



Bougainville Copper Limited

ANNUAL REPORT 2010

Overview

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

In the 17 years prior to 1989, the mine had produced concentrate containing three million tonnes of copper, 306 tonnes of gold and 784 tonnes of silver. The production had a value of K5.2 billion which represented approximately 44 per cent of Papua New Guinea's exports over that period. Contributions to the National Government in the form of taxes, duties and dividends were approximately 17 per cent of internally generated Papua New Guinea Government revenue during that time.

A total of K1,088 million was contributed to the National Government, which represented 62 per cent of the net cash generated by the project between 1972–1989. In addition, payments to the North Solomons Provincial Government and Panguna landowners, together with provisions made since 1990, amounted to K114 million. Further, Bougainville Copper's presence in the North Solomons Province had promoted the development of significant local business enterprises to provide goods and services required for the mining operation and for the residents of the province.

Bougainville Copper training programs for some 12,000 employees, including approximately 1,000 completing full trade apprenticeships and some 400 completing graduate and post graduate studies had previously resulted in considerable progress in the localisation of the company's employees and also added significantly to the number of skilled workers elsewhere in the country's work-force. At the end of 2010, the company had no employees. The activities of the company are managed on a contracted services basis by a small team of Rio Tinto Minerals (PNG) Limited staff based in Port Moresby.

Since the suspension of mining operations the company has retained, in good standing, its mine lease and other leases on Bougainville.

Bougainville Copper is owned 53.83 per cent by Rio Tinto Limited. The Papua New Guinea Government owns 19.06 per cent, while public shareholders hold the remaining 27.11 per cent of the share capital.

Bougainville Copper on-line

Information about Bougainville Copper is available on our website – www.bougainvillecopper.com.pg The Annual report and other information can be downloaded from this location.

Notice of meeting

The Annual General Meeting of Bougainville Copper will be held at 3pm on Tuesday, 19 April 2011 at the Crowne Plaza Hotel, Hunter Street, Port Moresby, Papua New Guinea.

A separate Notice of Meeting is enclosed.

All shareholders are cordially invited to attend.

Directors

Peter Robert Taylor (Chairman)

Robert Staley Burns

John Edmond Leahy

Ian James Williams

Secretary

Paul Derek Coleman

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The year in brief

- Preparation for a return to active exploration and mining has progressed, despite full access to the Panguna mine by the company still not being possible. Nevertheless there has been regular and positive interaction with landowners and the Autonomous Bougainville Government and some company activity on the island.
- Landowners from Panguna and other mine-related lease areas have made significant progress towards establishing legal entities to represent their interests in the review process of the Bougainville Copper Agreement. There is widespread consensus within the autonomous Bougainville region that a re-start of mining is a priority.
- Global demand for minerals is buoyant and has put Bougainville Copper's largest shareholder, Rio Tinto, into a new growth phase, with Bougainville among the projects which Rio Tinto has on active watch.
- Net profit for the year ended 31 December 2010 was K2.8 million (A\$1.1 million) compared with a profit of K8.7 million (A\$4.3 million) the previous year. Operating expenses in this reporting period were in line with the budget save for exchange losses of K5.9 million. A small net profit instead of an expected loss was due to better than expected income from interest and dividends and realised capital gains on disposal of investments. The tax dispute legal fees continue to be a drain on revenue.

		2010	2009
Investment income	(K'000)	17,596	16,668
Operating profit (loss)	(K'000)	2,815	8,701
Earnings per share	(toea)	0.702	2.169
Shareholders' funds	(K'000)	364,723	365,527
Return on shareholders' funds	(per cent)	0.772	2.380

Chairman's statement and our year in review – 2010

Results

For the year ended 31 December 2010 Bougainville Copper's net profit was K2.8 million (A\$1.1 million). In comparison our 2009 profit was K8.7 million (A\$4.3 million). Operating expenses in this reporting period were in line with the budget save for exchange losses of K5.9 million. A small net profit instead of an expected loss was due to better than expected income from interest and dividends and realised capital gains on disposal of investments. The tax dispute legal fees continue to be a drain on revenue.

Dividend policy

Due to the small profit and the need to preserve cash for future development the company will not pay a dividend.

Investment strategy

Bougainville Copper's liquid assets continue to be cash and Australian equities. The Australian equity market has performed better than in the previous reporting period resulting in improved returns on investments. It is intended to continue with the current investment strategy, whilst the Investment committee deems this to be the best option or until such time as equities need to be sold to fund mine planning and development. It is expected that income for 2011 should improve in terms of percentage returns but the size of the investment portfolio has been reduced as a result of paying funds into court relating to the tax dispute discussed below.

The company has sufficient funds to cover its recurrent expenditure under the current plan.

Tax dispute

By way of background to the dispute, mining operations were suspended in 1989 resulting in considerable losses to the company and these losses continue to mount. In line with normal practice the company offset those losses against revenue as well as claiming depreciation of its remaining mine assets. Despite this approach being accepted by the Internal Revenue Commission (IRC) every year since the suspension of mining operations a targeted IRC audit resulted in reassessments being issued. The basis for the reassessment is that Bougainville Copper has no assets that can be depreciated.

Bougainville Copper has taken expert legal and accounting advice and based on that advice lodged formal objections to the amended assessments. The

company paid approximately K13 million to the IRC during the 2007 year (which is close to the claimed unpaid primary tax) as a result of the IRC issuing Garnishee notices on the company's bank accounts. A further K48.8 million was paid to the Supreme Court on behalf of the IRC during the 2010 year under the terms of a court-sanctioned arrangement to place the IRC in possession of funds sufficient to pay all outstanding assessments, penalties and interest claimed by the IRC. This arrangement also ensures that those funds are available for return to Bougainville Copper in the event that the company's challenges to the assessments are ultimately upheld by the courts. This money is invested and is bearing interest. The principal and interest will be returned to the company should it prevail in the substantive tax appeal. The board took the view that it was in the company's interest to pay the claimed amount into court rather than litigate this part of the dispute with likely high associated legal fees and so that the disputed amount would earn interest. This would not be the case if the IRC succeeded in its "pay now litigate later" action. By far the largest part of the claim is for penalties and interest and Bougainville Copper believes that the imposition of such penalties is unconstitutional and not in accordance with law.

Bougainville Copper's substantive tax appeals against the assessments and other amounts claimed has completed discovery and is waiting on directions aimed at fixing a trial date.

Bougainville Copper Agreement (BCA)

An important event during the year was the election of Chief John Momis as president of Bougainville for a five year term. This is a crucial event for the company because the next five years is the period in which the mine should be reopened to take advantage of the resurgence in mineral commodity prices and demand. The company will need the support of the new president and the cabinet as well as landowners. I met the president, at his invitation, during his first week in office and dialogue is ongoing. Although there is much detail to work through there is common agreement that reopening the mine will be in the best interests of the people of Bougainville. Funding and sovereign risk assurance for the project will require a united effort. There will need to be a fair and stable mining regime that gives investors the confidence needed to commit to a project that will cost in the order of US\$3 billion. There

Chairman's statement and our year in review – continued

is increasing acknowledgement among stakeholders that Bougainville's economic future needs mining if it is to be able to fund even basic services from its own resources.

It is pleasing to note that landowners in the six areas most closely affected by the mine's operations, including Panguna, the tailings areas, Arawa, and the road and port leases, have been active in forming legally based associations capable of providing genuine representation to the process of reviewing the BCA. This process of incorporation, which involves both legal and customary commitments, is most welcome, and should bring us closer to the capacity required to review the BCA to the benefit of all stakeholders.

In anticipation of negotiations starting this year Bougainville Copper has engaged the services of an additional experienced senior manager to concentrate on this part of the company's activity. Among other things the BCA and related legislation needs to be amended to accommodate changed circumstances and provide certainty for all concerned.

Bougainville

The World Bank initiative aimed at helping Bougainville develop capacity to manage its mining sector is well advanced and is intended to help facilitate the transfer of mining powers to Bougainville. This will be an important step because regulatory certainty is needed before a decision to mine will be made. Ideally the Bougainville mining regime, at least to the extent that directly affects Bougainville Copper, will not be radically different to the current system so a swift transition from the old regime to the new can be made.

The improved world economic demand for minerals has put Bougainville Copper's largest shareholder, Rio Tinto, into a new growth phase. Rio Tinto Exploration has recently applied for exploration licences in PNG, the first such applications since the mid 1990s. This is a good indicator that Rio Tinto is looking to be an active participant in PNG's future mineral development. Bougainville Copper is among those projects that Rio Tinto has on active watch. Rio Tinto continues to assist Bougainville Copper with world class technical expertise and management.

Litigation in the US

For a decade now I have been reporting on litigation involving a small group of Bougainville plaintiffs in the US Federal Court. The matter involves allegations over the

way the mine was operated and matters that occurred on Bougainville after mining was suspended. Bougainville Copper is not a party to the litigation. The process of allowing a foreign court to decide local matters sends a negative message about PNG and Bougainville and is not helpful in attracting investors. Most recently the Federal Appeal Court ordered that a single judge investigate whether the parties were prepared to mediate. The judge reported to the Court that he didn't believe the matter could be resolved by mediation so it is now up to the Appeal Court to decide on the next step. It is not likely that the next judgement will dispose of the matter.

Corporate governance

Bougainville Copper has governance reporting obligations to the Australian Securities Exchange (ASX) and internally to Rio Tinto. A statement on Bougainville Copper's compliance with the ASX Corporate Governance Principles and Recommendations is contained in this report. In addition Bougainville Copper has responded to the Rio Tinto internal control questionnaire which incorporates Rio Tinto's comprehensive range of policy including safety, environment, financial management and many other risk management matters.

