0
Europe	(per cent)	27.7	33.9	41.4	40.2	35.8	42.0
All Other	(per cent)	3.5	0.0	0.0	0.0	0.0	0.0
Values							
Gross concentrate sales value [before treatment and refining charges, freight, etc.]	(K million)	561.0	489.4	417.9	381.3	373.4	454.6
Contribution by:							
Copper	(per cent)	68	60	54	61	53	52
Gold	(per cent)	30	38	44	37	45	46
Other							
US\$/Kina exchange rate		1.16	1.10	1.03	1.00	1.11	1.19
Average metal prices							
LME copper	(US\$/lb)	117.9	81.0	62.3	64.3	62.4	71.9
London gold market	(US\$/oz)	436.8	446.7	367.9	317.3	360.8	423.5
Return on shareholders' funds	(per cent)	18.5	16.0	7.7	4.8	2.0	9.3
Earnings per share***	(toea)	27.1	23.3	11.3	7.0	2.9	13.6
Dividends per fully paid share***							
(par value K1.00) (1988 interim 12¢/share)	(toea)	27.0	23.0	11.0	7.0	4.0	13.0
Number of shares issued at end of year	(millions)	401	401	401	401	401	401
Number of shareholders at end of year		21 966	22 650	24 680	27 117	30 435	32 834
Debt/equity ratio		.002/1	.004/1	0.05/1	0.06/1	0.09/1	0.10/1
Work force at end of year (in PNG)							
Overseas		610	699	706	704	749	751
National		2 950	3 025	2 993	2 948	2 987	3 058

Notes: * Bonus dividends of 4.0 and 6.7 toea per fully paid share were made in 1979 and 1980 respectively and have been included in the dividend figures for those years.
 ** Full year figures; but commercial production commenced 1 April 1972
 *** 1972 figure is for Bougainville Mining Limited
 **** 1972 to 1979 figures are after adjustment for the 1980 capital reconstruction

1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972*
283.2	296.4	338.7	343.1	225.1	205.3	208.9	193.1	292.6	252.4	95.9
207.2	210.8	174.8	144.1	125.0	126.8	117.5	107.2	92.5	81.8	53.3
44.2	43.3	43.8	40.7	40.4	36.2	31.1	29.6	28.5	24.8	14.5
31.8	42.3	120.1	158.3	59.7	42.3	60.3	56.3	171.6	145.8	28.1
(3.3)	1.1	2.6	3.5	10.3	(0.1)	1.3	2.3	9.5	12.9	(0.4)
28.5	43.4	122.7	161.8	70.0	42.2	61.6	58.6	181.1	158.7	27.7
17.3	20.6	51.2	77.9	22.0	13.7	20.3	12.4	66.5	0.3	-
11.2	22.8	71.5	83.9	48.0	28.5	41.3	46.2	114.6	158.4	27.7
10.0	20.1	64.2	80.2	40.1	21.4	26.7	26.7	73.5	81.4	11.0
1.2	2.7	7.3	3.7	7.9	7.1	14.6	19.5	41.1	77.0	16.7
622.8	611.2	610.8	325.4	340.1	352.2	350.4	346.0	352.2	371.7	378.7
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-
155.9	148.7	148.4	201.0	125.8	137.1	136.0	129.5	205.6	130.4	73.9
778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
588.4	587.2	584.5	294.5	317.5	309.7	302.5	287.9	268.4	227.4	146.7
1.5	1.5	5.1	5.4	9.0	14.6	9.0	11.5	19.1	39.5	24.2
125.6	80.1	25.7	36.2	42.1	53.3	101.7	106.8	121.1	127.5	204.0
70.2	91.2	144.0	190.4	97.4	111.8	73.3	69.4	149.3	107.8	77.7
778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
76.22	77.56	79.76	75.97	79.05	70.79	58.54	56.40	56.00	56.65	46.75
41.74	37.53	37.62	36.17	38.12	34.11	31.21	31.08	30.14	29.14	21.89
0.47	0.51	0.46	0.55	0.60	0.61	0.64	0.64	0.70	0.73	0.76
0.60	0.59	0.50	0.75	0.82	0.90	0.87	0.80	1.02	1.03	0.77
598.6	576.4	510.4	584.7	658.6	615.6	596.8	596.0	640.8	650.2	438.1
170.0	165.4	146.8	170.8	198.6	182.3	176.5	172.5	184.1	182.9	124.0
28.4	28.7	28.8	29.2	30.2	29.6	29.6	28.9	28.7	28.1	28.3
29.3	29.2	27.5	33.7	35.5	36.3	33.9	30.5	32.0	31.6	27.3
72.1	73.5	72.2	76.3	79.8	77.0	76.1	71.0	72.3	69.0	69.3
599.6	596.2	494.4	586.5	640.9	614.8	605.8	587.0	665.8	625.2	434.4
46.6	49.8	54.5	56.0	51.0	54.8	42.3	42.7	51.5	54.8	48.1
6.6	3.3	4.1	3.7	3.2	1.6	1.7	1.7	0.0	0.0	0.0
45.1	45.4	41.4	40.3	42.0	39.9	46.5	53.8	41.9	37.8	49.4
1.7	1.5	0.0	0.0	3.8	3.7	9.5	1.8	6.6	7.4	2.5
343.6	355.2	386.3	407.0	294.5	266.3	260.3	219.4	307.4	270.8	118.8
51	54	51	60	64	66	74	69	74	83	83
47	44	46	37	34	32	24	29	25	16	16
1.35	1.48	1.50	1.41	1.42	1.27	1.26	1.31	1.43	1.42	1.19
67.1	79.0	99.2	89.8	61.9	59.3	63.6	55.9	93.3	80.9	48.6
375.6	459.9	614.7	304.7	193.5	147.8	124.8	160.9	158.7	97.3	58.2
1.9	3.9	16.3	27.4	15.3	9.3	14.0	16.6	46.2	84.1	18.9
2.8	5.7	17.8	20.9	12.0	7.1	10.3	11.5	28.6	39.5	6.9
2.5	5.0	20.0	26.7	10.0	5.3	6.7	6.7	18.3	20.0	2.7
401	401	401	267	267	267	267	267	267	267	260**
36 486	38 027	38 326	38 750	40 935	43 820	50 082	54 129	55 558	45 353	46 726
0.20/1	0.17/1	0.05/1	0.15/1	0.19/1	0.37/1	0.40/1	0.44/1	0.52/1	0.72/1	0.62/1
756	801	877	851	855	853	858	942	980	929	971
3 174	3 377	3 416	3 314	3 243	3 063	2 989	3 094	3 242	2 915	2 594

