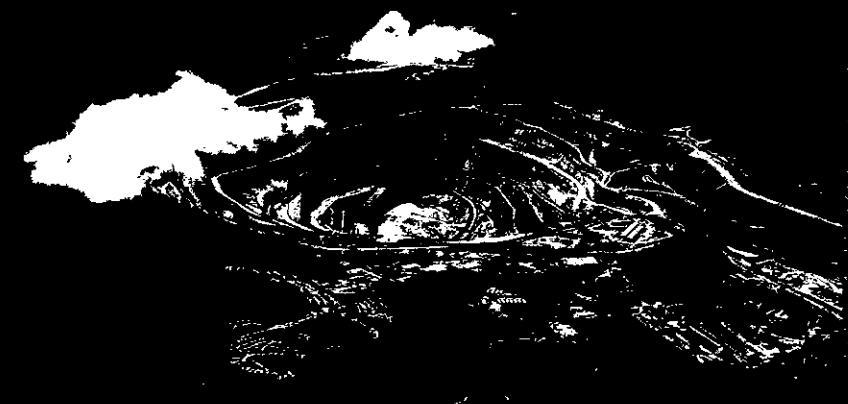


Bougainville

09/12/82



9/1082



Notice of Meeting

The Annual General Meeting of Bougainville Copper Limited will be held at 10.00 a.m. on Wednesday, 16th April, 1986 in the Panguna Cinema, North Solomons Province, Papua New Guinea.

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

Year in Brief

		1985	1984
Concentrate production	(tonnes)	581 752	542 260
containing copper	(tonnes)	175 048	164 447
gold	(kilograms)	14 372	15 673
silver	(kilograms)	46 112	44 400
Net sales revenue	(K'000)	315 670	307 626
Net earnings after tax	(K'000)	28 114	11 601
Earnings per share	(toea)	7.0	2.9
Shareholders' funds	(K'000)	586 543	586 503
Return on shareholders' funds	(per cent)	4.8	2.0
Gross dividends	(K'000)	28 074	16 042
per one kina share	(toea)	7.0	4.0
Depreciation and amortisation	(K'000)	47 597	46 537
Government royalties	(K'000)	3 892	3 716
Taxation	(K'000)	19 016	15 234
Number of employees at 31 December		3 652	3 736

Cost effective technology

Cover & theme of 1985 Report: In an environment of depressed market outlook and declining ore grades Bougainville Copper Limited's strategy for survival is one of improving cost effectiveness through the application of technology.

Directors

D. C. Vernon (Chairman)
G. Billard
D. S. Carruthers
W. J. N. Davis
P. G. F. Henderson, A.C.
P. W. Quodling
J. T. Ralph
W. D. Searson

Officers

P. W. Quodling
(Managing Director)
J. L. Auna
(Executive Manager – Personnel)
R. J. Cornelius
(Executive Manager – Concentrator)
J. B. Holt
(Executive Manager – Mine)
V. P. McCartin
(Executive Manager – Support Services)
P. Piercy
(Executive Manager – Technical Services)
R. N. Prideaux
(Executive Manager – Commercial)
A. W. Patterson
(Secretary)

Bougainville Copper Limited

(Incorporated in Papua New Guinea)

Registered Office:

Panguna, Province of North Solomons, Papua New Guinea.

Principal Registered Office in Australia:

55 Collins Street, Melbourne.
Telephone (03) 658 3333.

Share Registers:

Victoria: 84 Flinders Lane, Melbourne.
Telephone (03) 654 4899.

A.C.T.: Level 4, 24 Marcus Clarke Street, Canberra City.

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

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

Stock Exchanges:

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

Auditors:

Coopers & Lybrand.

Bankers:

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

Solicitors:

Arthur Robinson & Hedderwicks.
Gadens.

Chairman's Statement



D. C. Vernon,
Chairman.

The Company's net earnings for 1985 were K28.1 million representing a return of 4.8 per cent on shareholders funds. Although this is an increase of K16.5 million from 1984 it represents an inadequate result for the fifth year in succession.

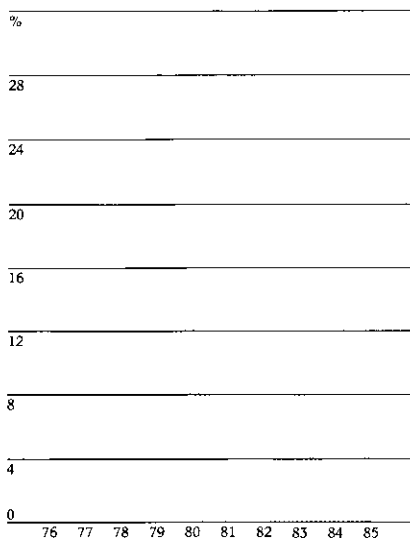
However, the Company is continuing to make profits, albeit inadequate, in an industry which has been severely depressed for the period. By the application of cost effective technology, sensible cost improvement decisions and management and employee commitment, the Company is one of the few world copper producers which has consistently made profits during the period. A significant number of mines have not been able to withstand the effect of continued low copper prices and have either closed or suspended their operations. At the same time the Company is well placed to take advantage of any future upturn in prices as its decisions on cost containment have not been taken at the expense of long-term efficiency.

Copper prices during 1985 showed virtually no improvement while gold prices actually declined. The United States dollar remained at high levels during the year, although it depreciated in value against other major currencies in the second half of 1985. Although a strong US dollar impacts favourably on the Company's revenue measured in kina terms and resulted in a net benefit to the Company in 1985, the gains are partly offset by inflationary pressures on operating costs, increased capital expenditure for overseas equipment and associated high interest rates. Costs during the year were also affected favourably by the weak Australian dollar.

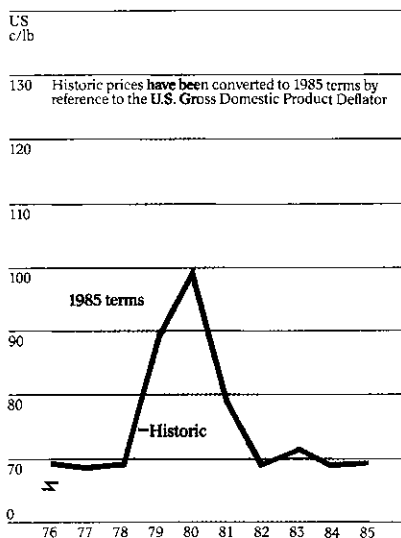
Outlook:

The outlook for copper prices is not encouraging. After the strong growth in consumption in 1984, which resulted in a market deficit and a consequent run down in stocks, there were hopes that 1985 would be a year of price recovery. Unfortunately this was not the case. The rate of growth in consumption in two major markets, the United

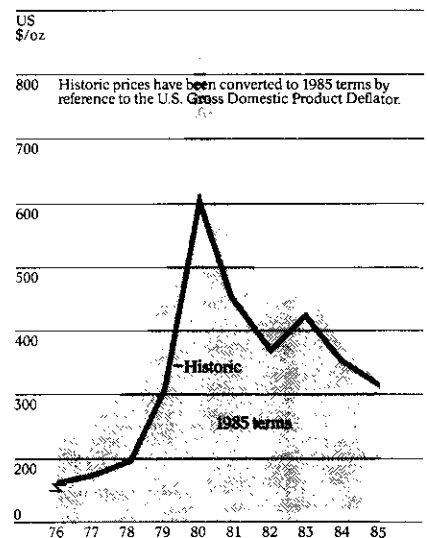
Return on shareholders' funds



Copper prices



Gold prices



States and Japan, fell in 1985. The last half of the year saw a reversal of the downward trend in stocks and a weakening of the copper price from the year's high point of US75c/lb achieved in May.

Precious metal prices have been strongly influenced by movements in the US dollar and interest rates. Low inflation and high real interest rates have kept gold prices down and no significant change in economic circumstances which could lead to a major recovery in the gold price in 1986 is envisaged.

Even though there are predictions for further copper stock reductions in the first half of 1986, it would appear that the market is looking for lower inventory levels than the previous "norm" of 9 to 10 weeks consumption. This is a result of a number of factors, including higher real interest rates exerting pressure to reduce inventory levels.

For 1986, very little growth in copper consumption is expected. Apart from the likelihood of a slowing down in economic

activity, copper is under threat from substitutes in many of its end uses, with the main competition coming from aluminium, plastics and fibre optics. World mine production has risen slightly and a further small increase can be expected in 1986. In these circumstances a price recovery is unlikely. Mine capacity utilisation rates are currently around the 80 per cent level and as production reacts quickly to price increases any price rise is likely to be limited.

For these reasons it is difficult to forecast any significant improvement in copper prices in the immediate future. Earlier predictions for, at best, only a modest upward trend in prices have not been borne out by experience during 1985. In this environment the key to remaining profitable is to maintain low production costs – not just in absolute terms but relative to competitors.

Competitive position:

Bougainville Copper Limited has traditionally been in a strong competitive position by being placed toward the lower end

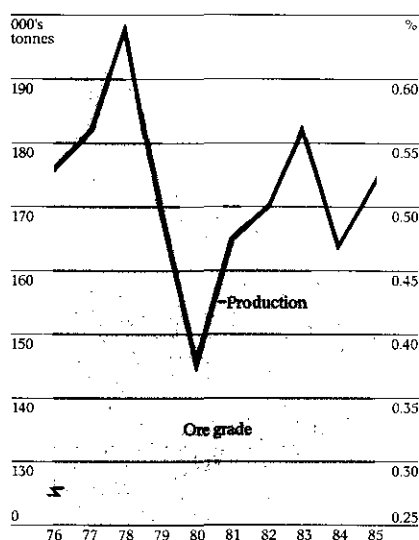
of costs within the industry. However, the effect of mine closures in North America and the Philippines in particular, and ongoing pressures to achieve better operational efficiencies in the industry continue to place pressure on the Company's competitive position.