Safety

Rio Tinto is particularly safety conscious and has in place a comprehensive set of safety standards to ensure that it provides a safe working environment and that its employees and contractors comply with best practice safety procedures. Bougainville Copper complies with the requirements of the Rio Tinto safety policy.

Risk management

This year the full board of Bougainville Copper participated in a facilitated risk analysis. The aim of the exercise was to identify risks and opportunities for the company and allocate responsibility for each to a member of the management team. The company has also undergone a number of audits to ensure compliance with its own policies and those of Rio Tinto.

Year ahead

I welcome the election of Chief John Momis as president and look forward to working with him and the Cabinet of the Autonomous Bougainville Government. The president won the election by an absolute majority which

Chairman's statement and our year in review – continued

gives him a clear mandate to implement his policies. The president has publicly expressed his support for reopening the mine. He has established an office in Port Moresby which will allow him to meet directly with me and the PNG Government on a regular basis. I believe president Momis and I will work well together.

There has been no further technical work carried out since the "order of magnitude" study and the exploration study I detailed last year. There has been some remediation work carried out on site as part of the company's commitment to ensure the mine site is safe whether or not mining is taking place. There are plans to do additional work with the co-operation of landowners. President Momis has been proactive in assisting the company carry out safety work.

The next technical work, a pre-feasibility study on reopening the mine, will be very expensive so certainty is needed that a workable mining regime and conditions will be put in place before committing the funds. There will be some ongoing studies to allow the renegotiation of the BCA to work and some of those studies will also be relevant to mine redevelopment. The vision to return to active exploration and profitable mining remains and I am pleased to say with increased support from local stakeholders.

Bougainville Copper is continuing to support the work of the Bougainville Copper Foundation. This is an independent, "not for profit", company that has been funded by Bougainville Copper since its inception. This

year, as in previous years, the Foundation has more than 100 Bougainville students on scholarships. It also undertakes "special projects" on a needs basis with the emphasis being on education, peace and good governance. The Foundation is proud of its achievements and those of its former scholars who are contributing to the development of Bougainville. Bougainville Copper is also sponsoring the Don Vernon post graduate scholarship to Queensland University which is available to PNG citizens. The scholarship honours Don Vernon who was a past chairman of Bougainville Copper and the founder of the Australia PNG Business Council (APNGBC). The scholarship was announced at the 30 anniversary dinner of the APNGBC. I am currently vice president of the Council.

It is pleasing to report that the distinguished PNG leader and statesman Sir Rabbie Namaliu GCL CSM KCMG has accepted an invitation to join the board of your company as a non-executive director from March 2, 2011 and I look forward to working with him at this time of challenge and opportunity.

We face the coming year with enthusiasm for the tasks ahead and anticipate good progress toward the vision of reopening the mine.



Peter R Taylor

Chairman & managing director.

1 March 2011

Directors' report

The directors of Bougainville Copper present their report on the audited financial statements of the company for the year ended 31 December 2010.

Review: The net profit for 2010 of K2.8 million compares to a profit of K8.7 million in 2009. Operating expenses in this reporting period were in line with the budget save for exchange losses of K5.9 million. A small net profit instead of an expected loss was due to better than expected income from interest and dividends and realised capital gains on disposal of investments. The tax dispute legal fees continue to be a drain on revenue.

Directors: The directors of Bougainville Copper Limited at present are:

Robert S Burns

Age 61 FRMIT (Primary Metallurgy) FAusIMM

Formerly an employee of the Rio Tinto Group with 35 years experience in operations and technical roles including seven years with Bougainville Copper. Other Rio Tinto roles include senior project manager Resource Developments, general manager Wimmera Industrial Minerals, general manager Kelian Equatorial Mining, managing director Northparkes/Peak Mines, general manager Improving Performance Together Team, chairman Northparkes Mines Joint Venture and chief advisor Technology and Innovation. Robert Burns retired from the Rio Tinto Group effective 31 July 2009 but remains on the board as a non-executive director. Trustee AusIMM Education Endowment Fund. Appointed a director of Bougainville Copper January 2006.

John E Leahy

Age 53 B.Juris LLB

Independent director. John Leahy has university qualifications in jurisprudence and in law and has been admitted to practise law in NSW, Australia and PNG. He has more than 19 years experience in senior tax and management positions in PNG. This experience includes being an AusAID expert adviser to the Department of Finance, assistant collector of Taxes and the managing partner with both Deloitte Touche Tohmatsu and later PricewaterhouseCoopers in PNG.

John Leahy is the past chairman of the Bougainville Economic Development Task Force, past president of the Australia Papua New Guinea Business Council in PNG, past president of the Papua Club and is currently a member of the National Working Group on Removing Impediments to Business and Investment in PNG, and president of the PNG Chamber of Commerce and Industry. John Leahy is currently with Peter Allan Lowing

Lawyers and is a resident of PNG. Appointed a director of Bougainville Copper February 2007.

Peter R Taylor

Age 64 BA BSc LLB LLM FAICD

Formerly with a major Australian law firm. Admitted to practise law in PNG, New South Wales, Queensland and Western Australia. The last 25 years have been spent with the Rio Tinto Group. Other Rio Tinto roles include general Corporate Counsel, Rio Tinto Exploration general manager Commercial, Commercial advisor to RTZ, general manager Commercial Business Development. Currently executive director Rio Tinto Australia and a director of several Rio Tinto Group companies including Rio Tinto Marine and Energy Resources Australia. Community and business affiliation include former chairman of international development agency Australian Business Volunteers and currently vice president of the Australia PNG Business Council. Appointed to the board of Bougainville Copper April 1997 and managing director March 2000.

Appointed chairman of Bougainville Copper in October 2003.

Ian J Williams AO

Age 73 B Eng (Electrical) FAusIMM FIEA

Ian Williams has occupied a number of senior positions within the mining and processing industries. He has a degree in Electrical Engineering and is a Fellow of the Australasian Institute of Mining and Metallurgy and of the Institute of Engineers. Currently he is chair of the Port Hedland Port Authority and a director of a major private structural fabrication company. His diverse experience includes executive management of open cut and underground mining operations, brownfield expansions and new major mining projects. He was responsible for the establishment of two iron ore mines and associated infrastructure for Hamersley Iron Limited and for the establishment of the Century Zinc mine in northwest Queensland. Appointed a director of Bougainville Copper in May 2008.

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

Net Earnings: The net profit of Bougainville Copper Limited for 2010 was K2.8 million (2009: K8.7 million).

Directors' report – continued

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

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

Long Term Loans: The company has no loans and no lines of credit are in place.

Dividends: The directors have not declared a dividend for 2010.

Accounting policies: There have been no changes made in the company's accounting policies during 2010.

Directors' interests: Directors' interests in the share capital of the company and its related companies as at 1 March 2011 were:

Robert S Burns

Shares – Rio Tinto Limited	5,343
Options – Rio Tinto Share Option Plan	438

John E Leahy No interests

Peter R Taylor

Shares – Rio Tinto Limited	16,902
Conditional shares awarded under the Mining Companies Comparative Plan – Rio Tinto Limited	8,137
Options – Rio Tinto Share Option Plan	15,407

Ian J Williams

Shares – Rio Tinto Limited	3,048
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Interests register: There were no transactions recorded in the Interests register during the year, other than the directors' interests in the shares of the company as shown above.

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

Remuneration of employees: The company had no employees during the year. All administrative services were provided by Rio Tinto Minerals (PNG) Limited on an at cost basis.

Remuneration of directors: The amount of directors' remuneration, including the value of benefits, received during the year is shown in Note 13 to the Financial statements.

Donations: Bougainville Copper made no donations during the year. The company does not make donations to political parties. The Bougainville Copper Foundation

continues to provide educational and other support. Bougainville Copper provides administrative support to the Foundation.

Environment: Mining operations of the company were suspended in 1989 and it has been denied access to its mine site to assess environmental circumstances. The company is not aware of any liability being incurred under any environmental legislation.

Additional information: The directors also state that:

1. There were no significant changes in the state of affairs of the company during the year except, (pursuant to consent orders made on 30 April 2010 by the Supreme Court) Bougainville Copper paid an additional sum of K48.8 million to the National Court on behalf of the IRC to cover all outstanding monetary claims by the IRC and subject to their return to Bougainville Copper in the event that the assessments are not upheld by the courts.

This payment was under the terms of a court sanctioned arrangement to place the IRC in possession of funds sufficient to pay all outstanding assessments, penalties and interest claimed by the IRC, but which also ensures that those funds are available for return to Bougainville Copper in the event that the company's challenges to the assessments are ultimately upheld by the courts. The company believes that its position is supportable and the amounts paid are recoverable, as a result this payment is held as an asset by Bougainville Copper. This increases the monies paid to the IRC/National Court to K61.8 million.

Bougainville Copper believes that its position is supportable and the amounts paid are recoverable. Meanwhile the substantive appeal against the tax assessment is pending. In the event the IRC is successful, the impact would be a write off of monies paid to date to the IRC/National Court and recognition of any other liability arising from the Court's decision resulting in a significant loss to BCL. In the event Bougainville Copper is successful, the impact would be a return of the monies paid to the IRC/National Court which are carried as current receivables by Bougainville Copper.

2. The results of the company during the financial year have not been in the opinion of the directors, substantially affected by events of a material and unusual nature other than contained in this report.