Overseas customers

Bougainville Copper Limited produces concentrate for sale to custom smelters. These are smelters without a ready access to local or tied feed and who thus rely on securing their raw material in the international market.

The copper produced via this market accounts for approximately twenty-five percent of the western world's annual production, with South East Asia being the most important consuming region. Japan is the largest single consumer of custom concentrate and as such it is logical that it should also be Bougainville Copper Limited's most important market.

This was even more so when the original long-term contracts were

signed in 1969. In this early period the principal custom smelters were located in Japan, West Germany and to a lesser extent Spain.

However, since that time new markets have become available and the Company has taken the opportunity to diversify its customer base with greater emphasis in the Asian region.

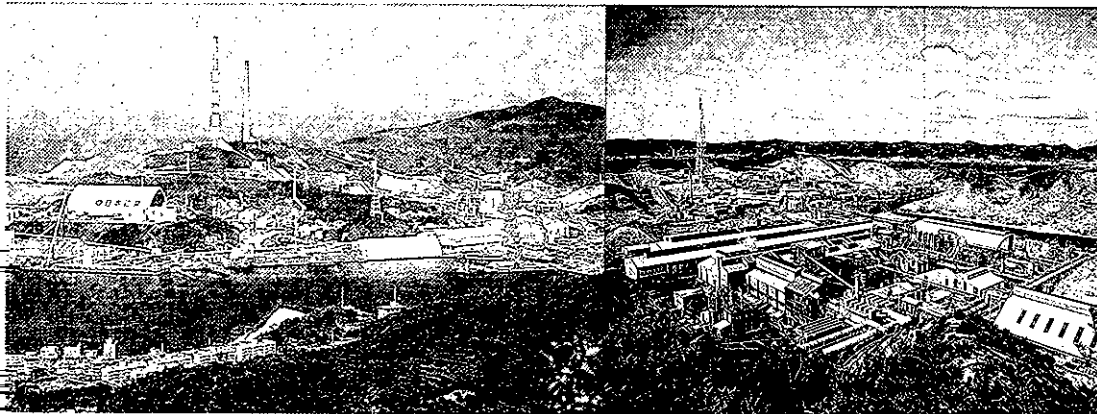
Under the Company's original financing arrangements a secure, long-term, diversified market was required. This was achieved via fifteen year contracts with the major custom smelters in Japan, Germany and Spain.

These contracts came into force when the mine commenced operations in

1972 and laid the foundation for what continues to be relationships whereby co-operation rather than confrontation is the modus operandi. This approach has been extended to the Company's more recent customers.







Bougainville Copper is confident that these relationships will continue to be developed and enhanced and looks forward to maintaining its role as one of the pre-eminent suppliers in the custom concentrate market.


The Company is fortunate in producing a quality of concentrate favourable for treatment by the most modern smelting processes. The Company is determined to maintain the reputation it has achieved as a regular and reliable supplier to its customers. It is sales to these valued customers which provide the revenue for all the benefits flowing from the Company's operations.




Saganoseki smelter

Naoshima smelter

JAPAN	
	DOWA MINING CO., LTD.
	FURUKAWA CO., LTD.
	MITSUBISHI METAL CORPORATION
	MITSU MINING & SMELTING CO., LTD.
	NIPPON MINING CO., LTD.
	SUMITOMO METAL MINING CO., LTD.

WEST GERMANY	
	NORD DEUTSCHE AFFINERIE

SPAIN	
	RIO TINTO MINERA, S.A.

SOUTH KOREA	
	KOMSCO

PHILIPPINES	
	PASAR

BOUGAINVILLE COPPER



Bougainville Copper Limited
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