The critical factors in establishing a mine's competitive position are:

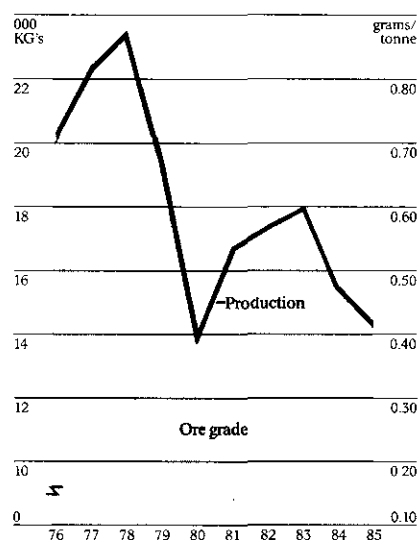
- grade of the ore body
- by products
- location
- scale of operation
- managerial efficiency
- technological application
- government imposts.

The first three of these are determined by nature, but are nevertheless critical. The Company's scale of operation has steadily increased in accordance with a strategy to compensate, in part, for declining ore grades. However, irrespective of these factors the Company has always regarded high managerial efficiency and technological application as essential ingredients to a successful operation.

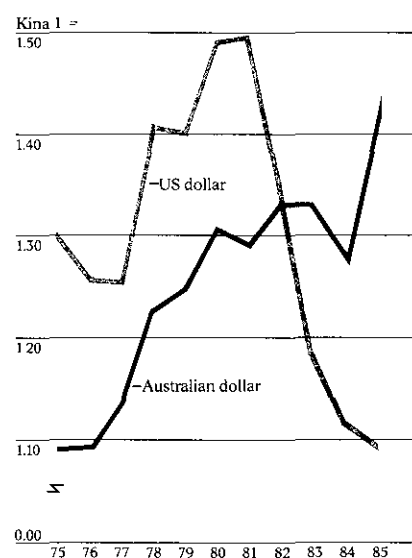
Copper ore grade & production of contained copper



Gold ore grade & production of contained gold



Average exchange rates to Kina 1975-1985



Consequently, particular attention has been paid to these factors over the years. Even so, at current metal price levels the return on investment is unsatisfactory and a special effort will be made to reduce operating costs still further. Government imposts either in the form of direct taxes or as other indirect charges impact substantially on the Company's competitive position. Increases may result in short term gains to the government but could have an adverse effect on the long term viability of the operation. Any deterioration in competitiveness from current levels would have a serious impact on profitability.

Bougainville Copper's response:

The response of Bougainville Copper has been to use cost effective technology as a means of achieving operational efficiencies to improve its competitive position and thus enhance profitability. During 1985 a number of technological

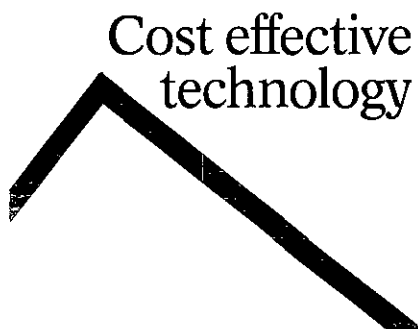
improvements were made to complement further those already in operation. A thirteenth ball mill was commissioned in July. It is intended that this mill will operate generally in a regrind mode to enhance recovery from the orebody. The tailings water reclamation scheme in which water is recovered from the tailings for reuse in the concentrator was commissioned during the year. This project is achieving significant savings by minimising the need to pump water for the concentrator from a supply 10 kilometres away at the bottom of the Kawerong Valley. Other initiatives have included test work on a prototype new generation crusher, improved mining and processing equipment, and the introduction of advanced industrial support equipment in the Company's workshops. The pit drainage tunnel system successfully commenced operation during 1985, further reducing costs.

Construction of a new pre-concentration plant which will marginally increase the grade of the feed to the concentrator was commenced during the year. The completion of this plant in 1986 will provide a further boost to efficiency and a reduction in unit operating costs.

The Company will continue to identify and where appropriate introduce new cost effective technologies.

Human resources:

The past year has been a difficult one and prospects for an improvement during the rest of the decade may be limited. The Company places great emphasis on increasing efficiency and productivity through the development and maintenance of a skilled workforce. Training and education programmes are carried on at all levels in the organisation to provide the necessary skills. Programmes are regularly reviewed to ensure both their effectiveness and



Cost effective
technology

The thrust by Bougainville Copper over recent years has been towards "Cost Effective Technology" as a means of achieving operational efficiencies to improve its competitive position and thus enhance profitability.

During 1985 a number of technological improvements were made in the operation to complement further those already in use. Benefits are already apparent with the unit cost of concentrate produced in 1985 being 6% lower than in 1984.

Close monitoring of capital expenditure and cost levels will continue. However, the Company is in a sound financial position allowing it to invest prudently in technological advancements to enhance cost effectiveness and improve the efficiency of the operation.

relevance to operations and their support for the Company's policy of providing better employment opportunities for Papua New Guinea nationals.

The Management and employees deserve great praise for the manner in which they have met the challenges to the Company and the industry.

Papua New Guinea economy:

This year was one of political change at the national level. Mr Pias Wingti replaced Mr Michael Somare as Prime Minister and a new coalition took over the responsibility of government. The Company is confident that the close working relationship enjoyed with the former Government will continue with Mr Wingti and his Government.

The Government does have a number of challenges in front of it, as the medium term prospects for the economy are not encouraging. While agricultural

prices recovered to some extent in 1985, metal prices remain low, and as discussed earlier, do not look like recovering in the near term. Government revenue will therefore be adversely affected by the Company's current and expected depressed earnings.

A foreign aid sponsored aerial borne mineralogical survey is scheduled to commence on Bougainville Island in early 1986. It is hoped that this survey will provide the stimulus to an early decision on future exploration. This decision is very important as improved knowledge of potential additional mineralisation both within the Company's prospecting authorities and throughout the province would enhance long term planning for both the Company and the Government.

Conclusion:

Bougainville Copper is well placed competitively for the future. Improvements come slowly and results do not become readily apparent in immediate

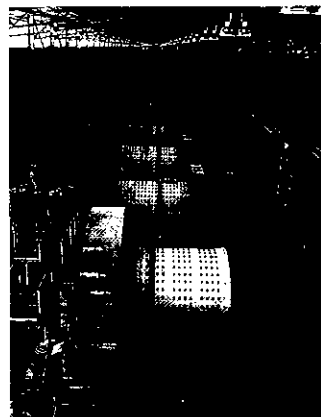
profit terms. However, the continued efforts to maintain and improve the Company's competitive position both through the application of cost effective technology and efficient utilisation of human resources will ensure its continued viability. Long term adequate profit levels are heavily dependent on future metal price levels and currency exchange rates which are largely determined by the world economic environment.



D. C. Vernon
Chairman
14th February, 1986



A thirteenth ball mill was completed in June. The mill is driven by a variable speed ring motor. By analysing its performance at various speeds, the optimum speed for the other twelve primary ball mills is being determined. It is envisaged that the mill will operate in a regrind mode in 1986 to enhance metal recoveries obtained from processing a finer product.



Review of Operations



P.W. Quodling,
Managing Director.

Masured ore reserve: The recoverable proved ore reserves at the end of 1985 in the current pit design were estimated at 625 million tonnes at 0.40% copper and 0.46 grams of gold per tonne of ore.

Production: Production statistics were as follows:

	Year Ended 31/12/85	Year Ended 31/12/84
Material mined (millions of tonnes)		
Ore	50.1	46.5
Waste	23.5	28.2
Waste/Ore ratio	0.47/1	0.61/1
Ore grade		
Copper (per cent)	0.42	0.42
Gold (grams/tonne)	0.42	0.48
Silver (grams/tonne)	1.21	1.34
Concentrate produced (dry tonnes)		
	581 752	542 260
Concentrate grade		
Copper (per cent)	30.1	30.3
Gold (grams/tonne)	24.7	28.9
Silver (grams/tonne)	79.3	81.9
Contained metal in concentrate		
Copper (tonnes)	175 048	164 447
Gold (kilograms)	14 372	15 673
Silver (kilograms)	46 112	44 400

Mine: A total of 50.1 million tonnes of ore and 23.5 million tonnes of waste was mined during the year. In line with predictions, copper grade was maintained at 0.42% and gold

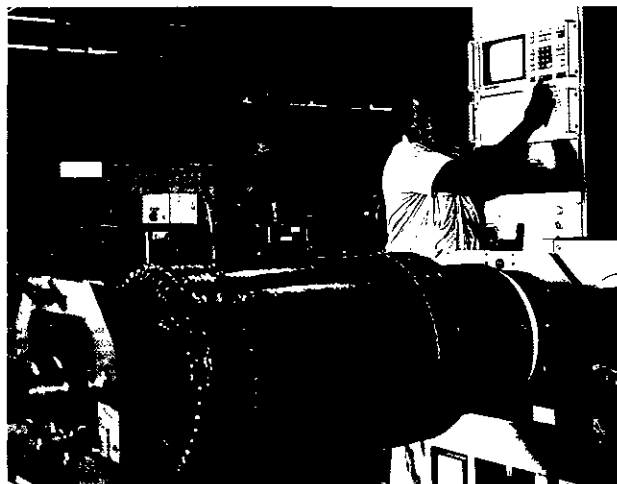
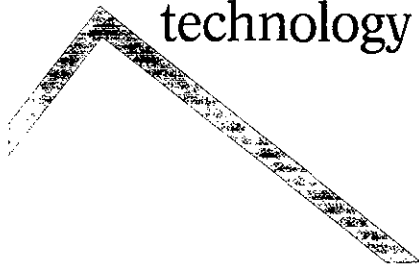
grades declined to 0.42 gm/tonne. Ore was mined mainly from the north wall and the bottom of the pit.