3. Except as reported in this Annual report, there were no matters or circumstances that have arisen since the end

Directors' report – continued

of the financial year and which significantly affected or may significantly affect:

- (i) operations of the company
- (ii) results of those operations or
- (iii) state of affairs of the company in the financial year subsequent to 31 December 2010.

4.No director has an interest in any contract or proposed contract with the company, nor is any director party to any material contract involving directors' interests, or in receipt of any loans or benefits other than the aggregate amount of emoluments received or due and receivable by directors shown in the accounts and the amount of fixed salary derived from the company or from a related corporation.

5.No options over shares of the company have been granted by the company during the financial year or since the end thereof; no shares of the company were issued during the year or have been issued since the end thereof by virtue of the exercise of any option granted by the company; and no options over shares of the company are outstanding at the date of this report.

Signed on 1 March 2011 in accordance with a resolution of the directors of Bougainville Copper Limited.



Peter R Taylor
Chairman and managing director



John E Leahy
Director

Resource statement

In 2008, Bougainville Copper prepared an Order of Magnitude Study (OMS) to evaluate the technical and financial viability of re-opening the Panguna mine. As part of the OMS a Joint Ore Reserves Committee (JORC) compliant mineral resource estimate was completed. The 2010 mineral resource has been estimated using geological, mine planning and production data archived in 1989. The archived data sets have been reviewed and validated by Rio Tinto and ex Bougainville Copper staff during 2010. No additional data was collected as part of the OMS.

The updated estimate confirms the significant size of the Panguna resource of over one billion tonnes of material containing 3.5 million tonnes of copper and 12.7 million ounces of gold (395 tonnes).

	Tonnes (M)	Cu (%)	Au (g/t)	Cu (Mt)	Au (Moz)
Measured resource	0	0.00	0.00	0	0
Indicated resource	1000	0.33	0.37	3.3	11.9
Inferred resource	64	0.28	0.41	0.2	0.8
Total resource	1064	0.33	0.37	3.5	12.7

The 2008 OMS was updated to reflect copper and gold price and capital and operating cost estimates as of December 2010. The updated costs have been applied to the 2010 OMS and provide a positive economic return.

Competent person statement

As required by the Australian Stock Exchange, the information presented here contains details of other mineralisation that has a reasonable prospect of being economically extracted in the future but which is not yet classified as proved or probable reserves. This material is defined as mineral resources under the JORC code. Estimates of such material are based largely on geological information with only preliminary consideration of mining, economic and other factors. While in the judgement of the competent person there are realistic expectations that all or part of the mineral resources will eventually become proved or probable reserves, there is no guarantee that this will occur as the result depends on further technical and economic studies and prevailing economic conditions in the future. The information in this report that relates to mineral resources is based on information compiled by Perry Collier and Gerald Clark who are members of the Australasian Institute of Mining and Metallurgy. Perry Collier is a full-time employee of Rio Tinto and has experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they have undertaken to qualify as a competent person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves'. Gerald Clark is an external consultant and has experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they have undertaken to qualify as a competent person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves'. Perry Collier and Gerald Clark consent to the inclusion in the press release of the matters based on their information in the form and context in which it appears.

Corporate governance statement

For the year ended 31 December 2010

Corporate governance

The board of Bougainville Copper considers high standards of corporate governance to be critical to business integrity and performance and to maximising the overall long term return to shareholders. The board seeks to ensure that Bougainville Copper meets the objectives of its shareholders, while paying proper regard to the interests of all stakeholders.

The corporate governance structures and practices in place at Bougainville Copper are substantially in compliance with the Australian Securities Exchange (ASX) corporate governance principles and recommendations second edition ("ASX principles").

The board has considered the ASX principles, and Bougainville Copper does not comply with the following recommendations:

Recommendations 2.1, 2.2 and 2.3 –

There is not a majority of independent directors nor an independent chairman, and the roles of managing director and chairman are held by the same person;

Recommendation 2.4 –

There is no established nominations committee; and

Recommendation 4.2 –

There are only two members on the Audit committee; and

Recommendation 8.1 –

There is no remuneration committee.

Areas where the corporate governance practices in place at Bougainville Copper do not follow the recommendations set out in the ASX principles arise due to Rio Tinto's ownership of 53.58 per cent of the shares of the company and the management direction, services and support provided by Rio Tinto. As explained further below, the board considers that in each case this is appropriate.

A further copy of this corporate governance statement can be found at the corporate governance section of the company's website at www.bougainvillecopper.com.pg

The board Responsibilities & charter

In carrying out its responsibilities and powers, the board at all times recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the company's shareholders and all other stakeholders.

The board charter underpins the strategic guidance and

effective management oversight provided by the board, and defines the division of responsibility between board and management by formal delegation and a system of board reserve powers. The board reviews the Board charter on an annual basis, and a copy is available on the company's website at: www.bougainvillecopper.com.pg

The directors approve strategy and business plans and monitor the performance of the company against these plans. The directors also monitor compliance with policies prescribed by the board in areas such as health and safety, environment, business ethics, internal control and risk management. These policies are designed to ensure that Bougainville Copper complies with the regulatory requirements governing its operations.

Composition

The board of Bougainville Copper currently consists of four directors, three of whom are non-executive. The chairman is Peter R Taylor who is also managing director and an executive of Rio Tinto. A non-executive director, Robert S Burns, was until 31 July 2009 an executive of Rio Tinto. John E Leahy and Ian J Williams are independent non-executive directors.

Details of the directors, their skills, experience and expertise relevant to their position as directors for the purposes of recommendation 2.6 are:

Robert S Burns

Age 61 FRMIT (Primary Metallurgy) FAusIMM

Formerly an employee of the Rio Tinto Group with 35 years experience in operations and technical roles including seven years with Bougainville Copper. Other Rio Tinto roles include senior project manager Resource Developments, general manager Wimmera Industrial Minerals, general manager Kelian Equatorial Mining, managing director Northparkes/Peak Mines, general manager Improving Performance Together Team, chairman Northparkes Mines Joint Venture and chief advisor Technology and Innovation. Robert Burns retired from the Rio Tinto Group effective 31 July 2009 but remains on the board as a non-executive director. Trustee AusIMM Education Endowment Fund. Appointed a director of Bougainville Copper January 2006.

John E Leahy

Age 53 B.Juris LLB

Independent director. John Leahy has university qualifications in jurisprudence and in law and has been admitted to practise law in NSW, Australia and PNG. He has more than 19 years experience in senior tax and

Corporate governance statement – continued

management positions in PNG. This experience includes being an AusAID expert adviser to the Department of Finance, assistant collector of Taxes and the managing partner with both Deloitte Touche Tohmatsu and later PricewaterhouseCoopers in PNG.

John Leahy is the past chairman of the Bougainville Economic Development Task Force, past president of the Australia Papua New Guinea Business Council in PNG, past president of the Papua Club and is currently a member of the National Working Group on Removing Impediments to Business and Investment in PNG, and president of the PNG Chamber of Commerce and Industry. John Leahy is currently with Peter Allan Lowing Lawyers and is a resident of PNG.

Appointed a director of Bougainville Copper February 2007.

Peter R Taylor

Age 64 BA BSc LLB LLM FAICD

Formerly with a major Australian law firm. Admitted to practise law in PNG, New South Wales, Queensland and Western Australia. The last 25 years have been spent with the Rio Tinto Group. Other Rio Tinto roles include general Corporate Counsel, Rio Tinto Exploration general manager Commercial, Commercial advisor to RTZ, general manager Commercial Business Development. Currently executive director Rio Tinto Australia and a director of several Rio Tinto Group companies including Rio Tinto Marine and Energy Resources Australia. Community and business affiliation include former chairman of international development agency Australian Business Volunteers and currently vice president of the Australia PNG Business Council.

Appointed to the board of Bougainville Copper April 1997 and managing director March 2000.

Appointed chairman of Bougainville Copper in October 2003.

Ian J Williams AO

Age 73 B Eng (Electrical) FAusIMM FIEA

Ian Williams has occupied a number of senior positions within the mining and processing industries. He has a degree in Electrical Engineering and is a Fellow of the Australasian Institute of Mining and Metallurgy and of the Institute of Engineers. Currently he is chair of the Port Hedland Port Authority and a director of a major private structural fabrication company. His diverse experience includes executive management of open cut and underground mining operations, brownfield expansions and new major mining projects. He was responsible for the establishment of two iron ore mines and associated infrastructure for Hamersley Iron Limited and for the

establishment of the Century Zinc mine in northwest Queensland.

Appointed a director of Bougainville Copper in May 2008.

Qualification for board membership is related to the mix of skills and knowledge that the board considers will best serve the interests of Bougainville Copper and all of its shareholders. Decisions relating to appointment of directors are made by the full board. Directors appointed by the board are required by Bougainville Copper's constitution to submit themselves for election by shareholders at the Annual General Meeting following their appointment. Non-executive directors are subject to retirement by rotation at least every three years in accordance with Bougainville Copper's constitution, but may offer themselves for re-election. There is no share ownership qualification for appointment as a director.

The board has not established a nominations committee. The board recognises that this is not compliant with Recommendation 2.4 of the ASX principles but notes that this recommendation itself also explicitly recognises that it may not be efficient for smaller board such as the company's. The board considers that its existing practices in reviewing director competencies, board succession planning, board performance evaluation and director selection and nomination, carried out in accordance with the Board charter, are satisfactory and are appropriate given the size of the board, the company's current ownership structure and the scale of the company's current operations.

Independence

John Leahy and Ian Williams are independent non-executive directors and are not in any other relationship with the company affecting their independent status.

For the purposes of determining director independence, the board considers any material business relationship which could interfere, or be perceived to interfere, with the director's independence and judgement, ability to provide a strong, valuable contribution to the board's deliberations and director's ability to act in the best interest of the company and all shareholders. Contracts in the ordinary course of business that exist between Bougainville Copper and a company in which a director has declared an interest, are reviewed for materiality to both Bougainville copper and the other party to the contract.

The following may be taken into account in considering such material business relationships:

- whether within the last five years the director or a

Corporate governance statement – continued

close family member has been a part of the executive management of the company, employed in a senior position with a member of the Rio Tinto Group or has received additional remuneration from the company or a member of the Rio Tinto Group;

- whether the director or a close family member is, or is associated with, a substantial shareholder (more than five per cent of the voting shares) in the company or in a member of the Rio Tinto Group;
- the director's cross directorships or significant links with or involvement in other companies;
- the director's length of service on the board; and
- whether within the last three years the director or a close family member has had, either directly or indirectly and whether as principle, employee or consultant, a material business relationship with the company or with a member of the Rio Tinto Group, whether as an auditor, professional adviser, supplier, or customer ("material" being more than 2 per cent of the company's or the counterparty's consolidated gross revenue per annum).

The board does not comprise a majority of independent directors although half its directors are independent. This is not in compliance with Recommendation 2.1 of the ASX Principles. The composition of the board recognises Rio Tinto's 53.58 per cent shareholding and the board considers that given the company's operating status for the past year, it has not been considered necessary to have more than four directors.

All directors are required to, and do, bring independent judgment to bear on board decisions and act in accordance with their statutory duties of good faith and proper purpose, and in the interests of all shareholders.

All related party transactions, including those with Rio Tinto, have been determined by the independent directors to be in the interests of Bougainville Copper.

Chairman and managing director

The respective roles of chairman and managing director have been codified with authority levels set for each position to ensure the combined roles do not result in unfettered power being held by a single member of the board. Peter Taylor's performance as the company's chief executive officer is subject to review in accordance with Rio Tinto Limited's executive management practices, which includes a process for evaluating the performance of senior executives in accordance with recommendations

2.1. A copy of the Rio Tinto Limited executive management practices is on the Rio Tinto Limited website at www.riotinto.com

Peter Taylor's performance as the company's chief executive officer was reviewed during 2010 by Rio Tinto Limited in accordance with that executive management practice. Peter Taylor fills the roles of both chair and chief executive offices which is not compliant with recommendation 2.2.

At this juncture, none of the recommendations of the ASX Principle 2 are in place, except principles 2.5 "evaluating the performance of the board, its committees and individual directors" and 2.6.

The remaining recommendations 2.1, 2.2, 2.3 and 2.4 are not followed because the board considers that:

- having less than a majority of board members being independent;
- an appointment of a single person as both chair and chief executive officer,
- the appointment of an executive director as chair, and
- not having a board nomination committee

more adequately address the overriding requirement of principle 2 that the company have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties than the more specific recommendations in 2.1, 2.2, 2.3 and 2.4; because of Rio Tinto's 53.58 per cent shareholding, the non-operational situation of the company, the company's limited turnover, and the small size of the company's board.

The situation will continue to be monitored/reviewed over the coming year with appropriate actions implemented where operationally desirable and strategically appropriate

Board meetings

The board held four scheduled meetings during 2010, and did not meet for any unscheduled meetings. The board meeting attendance details for Directors in 2010 are set out below.

Director	Meetings attended	Meetings whilst in office
Robert S Burns	4	4
John E Leahy	4	4
Peter R Taylor	4	4
Ian J Williams	4	4

Corporate governance statement – continued

Performance self-assessment

The board has a policy and practice of annual self assessment.

In 2010 the board performed an annual evaluation of itself that:

- (a) Considered the performance of the directors and the board and the adequacy of the board's structures and processes, including the Board charter;
- (b) Set out goals and objectives of the board for the upcoming year; and
- (c) Considered whether any improvements or changes to the board structures and processes, including the Board charter and Audit committee and charter, were necessary or desirable.

The process of evaluation and self assessment took the form of a questionnaire completed by each of the directors. Following collation, the results and the adequacy and appropriateness of the self assessment process were considered and discussed by the directors at the next board meeting, and actions arising were agreed.

Independent professional advice

The board recognises that there may be circumstances in which individual directors are entitled to independent professional advice at the company's expense, in the furtherance of their duties, and the board has adopted a procedure for directors wishing to seek such advice to do so by arrangement with the company secretary.

Particulars of directors' interests in shares and options

The particulars of the directors' interests in shares in the company and related bodies corporate as at 1 March 2011 are set out on page 7.

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

Remuneration

Bougainville Copper does not have any employees and consequently does not have need for a Remuneration committee. Management of Bougainville Copper is provided by Rio Tinto under a Service Agreement. Rio Tinto selects and appoints staff consistent with the

business needs of Bougainville Copper and the board reviews these appointments. Some of these individuals work partly for Bougainville Copper and partly for the Rio Tinto Group. The remuneration of executives and staff appointed to Bougainville Copper is governed by the compensation policies applied by Rio Tinto and which are discussed in its Annual report. The board recognises that not having a Remuneration committee is not compliant with Recommendation 8.1 of the ASX principles. The board considers that its existing practices in reviewing and approving remuneration arrangements, carried out in accordance with the Board charter, are satisfactory and are appropriate given the size of the board and the ownership by Rio Tinto of 53.83 per cent of the shares of the company and the support provided by Rio Tinto with respect to remuneration policies and procedures.

The maximum limit for directors' remuneration is determined by shareholders in a general meeting. Within that limit the remuneration of directors is generally determined by the full board after taking into account data on market remuneration levels. At the 2008 AGM, the shareholders approved an increase in directors' fees to A\$55,000 and A\$10,000 per annum for Committee members. Directors are not entitled to retirement benefits which is compliant with Recommendation 8.2 of the ASX principles. The managing director does not receive directors' fees. Prior to Robert Burns's retirement from the Rio Tinto group effective 31st July 2009, his directors' fees were paid directly to Rio Tinto.

Audit committee

The Audit committee is appointed by the Board and comprises the two non-executive directors. Two directors constitute a quorum. The present members of the Audit committee are John Leahy (Chairman) and Ian Williams. The company secretary and external auditors are available to attend meetings. The board recognises that this membership level is not compliant with recommendation 4.2 of the ASX principles in that the Audit committee only has two members rather than three. The board considers that given that the current full board only has four members having both independent directors on the Committee is adequate.

The Audit committee charter sets out the role and terms of reference of the Audit committee and is reviewed regularly. The Audit committee charter is available at the Corporate Governance section on Bougainville Copper's website.

Corporate governance statement – continued

The Committee provides a formal structure for reviewing Bougainville Copper's Financial statements, accounting policies, control systems, risk management practices and taxation issues, and for liaison with the external and internal auditors. The Committee also reviews the adequacy of internal and external audit arrangements.

The Committee advises the board of any matters that might have a significant impact on the financial condition of Bougainville Copper and has the authority to investigate any matters within the terms of reference, having full access to the information and resources of Bougainville Copper to fulfil its function. Related party transactions are considered by the Audit committee including, where they relate to Rio Tinto. The Committee reviews compliance with the Papua New Guinea Companies Act 1997, Australian Corporations Act 2001, where appropriate, and the requirements of the ASX and other regulatory requirements.

The Audit committee held four scheduled meetings during 2010, and attendance details of the 2010 meetings of the Audit committee are set out in the table below. The names and qualifications of the members, are set out in the Directors' report on page 6.

Director	Meetings attended	Meetings whilst in office
John E Leahy (Chairman)	4	4
Ian J Williams	4	4

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

Code of business conduct

Bougainville Copper has adopted the Rio Tinto global code of conduct, *The way we work*, available at Rio Tinto's website at: www.riotinto.com The company's consultants and contractors are required to comply with this. All employees and contractors are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Papua New Guinea and in every other country in which the company engages in business. First launched in 1997 and updated since, it was revised and reissued in 2009 to reflect Rio Tinto's changing environment.

The company utilises Rio Tinto's confidential whistleblower program known as 'Speak-Out'. Employees are encouraged to report any concerns,

including any suspicion of violation of financial reporting or environmental procedures, through an independent third party and without fear of recrimination. A process has been established for the investigation of any matters reported.

Purchase and sale of company securities

Bougainville Copper has adopted the rules for dealing in securities of Rio Tinto, its subsidiary and associated companies' ("Rules for dealing") which reinforces to all directors, officers and employees the prohibition against insider trading. The share trading policy is available at the Corporate Governance section of the Rio Tinto website at: www.riotinto.com

The "Rules for dealing" apply to the participation of Bougainville Copper executives in the Rio Tinto long term incentive plans involving the awarding of Rio Tinto securities at a future date, and any such grants of shares and options under the Rio Tinto plans are subject to and conditional upon compliance with the terms of the Rules for dealing, including an express prohibition on hedging or limiting of exposure to economic risk in relation to such securities.

The chairman requires that for all dealing in Bougainville Copper securities:

- Directors must advise the chairman in writing, and receive approval in writing from the chairman, if they intend to purchase or sell securities in the company. In regard to his own dealings, the chairman is required to notify the chairman of the Audit committee; and
- No dealings in securities of the company may take place for the period from the end of any relevant financial period to the trading day following announcement of Bougainville Copper's annual results or half year results.

Risk identification and management

Bougainville Copper has in place a range of policies and procedures to manage the risks associated with its operating activities. These policies and procedures have been adopted by the board, with primary oversight by the Audit committee, to ensure that potential business risks are identified and appropriate action taken.