Waste stripping continued at a reduced rate from the north east and east walls. In the latter part of the year the stripping rate increased with the commencement of stripping on the south wall of the pit for future ore production.

Availability and performance of the major mining equipment continued at high levels and no production time was lost during the year. The haul truck control and production reporting system which was installed at the end of 1984 has operated successfully throughout the year and has significantly contributed to increased efficiencies in truck and shovel operations.

The pit gravity drainage system which had been under construction since 1977 was commissioned in July and is operating satisfactorily. The subsequent removal of the pumping system has resulted in a reduction in pit power requirements with associated cost savings.

Cost effective technology



The Schenck H4U Balancer and Micro-processor in the Central Electrical Workshop now allows a full range of rewound rotating machinery to be accurately balanced in minutes by relatively unskilled personnel. Its use will minimise future bearing failures with a consequent reduction in equipment damage and downtime.

The Okuma computer controlled lathe in the Central Workshop machines consistent and accurate components. It will permit a reduction in stores inventory levels as a much greater number of equipment spare parts can now be economically manufactured on site.



Concentrator: The Concentrator processed 50.1 million tonnes of ore compared with 46.5 million tonnes in 1984. This increase in material treated was primarily due to the increased throughput obtained from the No. 13 ball mill and the treatment of slightly softer ore than usual. Concentrate production for 1985 was 581 752 tonnes containing 175 048 tonnes of copper, 14 372 kilograms of gold and 46 112 kilograms of silver.

The No. 13 mill operated initially as a throughput mill until November when it was converted to the planned regrind mode of operation. Increases in concentrate production in the regrind mode resulted from the higher metal recoveries obtained in processing a finer product. It is planned to continue operating this mill in regrind mode throughout 1986.

A tailings water reclamation system was also commissioned in June. This system utilises four high capacity thickeners to recover water from the concentrator tailings slurry and has resulted in significant savings in operating costs together with

the elimination of process water shortages.

The Company in joint participation with Rexnord U.S.A. is developing a new higher capacity "Omnicone" crusher. Rigorous testing of a prototype of the crusher commenced in July. Assessment of the "Omnicone" crusher as a suitable replacement for the existing Symons crushers will continue into 1986.

Construction of a large pre-concentration screening plant commenced during 1985. The plant is planned to come on stream in late 1986 and will enable separation of coarse low grade waste from finer higher grade product suitable for processing through the concentrator. Because of the upgrading achieved from such processing of marginal material previously considered as low grade ore or waste, the facility should offset a further decline in head grades.

Infrastructure: The Company occupational health and safety programme has received a major thrust with increased emphasis on personal fitness. Facilities

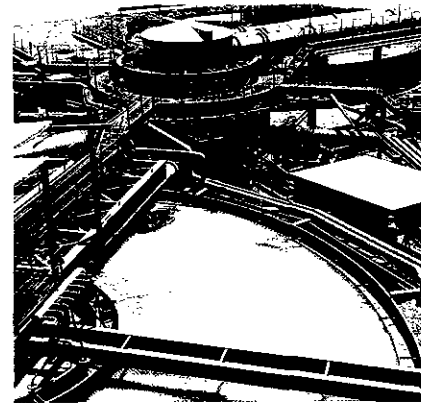
have been improved and professional instructors engaged to provide expert advice on general health and physical well-being. The programme has found ready acceptance at all levels.

A new private medical clinic was opened by the North Solomons Medical Foundation during the year. This clinic which provides extensive first class treatment is available to all members of the community.

The previous charter vessel the "Zephunter" has been replaced by the "Cap Anamur". Operating cost savings are expected from the new vessel because of a more fuel efficient engine and automated equipment which reduces the time required in port.

With the completion of a new mess building at Loloho in January, work started on an upgrade programme for the accommodation units in this area to provide a permanent facility for single members of the Company workforce.

The Company's mainframe computer was re-located into a new building during the year. A proposed replacement of the existing hardware in 1986 will



The new tailings water reclamation system uses four 24.5 metre diameter Enviro-Clear high capacity thickeners to recover water from the concentrator tailings slurry. The availability of reclaimed water has significantly reduced the power required to pump water to the concentrator and has eliminated water shortages.

leave the Company well placed to continue development of systems which improve the efficiency of the operation. This will place the Company in a strong position to maximise the benefits from future advancements in information technology.

The first phase of a new user-orientated materials management system was successfully implemented during the year. The system is designed to reduce the overall stock holding and administrative effort in supply management.

In early 1985 the power station was successfully modified to use a waxy residual oil. During 1986 the ability to burn high viscosity oil will be reviewed to improve the flexibility of the power station in using cheaper fuels.

The new Bougainville Limestone Mining Pty. Limited plant situated at Manetai approximately 32 kilometres from Panguna commenced production during 1985. This will overcome the need to import a major portion of the Company's hydrated lime requirements and will reduce

reorder lead time and hence stock holding requirements.

Through co-operation between the police and the Company's security services, urban areas in Bougainville continued to be isolated from the further decline in law and order seen in some other parts of Papua New Guinea.

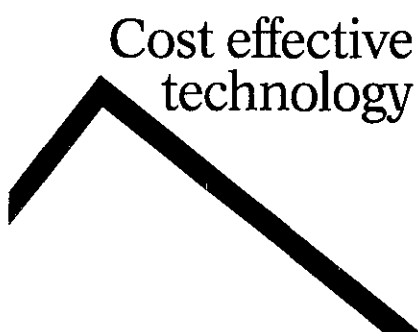
Operating costs: Costs remain under critical review. A programme of cost reduction implemented in 1984 and continued in 1985 halted the previous increase in operating costs. The unit cost of concentrate produced was 6% lower than in 1984 as a result of the reduction in overall costs and the higher concentrate production associated with the new No. 13 ball mill.

Fuel remains the largest single cost item accounting for 26% of operating costs. New fuel contracts entered into in late 1985, the development of an ability to use cheaper fuels and the general state of the oil industry are expected to result in a further reduction in fuel costs.

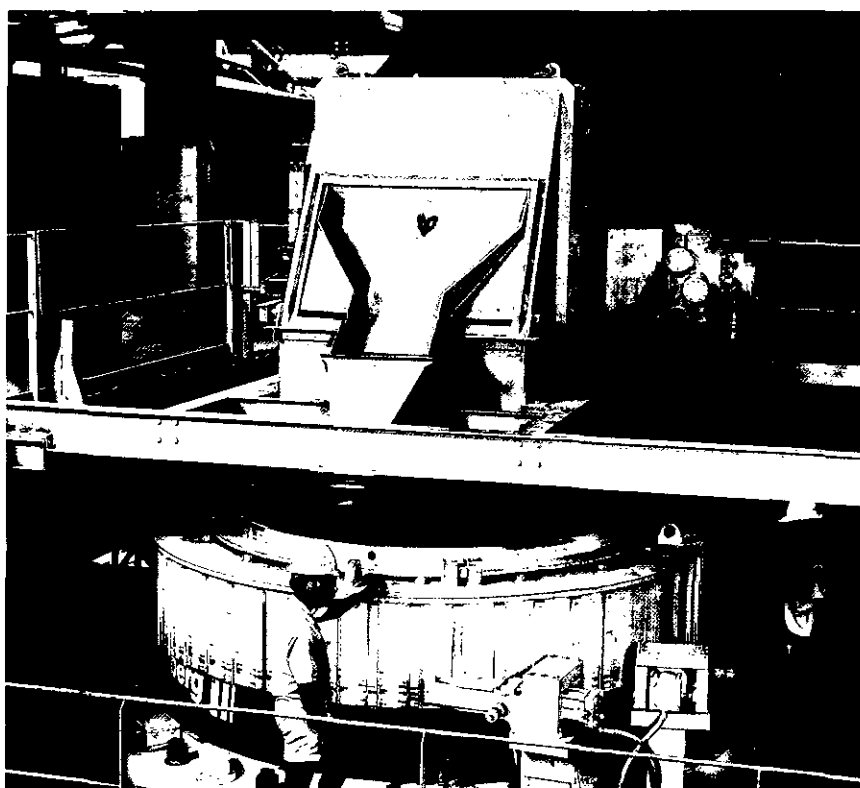
The Company will continue to monitor cost levels and further inroads are expected to be achieved through the use of cost effective technologies and the elimination of non-essential expenditures.

Marketing: Sales during 1985 totalled 559 953 dry tonnes of concentrate containing 168 714 tonnes of copper, 13 770 kilograms of gold and 44 277 kilograms of silver. These compare with sales of 550 791 dry tonnes of concentrate containing 167 101 tonnes of copper, 15 962 kilograms of gold and 45 009 kilograms of silver in 1984. Continuing low metal prices coupled with falling gold grades adversely affected sales revenue during the year.

During the first half of the year, world refined copper stocks decreased significantly, almost to their historically "normal" level. However the slowdown in world economic growth, particularly in the United States, caused the demand for copper to weaken and as a result the fall in copper stocks was not sufficient to stimulate the copper price. During the second half of the year metal stocks started to



The Company in joint participation with Rexnord U.S.A. is developing a new high capacity "Omnicone" crusher. The prototype of the crusher commenced rigorous testing in July as a suitable high capacity future replacement for the existing Symons crushers. Assessment of the "Omnicone" will continue in 1986.



increase again. This factor combined with high real interest rates and the strong US dollar resulted in further pressure on the copper price. The copper price opened the year at US60c/lb and fluctuated within the US59c/lb – US75c/lb range before closing at US64c/lb. The annual average copper price was US64c/lb compared with US62c/lb in 1984.

The concentrate market, in contrast to that for refined metals, remained a producers' market. This continued the trend which has developed over the past three years as a result of an expansion in world wide smelting capacity and a reduction in concentrate production capacity. In addition to the favourable concentrate market conditions the Company's concentrate is of a premium quality and demand for the product remains high.