The management of risk is an integral part of the responsibility of both the board and management and is carried out through an integrated risk management assurance process.

Corporate governance statement – continued

Summary of risk identification and management policies

1. Bougainville Copper benefits from the Rio Tinto Group's knowledge, policies and practices on risk management and corporate assurance developed to manage its diverse business activities covering a variety of commodities and operational locations. In 2008 the company formally adopted the Rio Tinto "Risk Policy and Standard", which can be accessed on the Rio Tinto website www.riotinto.com
2. The Audit committee biannually receives a report from management and conducts a risk evaluation.
3. A detailed internal control questionnaire process covering all of the company's material business risks is conducted annually.
4. In 2010 a formal risk analysis was conducted involving the full board and management facilitated by a professional facilitator specialising in risk issues resulting in an updating of the company's risk register

Key material business risks and opportunities inherent to Bougainville Copper's operations and the mining industry include (but are not necessarily limited to): economic conditions (and consequent fluctuations in commodity pricing, exchange rates and costs of finance); delivery of exploration and development projects; ore reserve estimates; community relationships and government regulation; land and resource tenure; rehabilitation including impacts of climatic conditions, and costs of operations including changes to input costs.

The board has in place a number of systems to identify and manage business risks. These include:

- The identification and review of all of the business risks facing the company. The risk assessment is completed by management and reviewed by the audit committee on an annual basis. Management is required to report on assessments twice a year and provide a certificate of compliance to the Board annually;
- The provision of reports and information by management to the board, on a periodic basis, confirming the status and effectiveness of the plans, controls, policies and procedures implemented to manage business risks;
- Guidelines for ensuring that capital expenditure and revenue commitments exceeding certain approved limits are placed before the board for approval;
- Limits and controls for all financial exposures;
- A regulatory compliance program; and

- Safety, health and environmental policies which are supported by a set of standards and management systems which recognise the company's commitment to achieving high standards of performance in all its activities in these areas.

In 2010, information was reported to the Audit committee to enable its members to assess the effectiveness of the internal controls and the management of the material business risk. In addition, the board monitors the company's material business risks on an ongoing basis. These reports and risk management processes satisfy the internal control requirements of Recommendation 7.2 of the ASX principles.

Financial statements

The directors consider that the 2010 Annual report and Financial statements present a true and fair view and have been prepared in accordance with applicable accounting standards, using the most appropriate accounting policies for Bougainville Copper's business and supported by reasonable and prudent judgements and estimates. The directors have received a written statement from the managing director and chief financial officer to this effect. Although the company is not incorporated pursuant to the Corporations Act it has a policy of requiring that this management statement be in accordance with Section 295A of the Corporations Act. In accordance with ASX principle 7.3 this written statement relies on a sound system of risk management and internal compliance and confirms that Bougainville Copper's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects. The directors and managers who are required to exercise judgement in the course of the preparation of the financial statements are required to conduct themselves with integrity and honesty and in accordance with ethical standards of their profession and/or business.

There is further formal certification given by the managing director, as part of the company's internal control questionnaire process that Bougainville Copper's internal compliance and control system is in place and operating effectively in all material respects.

Public statements and disclosure matters

Bougainville Copper makes full and immediate disclosure of material information to its shareholders and the market in accordance with its obligations. In particular, to ensure that trading in its securities takes place in an

Corporate governance statement – continued

informed market, Bougainville Copper has adopted Rio Tinto's continuous disclosure standards which form part of the corporate governance standards. Established reporting systems are also in place to ensure compliance.

Shareholder communication

Bougainville Copper recognises the importance of effective communication with shareholders and the general investment community. Apart from Bougainville Copper's compliance with its continuous disclosure obligations, Bougainville Copper takes steps to ensure that its shareholders and other stakeholders are kept informed.

Full advantage is taken of the annual general meeting to

inform shareholders of current developments and to give shareholders the opportunity to ask questions. As recommended by the ASX principles, Bougainville Copper's auditor PricewaterhouseCoopers, attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Bougainville Copper shareholders are also able to submit written questions regarding the statutory audit report to the auditors via the company. Any questions received and answers provided will be made available to members at Bougainville Copper annual general meetings.

Information about Bougainville Copper is available on our website – www.bougainvillecopper.com.pg

Statement of comprehensive income

<i>Bougainville Copper Limited year ended 31 December 2010</i>		2010	2009
	Notes	K'000	K'000
Income			
Interest		696	603
Realised gain on disposal of investments		5,451	6,358
Exchange gains	5	5,477	3,178
Dividends		5,972	6,529
		17,596	16,668
Costs and expenses			
General and administration expenses	2	(8,883)	(7,661)
Exchange losses	5	(5,898)	(306)
		(14,781)	(7,967)
Profit (loss) before tax		2,815	8,701
Income tax	4	-	-
Profit (loss) after tax		2,815	8,701
Other comprehensive income			
Increase (decrease) in fair value of available-for-sale financial assets		(3,619)	63,564
Total comprehensive income (loss) for the year		(804)	72,265
Basic and diluted earnings per share (toea)		0.70	2.17

Statement of changes in equity

	Share capital	Asset revaluation reserve	Fair value reserve	Accumulated losses	Total
	K'000	K'000	K'000	K'000	K'000
Brought forward at 01.01.09	401,063	31,276	(19,127)	(119,950)	293,262
Total comprehensive income for the year	-	-	63,564	8,701	72,265
Balance at 31.12.09	401,063	31,276	44,437	(111,249)	365,527
Total comprehensive income (loss) for the year	-	-	(3,619)	2,815	(804)
Balance at 31.12.10	401,063	31,276	40,818	(108,434)	364,723

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The Notes on pages 19 to 28 form part of these accounts and are to be read in conjunction with them.

Balance sheet

<i>Bougainville Copper Limited at 31 December 2010</i>		2010	2009
	Notes	K'000	K'000
Funds employed:			
Shareholders' funds			
Ordinary shares	11	401,063	401,063
Asset revaluation reserve	9	31,276	31,276
Fair value reserve	12	40,818	44,437
Accumulated losses		(108,434)	(111,249)
		364,723	365,527
Non-current liabilities			
Provisions	6(b)	22,073	22,073
Other payables	6(b)	4,517	4,517
Income tax	4(b)	6,759	6,759
		33,349	33,349
Current liabilities			
Trade payables	6(a)	3,349	2,770
Total funds		401,421	401,646
These funds are represented by:			
Non-current assets			
Available for sale financial assets	3	128,797	145,672
Other receivables	10(b)	3,909	3,909
Mine assets	8	197,894	197,894
		330,600	347,475
Current assets			
Cash and cash equivalents		4,491	438
Held to maturity financial assets	7	-	36,210
Other receivables	10(a)	66,330	17,523
		70,821	54,171
Total assets		401,421	401,646

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The Notes on pages 19 to 28 form part of these accounts and are to be read in conjunction with them.

Statement of cash flows

<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010 K'000	2009 K'000
Notes		
<i>Cash flows from operating activities</i>		
Payments to suppliers	(14,203)	(6,360)
Monies paid to the Supreme Court	(48,843)	-
Interest received	733	626
Dividends received	5,972	6,529
Net operating cash flows	(56,341)	795
<i>Cash flows from investing activities</i>		
Proceeds from available for cash financial assets	18,706	23,003
Increment in held to maturity investments	(637)	(532)
Proceeds/(Purchases) of held to maturity investments	42,226	(24,882)
Net investing cash flows	60,295	(2,411)
<i>Net increase/(decrease) in cash and cash equivalents</i>		
Net cash flow	3,954	(1,616)
Cash and cash equivalents at beginning of year	438	968
Effect of exchange rate changes on cash and cash equivalents	99	1,086
Cash and cash equivalents at end of year	4,491	438

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The Notes on pages 19 to 28 form part of these accounts and are to be read in conjunction with them.

For, and on behalf of, the board.



Peter R Taylor
Chairman & managing director



John E Leahy
Director

1 March 2011

Notes to accounts

These notes form part of the 2010 accounts of Bougainville Copper Limited and should be read in conjunction with them.

The principle accounting policies applied in the preparation of these Financial statements are set out below. Accounting policies relevant to mining operations are not presented due to mining operations having ceased in 1989. These policies have been consistently applied to all years presented, unless otherwise stated.

1.(a) Basis of preparation

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

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

Standards, amendments and interpretations to existing standards that are not yet effective have not been early adopted by the company

1.(b) Accounting policies

Mine assets:

As a consequence of suspension of mining activities in 1989, an impairment loss of K350 million was made for deterioration, damage or pilferage of company assets on Bougainville. The accuracy of that provision cannot be proved because the lack of access to Bougainville prevents a detailed assessment of the nature or extent of those losses. No depreciation charge or increase to the impairment loss has been made since 1991. The directors consider that any further review of the impairment loss at this time would be completely arbitrary because of the continuing lack of access to the mine.

Taxation:

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities

attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the Financial statements.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances related to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Foreign currency translation:

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Provisions:

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

Notes to accounts – continued

These notes form part of the 2010 accounts of Bougainville Copper Limited and should be read in conjunction with them.

Investments:

(i) Available for sale financial assets

Investments in marketable equity securities (shares in other corporations) are classified as “available for sale financial assets”. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale; these are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

(ii) Held to maturity financial assets

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

Cash and cash equivalents:

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

Revenue recognition:

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

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

1.(c) Critical accounting estimates and assumptions

(i) Carrying value of mine assets

Mine production was suspended on 15 May 1989 because of attacks on employees. Following repeated instances of damage to mine facilities and the power line and further attacks on employees, it became necessary to evacuate all remaining company personnel from Bougainville early in 1990. There continues to be uncertainty surrounding the future of the Panguna mine. Since the withdrawal of company personnel from Bougainville was completed on 24 March 1990, there has been no care and maintenance of the company’s assets. Considerable deterioration of the assets has occurred in the intervening period, because of this lack of care and maintenance, their exposure to the elements, vandalism, pilferage and militant action. However, as access to the mine site has not been possible, the extent of the necessary write-downs is not capable of reliable measurement or estimation.

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

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

While directors have made this provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible. Accordingly, the 1991

Notes to accounts – continued

These notes form part of the 2010 accounts of Bougainville Copper Limited and should be read in conjunction with them.

provision may eventually prove to be above or below the sum that is necessary to reflect these losses. The directors believe that in the absence of reliable information and the lack of a more suitable alternative, this is the only appropriate basis to use.

(ii) Income taxes

Refer to note 10 and 14 for information regarding the company's ongoing tax dispute with the IRC.

1.(d) Rounding of amounts

All amounts have been rounded off to the nearest K'000, unless otherwise stated.

1.(e) Capital risk management

Bougainville Copper's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010	2009
	K'000	K'000
2. General and administrative expenses		
Remuneration of directors (note 13)	1,866	2,001
Auditors' remuneration		
- auditing the accounts	86	75
- taxation services	10	71
- other services	-	11
Insurance	227	200
Management fees – related party (note 18)	2,502	2,357
Legal Fees – IRC tax case	1,983	1,490
Repair, maintenance and removal	536	-
Corporate subscriptions	143	124
Goods and services tax	386	366
Other general and administrative expenses	1,144	966
	8,883	7,661

3. Available for sale financial assets

Non-current

At fair value		
Opening cost balance	145,672	98,753
Movement in fair value reserve	(3,619)	63,564
Disposal of available for sale financial assets	(18,706)	(23,003)
Gain on disposal of available for sale financial assets	5,450	6,358
Closing balance	128,797	145,672
Original cost when purchased		
Opening cost balance	101,235	117,880
Cost of available for sale financial assets disposed	(13,256)	(16,645)
	(87,979)	(101,235)
Fair value reserve year end balance	40,818	44,437
Closing fair value balance	128,797	145,672

Available for sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

4. Taxation

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

Operating profit/(loss) before taxation	2,815	8,701
Prima facie income tax @ 30 per cent	845	2,610
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	(3,267)	(2,854)
Potential tax loss not recognised	2,422	244
Income tax expense/(credit)	-	-

(b) An agreement between the Independent State of Papua New Guinea and Rio Tinto provides for the deferral of income tax payable of K6,759,000 in respect of the 1989 year until certain criteria have been met following successful recommencement of operations.

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

Available tax losses carried forward amount to K114,078,545 (2009: K106,003,779).

<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010	2009
	K'000	K'000

5. Exchange fluctuation

(a) The net exchange gain/(loss) reflected in earnings arising from financial assets:		
Gain	5,477	3,178
Loss	(5,898)	(306)
	(421)	2,872
(b) Foreign currency amounts included in current assets, non-current assets, current liabilities and non-current liabilities that are not effectively hedged are:		
Current assets	4,491	36,648
Non-current assets	128,797	145,675
Current liabilities	-	-
Non-current liabilities	-	-
Kina equivalent of Australian dollars		

6. Liabilities

Trade payables		
(a) Current		
Provision for care and maintenance	831	830
Trade creditors	-	10
Related corporations (note 18)	2,518	1,930
	3,349	2,770
(b) Non-current		
Other payables	4,517	4,517

Payables that have been carried forward since the suspension of mining operations have been classified as non-current liabilities, as the directors consider they are unlikely to be settled within the following year.

Aged trade payables that are no longer considered payable have been written back.

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

The company has a provision for compensation, rehabilitation and stabilisation for which it may be liable as a consequence of cessation of operations. The directors consider that the provision held of K22.07 million is adequate to cover claims for which the company may be liable.

7. Held to maturity financial assets

Opening balance	36,210	8,704
Interest received	637	532
Retirement of held to maturity financial assets	(46,603)	(2,861)
Additions to held to maturity financial assets	4,378	27,743
Exchange gains/(losses)	5,378	2,092
Closing balance	-	36,210

BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010 K'000	2009 K'000
8. Mine assets		
(a) Mine development and buildings		
- at directors' 1980 valuation	292,165	292,165
- Less accumulated depreciation	159,721	159,721
	132,444	132,444
- at cost	102,988	102,988
Less accumulated depreciation	38,664	38,664
	64,324	64,324
Net mine development and buildings	196,768	196,768
(b) Plant, machinery & equipment		
- at directors' 1980 valuation	245,177	245,177
- Less accumulated depreciation	148,866	148,866
	96,311	96,311
- at cost	304,486	304,486
Less accumulated depreciation	104,703	104,703
	199,783	199,783
Net plant, machinery & equipment	296,094	296,094
(c) Mine property		
- at cost	62,121	62,121
Less accumulated amortisation	46,204	46,204
Net mine property	15,917	15,917
(d) Capitalised works in progress – at cost	29,112	29,112
Total property, plant & equipment		
- at cost or valuation	1,036,049	1,036,049
Less accumulated depreciation/amortisation	498,158	498,158
Net book value	537,891	537,891
Stores	10,003	10,003
Total mine assets	547,894	547,894
Less impairment loss	350,000	350,000
Net book value	197,894	197,894
Reconciliation of movement in net book value		
Net book value at beginning of year	197,894	197,894
Additions	-	-
Disposals	-	-
Net book value at end of year	197,894	197,894

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

9. Asset revaluation reserve

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

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

<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010 K'000	2009 K'000
10. Other receivables		
(a) Current		
Sundry receivables	92	90
Interest receivable	-	37
Monies paid to the Supreme Court	61,833	12,991
Withholding tax receivable	4,405	4,405
	66,330	17,525
(b) Non-current		
Other receivables	7,136	7,136
Provision for doubtful debts	(3,227)	(3,227)
	3,909	3,909

Receivables that have been carried forward since the suspension of mining operations have been classified as non-current assets, as the directors consider they are unlikely to be settled within the following year. A significant proportion of these other receivables are receivable from State owned entities, and are considered subject to offset on settlement against amounts owing to State owned entities included in other payables (note 6(b)). Long outstanding receivables that are no longer considered collectable have been written off.

The PNG Internal Revenue Commission (IRC) has disallowed Bougainville Copper's claimed tax depreciation on its Bougainville assets on the ground that Bougainville Copper lost/surrendered control of its assets in 1990, and therefore the assets should have been totally depreciated in that year and that the availability of depreciation to offset against Bougainville Copper's investment income has lapsed through the passage of time. The IRC has issued assessments on that basis. Bougainville Copper's objections to the assessments were rejected by the IRC and Bougainville Copper has appealed to the National Court. A hearing date is yet to be set. Our advisors and senior Australian counsel have advised there are good arguments in support of Bougainville Copper on this matter and have a better than average chance of succeeding against the IRC.

There were no significant changes in the state of affairs of the company during the year except (pursuant to consent orders made on 30 April 2010 by the Supreme Court) Bougainville Copper paid an additional sum of K48.8 million to the National Court on behalf of the IRC to cover all outstanding monetary claims by the IRC and subject to their return to Bougainville Copper in the event that the Assessments are not upheld by the courts. This increases the monies paid to the IRC/National Court to K61.8 million.

Bougainville Copper believes that its position is supportable and the amounts paid are recoverable. Meanwhile the substantive appeal against the tax assessment is pending. In the event the IRC is successful, the impact would be a write off of monies paid to date to the IRC/National Court and recognition of any other liability arising from the Court's decision resulting in a significant loss to Bougainville Copper. In the event Bougainville Copper is successful, the impact would be a return of the monies paid to the IRC/National Court which are carried as current receivables by Bougainville Copper.

11. Ordinary shares

The issued capital of the company is 401,062,500 ordinary shares fully paid. No change in issued capital occurred during 2010.

	2010 K'000	2009 K'000
12. Fair value reserve		
Fair value reserve	40,818	44,437

This reserve records movements for available for sale financial assets to fair value. Refer note 1(b)(i) and note 19(g) for calculations of 'fair value'.

13. Remuneration of directors

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

	2010 K'000	2009 K'000
Robert S Burns	135	156
John E Leahy	160	163
Peter R Taylor*	1,411	1,519
Ian J Williams	160	163
	1,866	2,001

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

Bougainville Copper Limited year ended 31 December 2010

14. Contingent liabilities and assets

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

The Internal Revenue Commission conducted an audit over several months as reported in 2003's Annual report. The audit covered the period from 1990 to 2002 inclusive. The Internal Revenue Commission has issued amended assessments claiming additional tax and penalties arising out of the audit. Bougainville Copper's tax returns for those and all other years were prepared on the considered view of the appropriate tax law. Bougainville Copper believes its view of the law is correct and accordingly no provision has been recognised for these amounts (refer Note 10). Bougainville Copper has paid a sum of K61.8 million to the National Court on behalf of the IRC to cover all outstanding monetary claims by the IRC which is subject to their return to Bougainville Copper in the event that the assessments are not upheld by the courts. The company has received expert advice on the matter including that of senior Australian legal counsel. The company has lodged formal objections and will strenuously defend the claim, as a result this payment is held as an asset by Bougainville Copper.

15. Mining tenements

The company holds 100 per cent 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. Holding company

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

17. Segmental information

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

18. Related party transactions

Transactions with directors are disclosed in note 13.