Concentrate was delivered to Japan, West Germany and Spain under long term contracts. Under other contracts, shipments were made to China and South Korea. In April, the terms for the remainder of the current fifteen year contract with the

Japanese buyers were renegotiated. Talks were also held with the Japanese buyers regarding the continuation of deliveries to Japan after April 1987 when the current contract expires. A letter of intent has been signed with the Japanese buyers to enter into another long term contract in 1987.

The US financial markets continued to provide attractive returns for investors as a result of high real interest rates, the sustained relative strength of the US dollar and low rates of inflation. As a result investor interest in commodity markets, especially precious metals, was negligible. The resulting weak demand for gold and silver combined with increasing mine production caused the gold and silver prices to remain depressed throughout the year. The gold price commenced the year at US\$305/oz and fluctuated within US\$285/oz and US\$340/oz before closing at US\$326/oz. Political events around the world had little impact on the gold price which tended to move in the opposite direction to the US dollar. The average gold price for 1985

was US\$317/oz compared with US\$361/oz in 1984.

The silver price opened the year at US\$6.3/oz, then fluctuated within the US\$5.5/oz – US\$6.7/oz range and closed at US\$5.9/oz. The average silver price of US\$6.1/oz for 1985 compared with US\$8.1/oz for 1984.

Finance: The low metal prices which were experienced during the year, although depressing profitability, did not prevent a reduction in the Company's outstanding loan balances and a small increase in the level of cash held on interest bearing deposits. Total borrowings at year end were K36.5 million (1984 K51.7 million) and cash balances were K21.1 million (1984 K14.4 million).

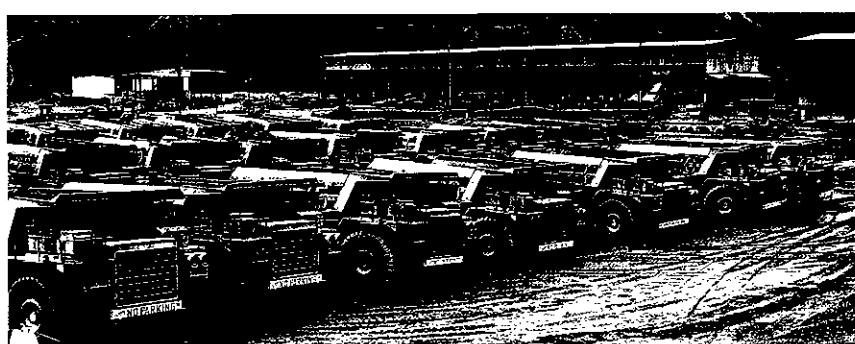
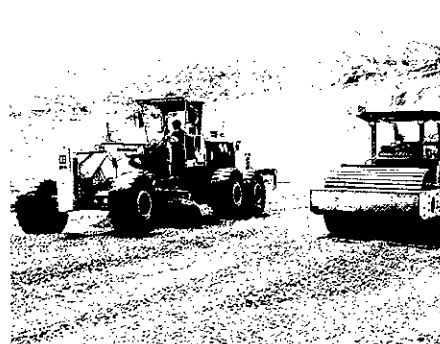
During the year the Company renegotiated its Revolving Credit Facility. The total facility has been reduced to US\$125 million. This ten year facility will reduce by one third each year commencing in May 1989 and terminating in May 1991. New bankers acceptances were put in place during the year increasing the total available under these facilities to US\$250 million.

Haul truck tyre life has increased from less than 1,500 hours per tyre in 1977 to the current level of 3,500 hours.

The improvement has resulted from a combination of factors:

- greater emphasis on haul road maintenance;
- more efficient haul road design and the use of surface dressing aggregate;
- development of radial tyres for haul trucks with significantly higher load ratings.

Apart from the cost savings, there are major safety benefits from reduced exposure to tyre failure.



Currency exchange rates were volatile throughout the year with the US dollar initially strengthening against all major currencies. During the latter part of the year active intervention by a number of central banks placed some downward pressure on the US dollar, but it still remains at historically high levels against major currencies. The Papua New Guinea Government has continued to follow the hard Kina policy with the Kina closing at 0.99 against the US dollar.

Interest costs for the year at K4.4 million were lower than the previous year (1984 K6.5 million). This was attributable to the reduced level of borrowings. Real interest rates remain high with little prospect of any significant reductions in the near-term. A further complication for Papua New Guinea is the high level of borrowing required to finance government activities. As this borrowing competes directly with private borrowings in the financial markets it must make funds more expensive to finance business expansion in this country.

The outlook for 1986 is dependent upon metal prices and exchange rates. Current projections indicate a moderate increase in the level of borrowings to fund the Company's capital expenditure programme.

Personnel: Despite cost reduction efforts, the Company has continued to emphasize the development and maintenance of operational and management skills as a prerequisite to improving productivity. The 1985 formal training covered 425 employees, including 271 apprentices, 27 under and post-graduates and 54 post-trade tradesmen. Seventy apprentices received their indentures in 1985. In addition, a total of 181 national and non-national employees attended on-site and off-site supervisory and management courses.

A restructure of the trade training programme was introduced with the 1985 apprentice intake. This programme, which has the full support of the P.N.G. Apprenticeship Board, places greater emphasis on the development of more practical

skills. Classroom training is now being undertaken completely in the Company's Mine Training College.

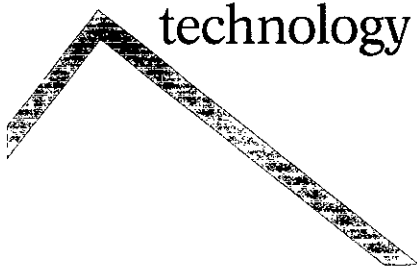
The Bougainville Mining Workers' Union Award was successfully renegotiated early in the year with no disruption to production. There was no production lost from industrial action during the year.

Total Company employment at the end of 1985 was 3 652 (1984: 3 736), of which 2 948 (1984: 2 987) or 81% were Papua New Guinea citizens.

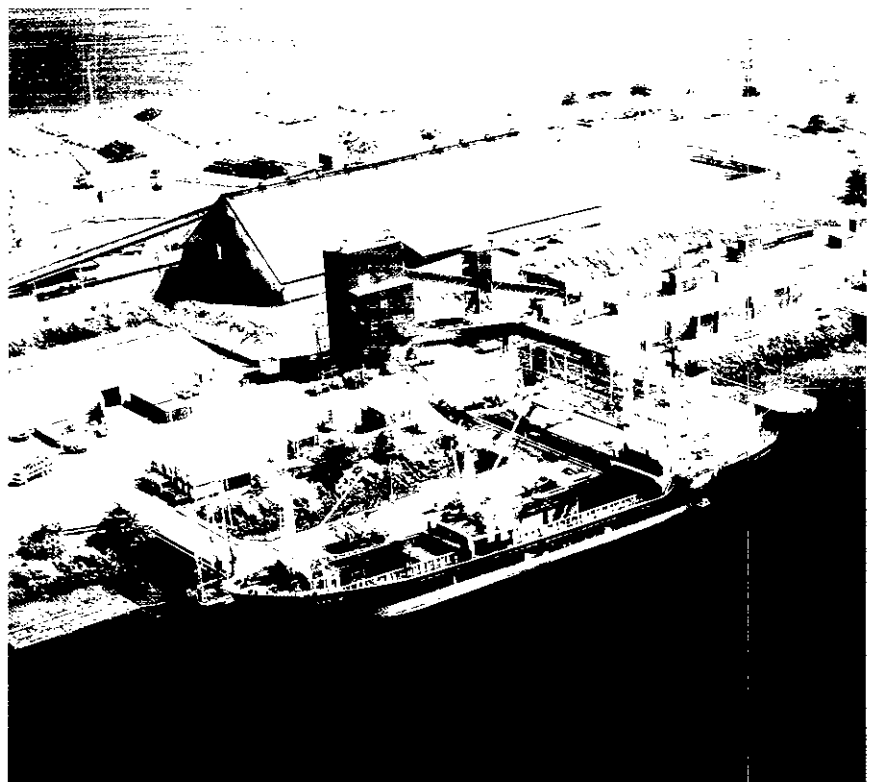
Environmental: Tailings disposal options were further examined with major studies substantially completed during the year. Related to this work, a study was commenced to obtain a detailed knowledge of the physical attributes of Empress Augusta Bay.

Other environmental research, monitoring and control projects have continued. These projects encompass not only the mine site and mine lease areas, but also the townsites and marine environments.

Cost effective technology



"Cap Anamur" is a modern cargo vessel of 6,600 tonnes dead-weight. Operating cost savings are expected from the new vessel in the form of a more fuel efficient engine and automated equipment which reduces the time required in port.



Examination and control of the workplace environment was extended during the year. Emphasis was placed on reducing the exposure of employees to noise and on monitoring of employee hearing as well as continuing with existing dust and hazardous chemical monitoring programmes. Major elements of the occupational health programme included installation of sound absorption material in the new boiler shop and increased use of hearing protection throughout the operations.

Exploration: The drilling programme to define extensions around the periphery of the Panguna ore body was continued throughout 1985. Low grade mineralisation was confirmed on the southern side of the ore-body outside the current pit design. This material is being assessed as part of longer term strategic mine planning.

No exploration was carried out on the Prospecting Authorities held by the Company. Under the terms of the Bougainville Copper Agreement, exploration cannot be undertaken without

prior Government approval. Agreement on conditions of development between the National and Provincial Governments and landowners is a prerequisite for such approval. The Company is becoming increasingly concerned at the lack of progress in securing such agreement.

Capital expenditure: Capital expenditure for the year totalled K32.8 million.

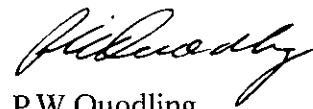
Expenditure of K1.3 million was incurred during the year to complete the pit drainage tunnel, the total cost for this project being K19.2 million.

The No. 13 ball mill and tailings water reclamation projects were completed in June 1985, expenditure incurred during the year being K9.4 million and K6.5 million respectively. Total costs for these projects were K13.4 million (No. 13 ball mill) and K12.3 million (tailings water reclamation).

Construction of a pre-concentration screening plant commenced late in 1985 and K2.2 million expenditure has been

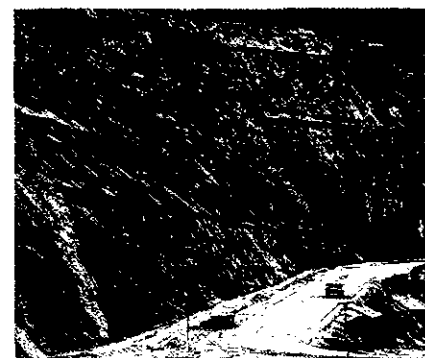
incurred to date. Installation of this plant will provide a flexible means of increasing production at a competitive cost. The 4 000 tonne per hour screening plant will pre-concentrate low grade ore and waste and is expected to be complete by the end of 1986 at a total cost of about K31 million.

Future capital expenditure will remain under close scrutiny in the light of the depressed metal price outlook. However the Company is in a sound financial position and this will allow it to invest prudently in technological advancements which will enhance cost effectiveness and improve operational efficiency.

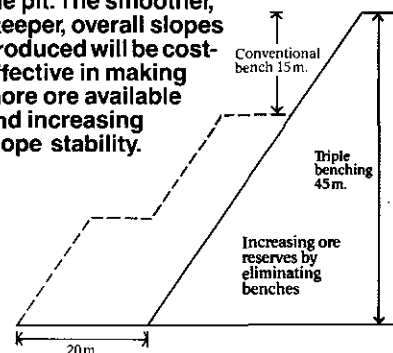


P.W. Quodling
Managing Director
14th February, 1986

Mine planning encompasses pit design and optimisation of the extraction sequence. The optimisation process is largely one of trial and error until the "best fit" is found. Computerisation of this process means many iterations are possible in a short time, enabling the mining engineer to produce better production schedules. The photograph shows a mining engineer checking a trial pit design.



Bulldozer trimmed triple height 45 metre benches have been tested in several areas of the pit. The smoother, steeper, overall slopes produced will be cost-effective in making more ore available and increasing slope stability.



Statement of Value Added

A country's economy is largely made up of the activities of employers and employees and the contribution they make to that economy is known as the Value Added.

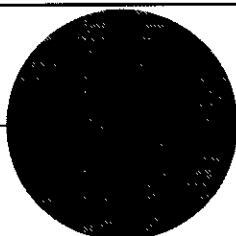
The conventional earnings statement does not reflect the contribution that Bougainville Copper makes to Papua New Guinea's economy. This contribution to the country's Gross National Product is represented by the sales generated during the year less the cost of goods and services brought in from outside the Company.

The following statement shows the contribution made by the Company and its employees during the last two years. The total Value Added was distributed to employees, government, shareholders and lenders of capital, with part being retained for future use within the Company.

	1985 K mill.	1984 K mill.
Value added		
Sales made to external customers	315.7	307.6
Other income	<u>1.9</u>	<u>3.2</u>
Total income	317.6	310.8
Less: Materials and services brought in from outside the Company	<u>164.6</u>	<u>175.0</u>
Total Value Added available for distribution	<u>153.0</u>	<u>135.8</u>
Distribution		
Wages, salaries and benefits to EMPLOYEES	50.0	52.2
Taxation and royalties to GOVERNMENT	22.9	19.0
To PROVIDERS OF CAPITAL		
Dividends to shareholders	28.1	16.0
Interest to lenders	<u>4.4</u>	<u>6.5</u>
RETAINED in business to provide for asset replacement, expansion and protection of the Company and its employees.		
Depreciation and amortisation	47.6	46.5
Retained earnings	<u>-</u>	<u>(4.4)</u>
Total Value Added distributed	<u>153.0</u>	<u>135.8</u>

Distribution of Value Added

Sales and other income for the year amounted to K317.6m.



Less materials and services of K164.6m.



Leaves value added of K153.0m for distribution

- _____ Employees K50.0m.
- _____ Government K22.9m.
- _____ Providers of capital K32.5m.
- _____ Retained in business K47.6m.

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, 1985.

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

D. C. Vernon (Chairman)

Age 57 Dipl. Chem. Eng.

Commenced CRA Group 1953 and appointed Director of CRA in 1979.

Joined BCL in 1966; appointed General

Manager 1973 and Managing Director

1975. Chairman of BCL since 1979.

Patron of Australia-PNG Business

Co-Operation Committee.

G. Billard

Age 41 B. Ec. (Hons), B. Com.,

A.A.U.Q., F.A.S.A.

Joined CRA in 1969. Nine years with BCL,

including three years as Executive Manager

- Commercial. Managing Director, CRA

Group Financial Services since 1983.

D. S. Carruthers

Age 55 B.Sc.

Joined CRA in 1955. Extensive exploration

and operational mining experience. CRA

Group Executive since November 1984.

Member of International Energy Agency's

Coal Industry Advisory Board 1980-1985.

W. J. N. Davis

Age 51 B. Met. Eng., FR. M. T. C.

Joined CRA in 1958. Commenced with BCL

in 1967 and appointed Executive Manager

- Concentrator in 1979. Currently Vice-

President Technological Resources, CRA.

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

Age 57 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.

P. W. Quodling (Managing Director)

Age 59 B. Com., A.A.U.Q., F.A.S.A.

Joined CRA in 1956. Commenced BCL

1966. General Manager 1977 until

appointed Managing Director in 1982.

J. T. Ralph

Age 53 F.A.S.A., C.P.A.

Thirty-seven years with CRA Group.

Director of CRA since 1971; appointed

Managing Director CRA 1983. Chairman

of Comalco Limited since 1980.

W. D. Seanson

Age 36 B.Sc.

Secretary, PNG Department of Minerals

& Energy since October 1983. Experience

in mining industry. Citizen of Papua

New Guinea.

G. Billard, D. S. Carruthers,

W. J. N. Davis and P. G. F. Henderson all

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 concentrate containing

copper, gold and silver from a mine

at Panguna, North Solomons Province,

since 1972. The Company has two sub-

subsidiaries. Bougainville Copper Finance

N.V. is incorporated in the Netherlands

Antilles for fund raising purposes. BCL

(Hong Kong) Limited arranges shipping

contracts on behalf of the Company.

Net Earnings: The net earnings of

Bougainville Copper Limited and its

subsidiaries for 1985 totalled

K28 114 000 after providing

K47 597 000 for depreciation and

amortisation, K3 892 000 for royalties

and K19 016 000 for income tax.

Taxation: Taxation of K19 016 000 charged to earnings comprises K19 952 000 current tax and a reduction of K936 000 in the provision for future tax.

Subsidiaries: No subsidiaries were disposed of during the year. No dividends were paid by Bougainville Copper Finance N.V. or BCL (Hong Kong) Limited.

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

Exchange Fluctuations: Exchange losses of K1 330 000 were realised on the repayment of United States dollar loans. Provisions raised against unrealised exchange losses on overseas borrowings were K845 000. In addition, exchange gains of K797 000 arose on the translation of overseas bank balances. These gains and losses are included in 1985 earnings.

Long Term Loans: Drawdowns of K42 053 000 were made during the year against long term loan arrangements. Repayments of K57 206 000 were made against existing loans, leaving a balance outstanding at the end of the year of K36 539 000.

Dividends: An interim dividend of two toea per share was paid in November. A final dividend of 5 toea per share has been declared and is payable on 1st May, 1986. 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 to 11).

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 that 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, 1985, and the date of this report, 14 February, 1986.

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. No item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this Report which, in the opinion of the Directors is likely to affect substantially the results of the operations of any corporation in the Group during 1986.

4. 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, 1985.

5. 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.

6. 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, 1986 in accordance with a resolution of the Directors of Bougainville Copper Limited.

D. C. Vernon
Chairman.

P. W. Quodling
Managing Director.

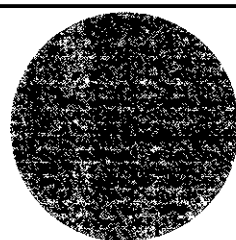
Statements of Earnings

year ended 31 December, 1985
Bougainville Copper Limited

	Notes	Consolidated		Bougainville Copper Limited	
		1985 K'000	1984 K'000	1985 K'000	1984 K'000
Income					
Net sales revenue		315 670	307 626	315 670	307 626
Other income (net)		1 926	3 231	1 924	3 231
		<u>317 596</u>	<u>310 857</u>	<u>317 594</u>	<u>310 857</u>
Costs and expenses					
Costs of sales, general and administration expenses		213 198	224 536	213 189	224 529
Depreciation and amortisation		47 597	46 537	47 597	46 537
Government royalties		3 892	3 716	3 892	3 716
Interest		4 401	6 474	4 401	6 474
		<u>269 088</u>	<u>281 263</u>	<u>269 079</u>	<u>281 256</u>
Net exchange losses	5	1 378	2 759	1 378	2 759
Earnings before taxation	2	<u>47 130</u>	<u>26 835</u>	<u>47 137</u>	<u>26 842</u>
Income tax	3	19 016	15 234	19 016	15 234
Net earnings for year		<u>28 114</u>	<u>11 601</u>	<u>28 121</u>	<u>11 608</u>
Add:					
Retained earnings brought forward		154 164	158 605	154 164	158 598
		<u>182 278</u>	<u>170 206</u>	<u>182 285</u>	<u>170 206</u>
Less:					
Ordinary dividends					
Interim paid		8 021	8 021	8 021	8 021
Final payable		20 053	8 021	20 053	8 021
		<u>28 074</u>	<u>16 042</u>	<u>28 074</u>	<u>16 042</u>
Retained earnings carried forward		<u>154 204</u>	<u>154 164</u>	<u>154 211</u>	<u>154 164</u>
Net earnings per share (toea)		7.0	2.9	7.0	2.9

All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The notes commencing on page 17 form part of these accounts and are to be read in conjunction with them.