In 2010 the company paid fees of K2,446,696 (2009: K2,137,742) for the provision of office space, staff and related services to Rio Tinto Minerals (PNG) Limited and K55,213 (2009: nil) for compliance work and risk management advice to Rio Tinto Technical Services.

The following amounts remained outstanding and payable at the balance date:

	2010	2009
	K'000	K'000
Rio Tinto Minerals (PNG) Limited	2,518	1,930
Total	2,518	1,930

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

Bougainville Copper Limited year ended 31 December 2010

19. Financial instruments

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

The company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, price and interest rate risks in respect of investment portfolios to determine market risk.

The company holds the following financial assets:

	2010	2009
	K'000	K'000
Available for sale financial assets	128,797	145,672
Held to maturity financial assets	-	36,210
Total	128,797	181,882

(a) Financial risk management

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

(b) Foreign exchange risk

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

With all other variables held constant, the Bougainville Copper's exposure to this risk is measured by sensitivity analysis, as follows:

Available for sale financial assets	K'000
Carrying amount at the balance date	<u>128,797</u>
Change in carrying amount of 'available for sale financial assets' and fair value reserve:	
Had PNG Kina weakened by 10 per cent against the Australian dollar:	
Increase in carrying amount and fair value reserve by:	14,311
Had PNG Kina appreciated by 10 per cent against the Australian dollar:	
Decrease in carrying amount and fair value reserve by:	11,709

(c) Price risk

A large amount of the company's assets are held in shares of "Listed Investment Company's" (see note 3) listed on the Australian Securities Exchange. The value of these shares is subject to market conditions and the fluctuation in AUD / PGK exchange rate.

With all other variables held constant, Bougainville Copper's exposure to this risk is measured by sensitivity analysis, as follows:

Available for sale financial assets	K'000
Carrying amount at the balance date	<u>128,797</u>
Change in carrying amount of 'available for sale financial assets' and fair value reserve:	
Had the share price increased by 10 per cent:	
Increased in carrying amount and fair value reserve by:	12,880
Had the share price decreased by 10 per cent:	
Decrease in carrying amount and fair value reserve by:	12,880

(d) Interest rate risk

Bougainville Copper no longer holds 'held to maturity financial assets' at variable rates, which expose the company to cash flow interest rate risk.

Bougainville Copper Limited year ended 31 December 2010

(e) Credit risk

Bougainville Copper has no significant concentrations of net credit risk.

(f) Liquidity risk

Bougainville Copper aims to prudently manage liquidity risk by maintaining sufficient cash and other liquid assets or the availability of funding through uncommitted credit facilities. The company currently has no available credit facilities.

(g) Fair value estimation

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

Independent auditor's report to the shareholders of Bougainville Copper Limited

Report on the financial statements

We were engaged to audit the accompanying financial statements of Bougainville Copper Limited (the company), which comprise the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practice in Papua New Guinea, the PNG Companies Act 1997, and for such internal control as directors may determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The financial statement of Bougainville Copper Limited for the year ended 31 December 2010 has been prepared with the inclusion of the company's mine assets at their 1 January 1991 book value, with a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in note 1(b) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the company's assets on Bougainville. While the directors have made this impairment provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna assets can be determined.

In our opinion, providing for the probable impairment

loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2010. However, as the actual extent of such impairment can only be established after the company regains access to the mine site or a reliable market price can be determined, we recognise that, at present, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision made by directors in 1991 may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not. Accordingly we are unable to form an opinion as to whether or not the carrying value of the mine assets, as disclosed in these financial statements, is properly stated.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. The company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The mine assets, which represent 49% of the book value of total assets and 54% of the book value of net tangible assets, and the liability for compensation, rehabilitation and stabilisation, are of fundamental importance to the presentation of the accounts. In view of these matters over the carrying amount of the mine assets and the liability for compensation, rehabilitation and stabilisation as set out above, we are unable to form an opinion as to whether or not the financial statements gives a true and fair view of the financial position of the company as at 31 December 2010 and its performance for the year ended on that date.

Disclaimer of auditor's opinion

Because of the significance of the matters described in the Basis for disclaimer of auditor's opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to

Independent auditor's report to the shareholders of Bougainville Copper Limited - continued

you on the following matters. We confirm that:

- a) in our opinion proper accounting records have been kept by the company, so far as appears from our examination of those records;
- b) with the exception of the matters described above we have obtained all the information and explanations we have required; and
- c) in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

Other Matters

This report, including the opinion, has been prepared for and only for the company's shareholders as a body in accordance with the PNG Companies Act 1997 and for no other purpose. We do not accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle

By: Brett Entwistle
Partner

Registered under the Accountants Act 1996
Port Moresby

SR.A

By: Jon Roberts
Engagement Leader

1 March 2011

Directors' declaration

Directors' declaration Bougainville Copper Limited

In the directors' opinion:

- (a) the financial statements and notes set out on pages 19 to 28 are in accordance with the *PNG Companies Act 1997*, including:
 - (i) complying with Accounting Standards, the Companies Act 1997 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Peter R Taylor

Director: Peter R Taylor

Robert S Burns

Director: Robert S Burns

John E Leahy

Director: John E Leahy

Ian J Williams

Director: Ian J Williams

Signed on 1 March 2011.

Corporate information

Bougainville Copper Limited

(Incorporated in Papua New Guinea)

Registered office:

6th Floor, Pacific Place,
Cnr Champion Parade & Musgrave Street,
Port Moresby, Papua New Guinea
Telephone: +(675) 3092800
Facsimile: +(675) 3213634
E-mail: info@bcl.com
Website: www.bougainvillecopper.com.pg

Principal registered office in australia:

Bougainville Copper Limited
A.R.B.N. 007 497 869
Level 33, 120 Collins Street, Melbourne, VIC 3000
Telephone: +(613) 92833333
Facsimile: +(613) 92833707

Share registers:

c/o Kina Securities Limited
2nd Floor, Deloitte Tower, Douglas Street
Port Moresby
Papua New Guinea
Telephone: +(675) 308 7000
Facsimile: +(675) 308 7001
E-mail: kina@kina.com.pg
Postal address: P O Box 1141 Port Moresby,
Papua New Guinea

c/o Computershare Registry Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067 Australia.
Telephone: 1300 805 0505 (in Australia)
+(613) 9415 4000 (outside Australia)
Facsimile: +(613) 9743 2500
Postal Address: GPO Box 2975 EE
Melbourne, VIC 3001
E-mail: web.queries@computershare.com.au
Website: www.computershare.com

Stock exchanges:

Listed with the Australian Securities Exchange Limited

Auditors:

PricewaterhouseCoopers
P O Box 484
Port Moresby, Papua New Guinea

Bankers:

Commonwealth Bank of Australia
Bank South Pacific

Solicitors:

Allens Arthur Robinson
Gadens Lawyers

Twenty largest shareholders

The twenty largest shareholders as at 24 February 2011 and the number of shares held by each were:

Name and Registered Address	Shares	% of Issued Shares
1 Rio Tinto Limited Melbourne VIC	215,920,089	53.83
2 The Independent State of Papua New Guinea	76,430,809	19.06
3 J P Morgan Nominees Australia Limited Melbourne VIC	51,509,814	12.85
4 Citicorp Nominees Pty Limited Melbourne VIC	16,502,127	4.11
5 National Nominees Limited Melbourne VIC	7,529,800	1.88
6 HSBC Custody Nominees (Australia) Limited Sydney NSW	4,134,398	1.03
7 Franz Heinrich Rast Bulli NSW	1,700,000	0.42
8 Penson Australia Nominees Pty Limited Sydney NSW	910,349	0.23
9 Westco Nominees Limited Singapore	900,000	0.22
10 The Noble Hope for Construction Pty Ltd Condell Park NSW	630,000	0.16
11 Deep Investments Pty Limited Sydney NSW	629,343	0.16
12 Mr Daniel Ronald Watson Glenside SA	600,000	0.15
13 ABN Amro Clearing Sydney Nominees Pty Limited Sydney NSW	453,281	0.11
14 Merrill Lynch (Australia) Nominees Pty Limited Melbourne VIC	448,484	0.11
15 Mr Anthony Patrick Cahill Ascot Vale VIC	400,000	0.10
16 Deep Valley Pty Limited Stamford QLD	377,000	0.09
17 Mr Garry Raymond Churchill Clifton Beach QLD	323,017	0.08
18 Mrs Sumithra Rambukwella Ranaweera Colombo, Sri Lanka	312,500	0.08
19 Pan Australian Nominees Pty Limited Sydney NSW	262,960	0.07
20 Mr Lewis Haswell Finney St Ives NSW	240,446	0.06
	380,214,417	94.80

Corporate information

Distribution of shares

As at 24 February 2011: 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 15,534.

The distribution of holdings of the issued shares was:

		%
1 - 1,000 shares	13,068	84.13
1,001 - 5,000 shares	1,759	11.32
5,001 - 10,000 shares	365	2.35
10,001 - shares and over	342	2.02
Total shareholders	<u>15,534</u>	<u>100.00</u>

There were 10,022 holdings of shares (64.52 per cent) which do not form a marketable parcel.

94.80 per cent of the total issued shares were held by or on behalf of the twenty largest shareholders.