Simplified Earnings Statement



Sales & other income K317.6m.

Depreciation and amortisation K47.6m.

Taxation & royalties K23.0m.

Cost of sales & other expenses K218.9m.

Net earnings K28.1 m.

Balance Sheets

at 31 December, 1985
Bougainville Copper Limited

	Notes	Consolidated		Bougainville Copper Limited	
		1985 K'000	1984 K'000	1985 K'000	1984 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		154 204	154 164	154 211	154 164
		<u>586 543</u>	<u>586 503</u>	<u>586 550</u>	<u>586 503</u>
Exchange fluctuation	5	<u>(5 890)</u>	<u>(5 269)</u>	<u>(5 890)</u>	<u>(5 269)</u>
Non-current liabilities					
Deferred income tax liability	3	24 452	25 995	24 452	25 995
Loans	6	30 387	29 849	30 387	29 849
Provision for long service leave		6 502	6 135	6 502	6 135
		<u>61 341</u>	<u>61 979</u>	<u>61 341</u>	<u>61 979</u>
Current liabilities					
Loans	6	6 152	21 813	6 152	21 813
Creditors	7	40 605	51 282	40 349	51 267
Income tax		19 267	14 509	19 267	14 509
Dividends payable		20 053	8 021	20 053	8 021
		<u>86 077</u>	<u>95 625</u>	<u>85 821</u>	<u>95 610</u>
Total funds		<u>728 071</u>	<u>738 838</u>	<u>727 822</u>	<u>738 823</u>
These funds are represented by:					
Non-current assets					
Future income tax benefit	3	8 965	9 572	8 965	9 572
Investments	8	156	156	165	165
Property, plant and equipment	9	558 520	576 215	558 520	576 215
		<u>567 641</u>	<u>585 943</u>	<u>567 650</u>	<u>585 952</u>
Current assets					
Bank balances and short term deposits		21 106	14 439	20 859	14 419
Debtors for sale of concentrate		79 706	76 720	79 706	76 720
Other debtors	10	5 437	7 199	5 426	7 195
Stocks and stores	11	54 181	54 537	54 181	54 537
		<u>160 430</u>	<u>152 895</u>	<u>160 172</u>	<u>152 871</u>
Total assets		<u>728 071</u>	<u>738 838</u>	<u>727 822</u>	<u>738 823</u>

Details of commitments and contingent liabilities are shown in notes 13 and 14.

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

The notes commencing on page 17 form part of these accounts and are to be read in conjunction with them.

Simplified Balance Sheet

	Shareholders' funds K586.5m.
	Borrowings & exchange fluctuation K30.6m.
Total funds: K728.1 m.	Amount owed to creditors & for current income tax K66.5m.
	Dividends payable K20.1m.
	Income tax deferred K24.4m.
	Net investment in property, plant & equipment K558.6m.
	Stocks & stores K54.2m.
Assets: K728.1 m.	Amount owed by debtors K85.2m.
	Cash at bank K21.1m.
	Income tax benefits not yet realised K9.0m.

Funds Statements

year ended 31 December, 1985
Bougainville Copper Limited

	Consolidated		Bougainville Copper Limited	
	1985 K'000	1984 K'000	1985 K'000	1984 K'000
Sources of Funds				
From operations				
Earnings before tax	47 130	26 835	47 137	26 842
Add items not using funds				
Depreciation and amortisation	47 597	46 537	47 597	46 537
Loss on disposal of non-current assets	2 587	119	2 587	119
Other items not using funds	544	4 182	544	4 182
	<u>97 858</u>	<u>77 673</u>	<u>97 865</u>	<u>77 680</u>
Proceeds from loan drawdowns	42 053	87 321	42 053	87 321
Proceeds on disposal of non-current assets	293	1 171	293	1 171
Total sources of funds:	<u>140 204</u>	<u>166 165</u>	<u>140 211</u>	<u>166 172</u>
Applications of Funds				
Distribution to shareholders				
Dividend payment	16 042	40 106	16 042	40 106
Retiring debt				
Loan repayments	57 206	93 336	57 206	93 336
Acquiring non-current assets				
Property, plant and equipment	32 781	28 968	32 781	28 968
Income tax payment	15 193	39 442	15 193	39 442
Long service leave payments	770	2 860	770	2 860
Total applications of funds:	<u>121 992</u>	<u>204 712</u>	<u>121 992</u>	<u>204 712</u>
Increase(decrease) in working capital for the year	<u>18 212</u>	<u>(38 547)</u>	<u>18 219</u>	<u>(38 540)</u>
Movements in working capital				
Bank balances and short term deposits	6 667	(20 937)	6 440	(20 689)
Debtors for sale of concentrate	2 986	(12 140)	2 986	(12 140)
Other debtors	(1 762)	2 193	(1 769)	1 947
Stocks and stores	(356)	(1 539)	(356)	(1 539)
Creditors	10 677	(6 124)	10 918	(6 119)
Increase/(decrease) in working capital for the year	<u>18 212</u>	<u>(38 547)</u>	<u>18 219</u>	<u>(38 540)</u>

Simplified Funds Statement

Source of Funds

- From operations K97.9m.
- Loan drawdowns K42.0m.
- Disposal of non-current assets K0.3m.

Application of Funds

- Acquiring non-current assets K32.8m.
- Retiring debt K57.2m.
- Distribution to shareholders K16.0m.
- Payment of income tax K15.2m.
- Payment of long service leave K0.8m.
- Increase in working capital K18.2m.

Notes to the Accounts

These notes form part of the 1985 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 Papua New Guinea and Australian Accounting Standards and conform in all material respects with International Accounting Standards. They are consistent with those adopted in the previous year unless otherwise stated.

Cost Convention:

The results of operations and 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 remaining life of the mine whichever is the lesser. Depreciation commences in the month following commissioning ready for use.

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 to the buyer 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, exchange rates 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.

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 converted to Papua New Guinea currency at the rates of exchange ruling at balance date. All other overseas transactions are converted at the rates of exchange applying when they occurred. Unrealised exchange gains and losses on overseas borrowings are amortised over the period of the related borrowings, with the unamortised balance being reflected in the balance sheets under exchange fluctuation. Other monetary gains and losses are recognised as they occur.

Subsidiaries:

The Company has two wholly owned subsidiaries. Bougainville Copper Finance N.V. is incorporated in the Netherlands Antilles for fund raising purposes. BCL (Hong Kong) Limited, incorporated in Hong Kong, arranges shipping contracts on behalf of the Company. These companies have been consolidated in accordance with conventional consolidation principles.

	Consolidated		Bougainville Copper Limited	
	1985 K'000	1984 K'000	1985 K'000	1984 K'000
5. Exchange fluctuation				
(a) The movements in exchange fluctuation accounts relating to overseas loan obligations were:				
Balance of unrealised (losses) 1 January	(5 269)	(4 723)	(5 269)	(4 723)
Increase due to currency movements during the year	(2 796)	(4 346)	(2 796)	(4 346)
Net amount debited to earnings	2 175	3 800	2 175	3 800
Balance of unrealised (losses) 31 December	<u>(5 890)</u>	<u>(5 269)</u>	<u>(5 890)</u>	<u>(5 269)</u>
(b) The net exchange (losses)/gains reflected in earnings arise from:				
Overseas borrowings	(2 175)	(3 800)	(2 175)	(3 800)
Overseas cash balances	797	1 041	797	1 041
Net exchange (losses)	<u>(1 378)</u>	<u>(2 759)</u>	<u>(1 378)</u>	<u>(2 759)</u>

6. Long term loans

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

within one year	6 152	21 813	6 152	21 813
later than one year	30 387	29 849	30 387	29 849
Total outstanding obligations	<u>36 539</u>	<u>51 662</u>	<u>36 539</u>	<u>51 662</u>

All loans are unsecured.

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

Bank loans	Interest					
	Rate 1985	Repayable				
Papua New Guinea Banking Corporation (kina)	11.00%	1985	-	2 000	-	2 000
Revolving Credit Facility – Consortium of 19 banks (US dollars)	8.74%	1991	25 414	23 676	25 414	23 676
Standby Credit Facilities – Commonwealth Bank of Australia (Sterling)	11.94%	1986	4 497	18 270	4 497	18 270
			<u>29 911</u>	<u>43 946</u>	<u>29 911</u>	<u>43 946</u>
Other loans						
John Brown Engineering (US dollars)	7.75%	1985-89	6 628	7 716	6 628	7 716
Total outstanding obligations			<u>36 539</u>	<u>51 662</u>	<u>36 539</u>	<u>51 662</u>

7. Creditors

Related corporations:

Subsidiary companies	-	-	2	291
Other	1 150	1 794	1 150	1 794
Trade creditors	23 264	32 823	23 262	32 532
Other creditors	16 191	16 665	15 935	16 650
Total	<u>40 605</u>	<u>51 282</u>	<u>40 349</u>	<u>51 267</u>

8. Investments

Unquoted shares at cost in:

Subsidiary companies	-	-	9	9
Other companies	156	156	156	156
Total	<u>156</u>	<u>156</u>	<u>165</u>	<u>165</u>

9. Property, plant and equipment

(a) Mine development and buildings

– at directors' 1980 valuation	291 930	293 791	291 930	293 791
Less accumulated depreciation	90 928	76 249	90 928	76 249
	<u>201 002</u>	<u>217 542</u>	<u>201 002</u>	<u>217 542</u>
– at cost	76 874	71 455	76 874	71 455
Less accumulated depreciation	12 907	8 814	12 907	8 814
	<u>63 967</u>	<u>62 641</u>	<u>63 967</u>	<u>62 641</u>
Net mine development and buildings	<u>264 969</u>	<u>280 183</u>	<u>264 969</u>	<u>280 183</u>

	Consolidated		Bougainville Copper Limited	
	1985 K'000	1984 K'000	1985 K'000	1984 K'000
9. Property, plant and equipment continued				
(b) Plant, machinery & equipment				
– at directors' 1980 valuation	262 731	264 844	262 731	264 844
Less accumulated depreciation	107 057	93 559	107 057	93 559
	155 674	171 285	155 674	171 285
– at cost	138 574	113 012	138 574	113 012
Less accumulated depreciation	32 921	23 087	32 921	23 087
	105 653	89 925	105 653	89 925
Net plant, machinery & equipment	261 327	261 210	261 327	261 210
(c) Mine property				
– at cost	62 121	62 121	62 121	62 121
Less accumulated amortisation	37 352	35 582	37 352	35 582
Net mine property	24 769	26 539	24 769	26 539
(d) Capitalised borrowing expenses				
– at cost	782	782	782	782
Less accumulated amortisation	647	508	647	508
Net borrowing expenses	135	274	135	274
(e) Capitalised works in progress				
– at cost	7 320	8 009	7 320	8 009
Total property, plant & equipment – at cost or valuation	840 332	814 014	840 332	814 014
Less accumulated depreciation/amortisation	281 812	237 799	281 812	237 799
Net book value	558 520	576 215	558 520	576 215

10. Other debtors

Related corporations	16	1 658	16	1 658
Other debtors and payments in advance	5 452	5 577	5 441	5 573
Provision for doubtful debts	(31)	(36)	(31)	(36)
Total	5 437	7 199	5 426	7 195

11. Stocks and stores

Unshipped concentrate	10 648	2 831	10 648	2 831
Stores	45 033	52 706	45 033	52 706
Provision for stores obsolescence	(1 500)	(1 000)	(1 500)	(1 000)
Total	54 181	54 537	54 181	54 537

12. Directors' emoluments

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

	1985		1984	
	Company	Related Corporations	Company	Related Corporations
	K'000	K'000	K'000	K'000

(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

–	–	–	–
10	31	8	32

(b) other Directors of the Company, was

No commissions for subscribing for, or agreeing to procure subscriptions for any shares in or debentures of the Company or any related corporation, were received or are due and receivable by any Director.

13. Commitments

The commitments for capital expenditure not reflected in the financial statements total approximately K9 047 000 (1984: K8 941 000).

Lease commitments not reflected in the financial statements total approximately K6 402 000 (1984: K3 622 000).

14. Contingent liabilities

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 K3 968 000 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.

Bougainville Copper Limited has guaranteed the performance of its subsidiary BCL (Hong Kong) Limited in its obligations under a lease agreement with Citicorp Commercial Finance (Hong Kong) Limited to a limit of US\$1 000 000.

15. 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.

16. Ultimate holding company

The ultimate holding company is The Rio Tinto-Zinc Corporation PLC (incorporated in England).

Declarations

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, 1986.

On behalf of the Board

D. C. VERNON

Chairman.

P. W. QUODLING

Managing Director.

Declaration by Secretary

I, Andrew Warrock Patterson, 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, 1986.

A. W. PATTERSON

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 14 to 20 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 31st December, 1985, 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).

Arawa, on 14th day of February, 1986.

Shareholdings

Distribution of shares

As at 14th February, 1986:

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 27 117.

The distribution of holdings of the issued shares was:

1- 1 000 shares	21 508
1 001- 5 000 shares	4 653
5 001-10 000 shares	557
10 001 shares and over	399
Total shareholders	<u>27 117</u>

The number of shareholders with less than a marketable parcel (1-99 shares) was 7 074.

88.8% of the total issued shares were held by the 20 largest shareholders. The substantial shareholders were: CRA Limited and its wholly-owned subsidiary C.R.A. Base Metals Pty. Limited - 214 887 966 shares (53.6%); The Rio Tinto-Zinc Corporation PLC has an interest in the same shares through its wholly-owned subsidiaries (R.T.Z. Australian Holdings Pty Limited and Tinto Holdings Pty. Limited), interests in CRA Limited and C.R.A. Base Metals Pty. Limited. The Independent State of Papua New Guinea, and The Investment Corporation of Papua New Guinea - 78 374 715 shares (19.5%).

Ten largest shareholders

The ten largest shareholders at 14th February, 1986, 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.	13 844 225
National Nominees Limited, Melbourne, Vic.	13 001 199
Indosuez Nominees Pty. Ltd., Melbourne, Vic.	9 964 641
C.R.A. 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.	3 527 161
ISMG Nominees Pty. Ltd., Melbourne, Vic.	3 260 003
National Mutual Life Association of Australasia Limited, Melbourne, Vic.	2 260 900
	<u>340 776 904</u>

Directors' interests

Directors' interests in the share capital of the Company and its related companies as at 14th February, 1986 were:

D. C. Vernon	No interests
G. Billard	150 BCL shares
D. S. Carruthers	No interests
W. J. N. Davis	No interests
P. G. F. Henderson, A.C.	No interests
P. W. Quodling	No interests
J. T. Ralph	171 BCL shares 690 CRA shares
W. D. Searson	3 000 BCL shares

Abbreviations:

BCL - Bougainville Copper Limited

CRA - CRA Limited

Statistical Summary

	1985	1984	1983	1982	1981	1980	
Financial							
Earnings (K million)							
Net sales revenue and other income	317.6	310.9	392.9	283.2	296.4	338.7	
Operating and other expenses	221.5	234.8	228.1	207.2	210.8	174.8	
Depreciation and amortisation	47.6	46.5	47.0	44.2	43.3	43.8	
Earnings before taxation and exchange gains	48.5	29.6	117.8	31.8	42.3	120.1	
Exchange gains/(losses)	(1.4)	(2.8)	(16.3)	(3.3)	1.1	2.6	
Earnings before taxation	47.1	26.8	101.5	28.5	43.4	122.7	
Taxation	19.0	15.2	46.9	17.3	20.6	51.2	
Net earnings	28.1	11.6	54.6	11.2	22.8	71.5	
Dividends	28.1	16.0	52.1	10.0	20.1	64.2	
Earnings retained	—	(4.4)	2.5	1.2	2.7	7.3	
Balance sheet (K million)							
Property, plant and equipment	558.5	576.2	594.9	622.8	611.2	610.8	
Investments	0.2	0.2	0.3	0.1	0.1	0.1	
Current assets	160.4	152.9	185.3	155.9	148.7	148.4	
Total assets	719.1	729.3	780.5	778.8	760.0	759.3	
Shareholders' funds	586.5	586.5	590.9	588.4	587.2	584.5	
Exchange fluctuation	(5.9)	(5.3)	(4.7)	(5.4)	1.5	5.1	
Long term liabilities	52.4	52.5	51.6	125.6	80.1	25.7	
Current liabilities	86.1	95.6	142.7	70.2	91.2	144.0	
Funds employed	719.1	729.3	780.5	778.8	760.0	759.3	
Production/Sales							
Mined							
Ore and waste removed	(millions of tonnes)	73.62	74.74	81.00	76.22	77.56	79.76
Ore milled	(millions of tonnes)	50.07	46.52	47.73	41.74	37.53	37.62
Ore grade							
Copper	(per cent)	0.42	0.42	0.46	0.47	0.51	0.46
Gold	(grams/tonne)	0.42	0.48	0.55	0.60	0.59	0.50
Silver	(grams/tonne)	1.21	1.34	1.42	1.48	1.55	1.47
Produced							
Concentrate	(thousands of dry tonnes)	581.8	542.3	636.9	598.6	576.4	510.4
Contained copper	(thousands of dry tonnes)	175.0	164.4	183.2	170.0	165.4	146.8
Concentrate grade							
Copper	(per cent)	30.1	30.3	28.8	28.4	28.7	28.8
Gold	(grams/tonne)	24.7	28.9	28.3	29.3	29.2	27.5
Silver	(grams/tonne)	79.3	81.9	74.4	72.1	73.5	72.2
Shipped							
Total concentrate	(thousands of dry tonnes)	560.0	550.8	636.1	599.6	596.2	494.4
Shipped to:							
W. Germany		163.5	144.4	216.7	217.1	206.0	163.7
Japan		246.9	286.1	298.7	279.7	296.9	269.4
Spain		61.5	52.6	50.5	53.3	64.7	41.0
Other		88.1	67.7	70.2	49.5	28.6	20.3
Values							
Gross concentrate sales value (before treatment and refining charges, freight, etc.)	(K million)	381.3	373.4	454.6	343.6	355.2	386.3
Contribution by:							
Copper	(per cent)	61	53	52	51	54	51
Gold	(per cent)	37	45	46	47	44	46
Silver	(per cent)	2	2	2	2	2	3
Other							
Average metal prices							
L.M.E. copper	(US\$/lb)	64.3	62.4	71.9	67.1	79.0	99.2
London gold market	(US\$/oz.)	317.3	360.8	423.5	375.6	459.9	614.7
London silver market	(US\$/oz.)	6.1	8.1	11.4	7.9	10.5	21.0
Return on shareholders' funds (%)		4.8	2.0	9.3	1.9	3.9	16.3
Earnings per share (toea)***		7.0	2.9	13.6	2.8	5.7	17.8
Dividends in toea per fully paid share***		7.0	4.0	13.0	2.5	5.0	16.0
(par value, one kina) (1985 interim 2t/share)		7.0	4.0	13.0	2.5	5.0	16.0
Bonus dividend in toea per fully paid share***		—	—	—	—	—	4.0
Number of shares issued at end of year (millions)		401	401	401	401	401	401
Number of shareholders at end of year		27 117	30 435	32 834	36 486	38 027	38 326
Debt/equity ratio		0.06/1	0.09/1	0.10/1	0.20/1	0.17/1	0.05/1
Work force at end of year (PN.G.)							
Overseas		704	749	751	756	801	877
National		2 948	2 987	3 058	3 174	3 377	3 416

Notes: * 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

1979	1978	1977	1976	1975	1974	1973	1972*
343.1	225.1	205.3	208.9	193.1	292.6	252.4	95.9
144.1	125.0	126.8	117.5	107.2	92.5	81.8	53.3
40.7	40.4	36.2	31.1	29.6	28.5	24.8	14.5
158.3	59.7	42.3	60.3	56.3	171.6	145.8	28.1
3.5	10.3	(0.1)	1.3	2.3	9.5	12.9	(0.4)
161.8	70.0	42.2	61.6	58.6	181.1	158.7	27.7
77.9	22.0	13.7	20.3	12.4	66.5	0.3	-
83.9	48.0	28.5	41.3	46.2	114.6	158.4	27.7
80.2	40.1	21.4	26.7	26.7	73.5	81.4	11.0
3.7	7.9	7.1	14.6	19.5	41.1	77.0	16.7
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	-
201.0	125.8	137.1	136.0	129.5	205.6	130.4	73.9
526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
294.5	317.5	309.7	302.5	287.9	268.4	227.4	146.7
5.4	9.0	14.6	9.0	11.5	19.1	39.5	24.2
36.2	42.1	53.3	101.7	106.8	121.1	127.5	204.0
190.4	97.4	111.8	73.3	69.4	149.3	107.8	77.7
526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6

75.97	79.05	70.79	58.54	56.40	56.00	56.65	46.75
36.17	38.12	34.11	31.21	31.08	30.14	29.14	21.89
0.55	0.60	0.61	0.64	0.64	0.70	0.73	0.76
0.75	0.82	0.90	0.87	0.80	1.02	1.03	0.77
1.70	1.80	1.86	1.96	1.87	2.12	1.99	2.06

584.7	658.6	615.6	596.8	596.0	640.8	650.2	438.1
170.8	198.6	182.3	176.5	172.5	184.1	182.9	124.0
29.2	30.2	29.6	29.6	28.9	28.7	28.1	28.3
33.7	35.5	36.3	33.9	30.5	32.0	31.6	27.3
76.3	79.8	77.0	76.1	71.0	72.3	69.0	69.3

586.5	640.9	614.8	605.8	587.0	665.8	625.2	434.4
187.6	206.8	198.3	223.2	243.5	221.4	200.3	186.8
328.2	326.7	337.1	256.4	250.7	343.2	342.9	209.0
49.0	62.1	47.0	58.2	72.2	57.4	35.8	27.6
21.7	45.3	32.4	68.0	20.6	43.8	46.2	11.0

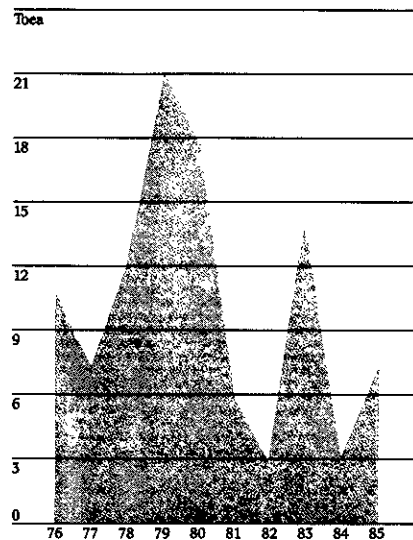
407.0	294.5	266.3	260.3	219.4	307.4	270.8	118.8
60	64	66	74	69	74	83	83
37	34	32	24	29	25	16	16
3	2	2	2	2	1	1	1

89.8	61.9	59.3	63.6	55.9	93.3	80.9	48.6
304.7	193.5	147.8	124.8	160.9	158.7	97.3	58.2
11.0	5.4	4.6	4.4	4.4	4.7	2.5	1.7
27.4	15.30	9.3	14.0	16.6	46.2	84.1	18.9
20.9	12.0	7.1	10.3	11.5	28.6	39.5	6.9

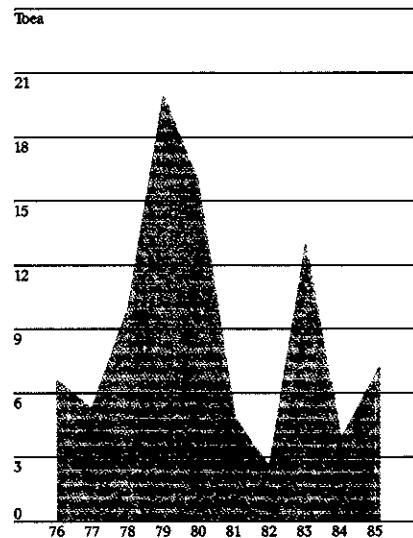
20.0	10.0	5.3	6.7	6.7	18.3	20.0	2.7
6.7	-	-	-	-	-	-	-
267	267	267	267	267	267	267	260**
38 750	40 935	43 820	50 082	54 129	55 558	45 353	46 726
0.15/1	0.19/1	0.37/1	0.40/1	0.44/1	0.52/1	0.72/1	1.62/1

851	855	853	858	942	980	929	971
3 314	3 243	3 063	2 989	3 094	3 242	2 915	2 594

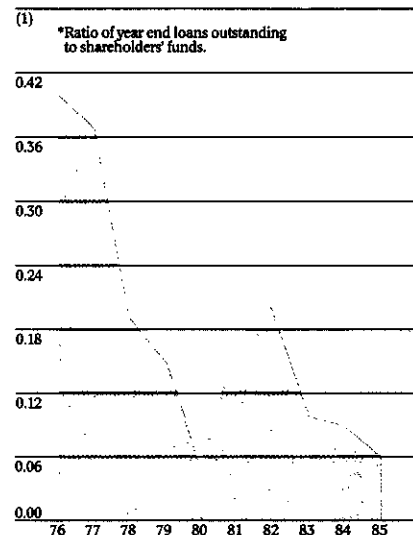
Earnings per share

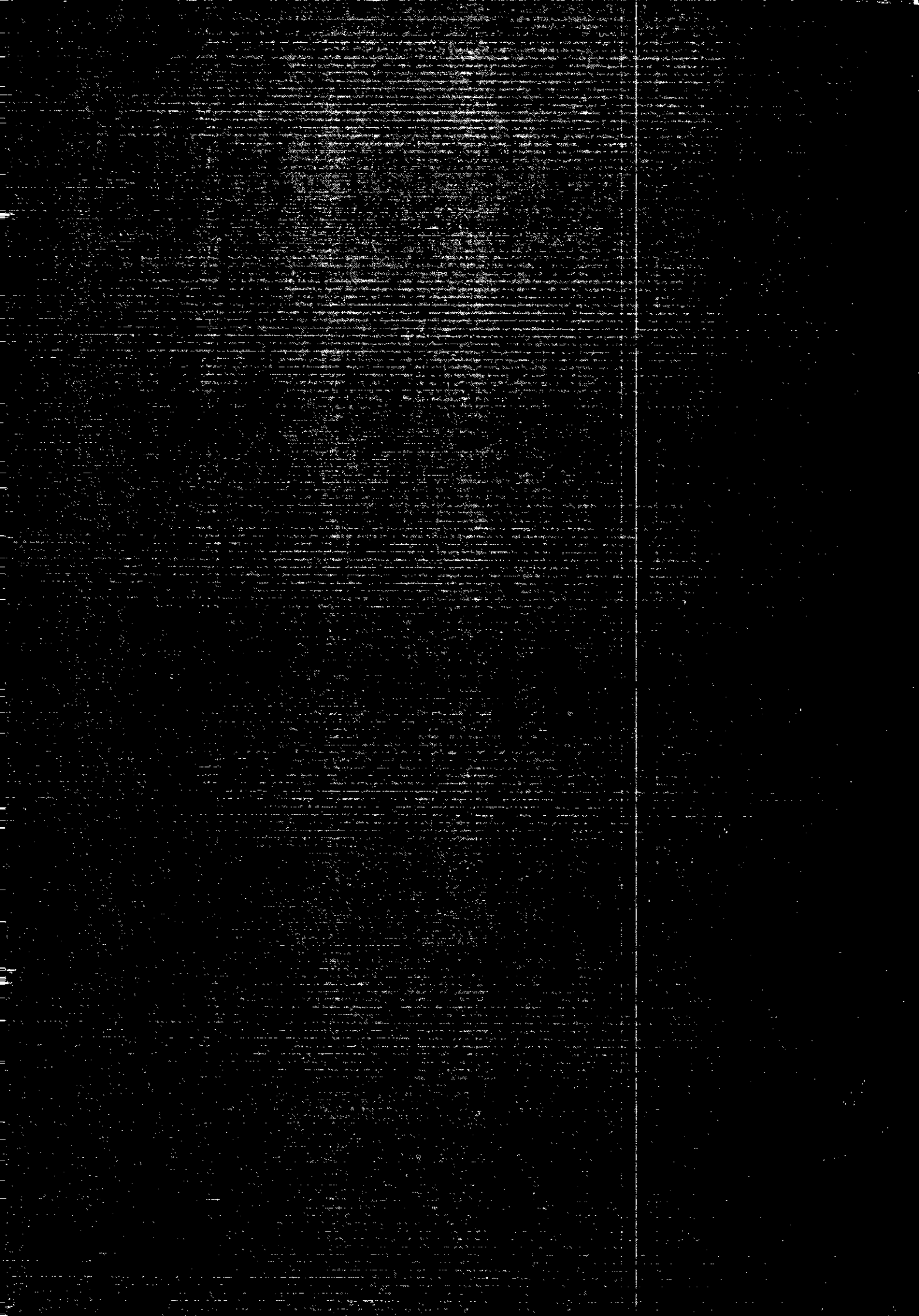


Dividend per share



Debt equity ratio*





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