The substantial shareholders were:

Rio Tinto Limited, its wholly-owned subsidiary Rio Tinto Base Metals Pty Limited and RTZ Limited 215,920,089 shares (53.83 per cent); Rio Tinto plc has an interest in the same shares through its wholly-owned subsidiaries' (Tinto Holdings Australia Pty Limited, Melbourne, Vic., Rio Tinto Australian Holdings Limited, Rio Tinto Pacific Holdings Limited and Rio Tinto International Holdings Limited, all of London, UK) interests in Rio Tinto Limited and Rio Tinto Base Metals Pty Limited; The Independent State of Papua New Guinea 76 430 809 shares (19.06 per cent).

Applicable jurisdiction

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

Distribution of the benefits

<i>Bougainville Copper Limited year ended 31 December 2010</i>	2010	K million 1972-2009
PNG Government		
Corporate income tax*	-	514.2
Additional profits tax*	-	72.6
Group tax (PAYE)	-	122.2
Customs duty	-	104.1
Miscellaneous	-	10.1
Dividends*	-	167.4
Dividend WHT*	-	97.6
	-	1,088.2
North Solomons Provincial Government		
Royalties (95% to NSPG)	-	61.4
Non Renewable Resources Fund	-	1.8
Other taxes	-	12.0
	-	75.2
Landowners		
Royalties (5% to Landowners)	-	3.2
Compensation	-	35.0
	-	38.2
Non-Government Shareholders		
Dividends net of Dividend WHT*	-	582.1
Employees		
Wages (less PAYE)	-	575.6
Total	-	2,359.3

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

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

BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

Statistical Summary

FINANCIAL	2010	2009	2008	2007	2006	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Earnings (K million)																	
Net sales revenue and other income*****	17.6	16.7	9.0	8.3	7.9	7.4	16.1	11.7	13.0	19.6	18.3	12.4	6.1	10.7	5.5	2.2	1.7
Operating and other expenses****	14.8	8.0	9.2	4.9	4.4	5.0	4.7	4.1	4.6	3.8	4.8	5.2	4.8	5.0	4.9	3.6	4.1
Depreciation*****	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings/(loss) before taxation and exchange gains	3.2	5.8	(0.2)	3.4	3.5	2.4	11.4	7.6	8.4	15.8	13.5	7.2	1.4	5.7	0.6	(1.4)	(2.4)
Exchange gains/(losses)	(0.4)	2.9	(4.6)	0.2	0.2	(0.4)	3.1	0.3	-	-	0.4	0.5	-	-	6.6	9.2	(0.3)
Earnings/(loss) before taxation	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional profits tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net earnings/(loss)	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Dividends paid	-	-	-	-	-	-	-	8.0	-	-	-	-	-	-	-	-	-
Earnings/(losses) retained	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	(0.1)	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Balance Sheet (K million)																	
Property, plant & equipment	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	198.6	200.1	200.6	200.7	200.7	200.8
Investments and loans	128.8	145.7	98.8	204.7	176.6	128.2	121.2	18.9	3.1	-	-	-	-	-	-	-	-
Current and other non-current assets	74.7	58.1	31.1	36.1	38.7	31.7	31.4	119.4	135.4	131.0	114.4	100.7	87.7	85.4	76.0	65.6	56.2
Total assets	401.4	401.7	327.8	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0
Shareholders' funds	364.7	365.5	293.3	404.0	378.2	323.3	316.1	301.6	301.8	293.3	277.5	263.6	255.9	254.5	248.8	241.6	233.8
Exchange fluctuation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	33.4	33.4	33.4	33.6	33.7	33.4	33.4	33.4	33.4	33.4	33.5	35.3	6.8	6.8	6.8	6.8	6.8
Current liabilities	3.3	2.8	1.1	1.1	1.3	1.1	1.0	1.2	1.2	2.2	1.3	0.4	25.1	24.7	21.1	17.9	16.4
Funds employed	401.4	401.7	327.8	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0
PRODUCTION / SALES																	
Mined																	
Ore and waste removed (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore milled (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore grade																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Produced																	
Concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contained copper (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Concentrate grade																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Silver (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipped																	
Total concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Destination:																	
Japan (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asian (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Values																	
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution by:																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER																	
US\$/Kina exchange rate	.3881	.3821	.3747	0.3636	0.3344	0.33	0.30	0.25	0.26	0.36	0.39	0.48	0.69	0.76	0.79	1.01	1.02
Average metal prices																	
LME copper (US\$/lb)	339.7	231.9	319.5	323.66	305.50	130.01	79.95	70.65	66.2	82.1	71.4	75.2	105.6	104.0	133.1	105.0	87.0
London gold market (US\$/oz)	1 222	970	872	691.00	602.00	409.55	363.89	310.14	276.5	280.0	280.0	294.0	335.3	387.0	384.5	384.0	360.0
Return on shareholders' funds (per cent)	0.772	2.380	(1.632)	0.888	0.967	0.60	4.6	2.6	2.8	5.4	5.0	2.9	0.5	2.2	2.9	3.2	-
Earnings per share*** (toea)	0.702	2.169	(1.19)	0.895	0.912	0.50	3.61	1.96	2.10	3.93	3.5	1.9	0.3	1.4	1.8	1.9	-
Dividends per fully paid share*** (par value K1)(toea)	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-
Number of shares issued at end of year (millions)	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401
Number of shareholders at end of year	15 534	15 468	15 495	15 504	15 698	16 072	16 374	16 519	16 812	17 021	17 260	18 183	18 182	18 041	18 452	18 765	19 189
Debt/equity ratio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workforce at end of year																	
Overseas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
National	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972*
2.2	3.3	80.2	231.6	493.4	415.4	342.7	317.6	310.9	392.9	283.2	296.4	338.7	343.1	225.1	205.3	208.9	193.1	292.6	252.4	95.9
5.1	316.6	36.8	181.7	244.8	227.5	223.7	221.5	234.8	228.1	207.2	210.8	174.8	144.1	125.0	126.8	117.5	107.2	92.5	81.8	53.3
-	-	51.5	47.3	43.9	49.4	47.3	47.6	46.5	47.0	44.2	43.3	43.8	40.7	40.4	36.2	31.1	29.6	28.5	24.8	14.5
(2.9)	(313.3)	(8.1)	2.6	204.7	138.5	71.7	48.5	29.6	117.8	31.8	42.3	120.1	158.3	59.7	42.3	60.3	56.3	171.6	145.8	28.1
1.5	0.1	(0.5)	2.5	(2.9)	2.6	2.3	(1.4)	(2.8)	(16.3)	(3.3)	1.1	2.6	3.5	10.3	(0.1)	1.3	2.3	9.5	12.9	(0.4)
(1.4)	(313.2)	(8.6)	5.1	201.8	141.1	74.0	47.1	26.8	101.5	28.5	43.4	122.7	161.8	70.0	42.2	61.6	58.6	181.1	158.7	27.7
-	-	6.0	25.7	70.0	50.6	28.7	19.0	15.2	46.9	17.3	20.6	39.6	57.5	22.0	13.7	20.3	12.4	49.1	0.3	-
-	-	-	-	23.2	-	-	-	-	-	-	-	11.6	20.4	-	-	-	-	17.4	-	-
(1.4)	(313.2)	(14.6)	(20.6)	108.6	90.5	45.3	28.1	11.6	54.6	11.2	22.8	71.5	83.9	48.0	28.5	41.3	46.2	114.6	158.4	27.7
-	-	-	-	108.3	92.2	44.1	28.1	16.0	52.1	10.0	20.1	80.2	106.9	40.1	21.4	26.7	26.7	73.5	81.4	11.0
(1.4)	(313.2)	(14.6)	(20.6)	0.3	(1.7)	1.2	-	(4.4)	2.5	1.2	2.7	(8.7)	(23.0)	7.9	7.1	14.6	19.5	41.1	77.0	16.7
201.4	201.5	545.9	595.8	570.0	527.8	550.1	558.5	576.2	594.9	622.8	611.2	610.8	325.4	340.1	352.2	350.4	346.0	352.2	371.7	378.7
-	-	-	-	2.2	0.7	0.7	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-
56.8	56.5	64.7	59.5	250.1	260.3	190.1	160.4	152.9	185.3	155.9	148.7	148.4	201.0	125.8	137.1	136.0	129.5	205.6	130.4	73.9
258.2	258.0	610.6	655.3	822.3	788.8	740.9	719.1	729.3	780.5	778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
236.4	237.9	551.1	565.6	586.2	586.0	587.7	586.5	586.5	590.9	588.4	587.2	584.5	294.5	317.5	309.7	302.5	287.9	268.4	227.4	146.7
-	-	-	-	0.2	0.3	(3.2)	(5.9)	(5.3)	(4.7)	(5.4)	1.5	5.1	5.4	9.0	14.6	9.0	11.5	19.1	39.5	24.2
6.8	6.8	47.7	46.9	23.7	24.8	48.1	52.4	52.5	51.6	125.6	80.1	25.7	36.2	42.1	53.3	101.7	106.8	121.1	127.5	204.0
15.0	13.3	11.8	42.8	212.2	177.7	108.3	86.1	95.6	142.7	70.2	91.2	144.0	190.4	97.4	111.8	73.3	69.4	149.3	107.8	77.7
258.2	258.0	610.6	655.3	822.3	788.8	740.9	719.1	729.3	780.5	778.8	760.0	759.3	526.5	466.0	489.4	486.5	475.6	557.9	502.2	452.6
-	-	-	33.27	89.78	83.53	79.16	73.62	74.40	81.00	76.22	77.56	79.76	75.97	79.05	70.79	58.54	56.40	56.00	56.65	46.75
-	-	-	18.52	47.69	48.20	47.89	50.07	46.52	47.73	41.74	37.53	37.62	36.17	38.12	34.11	31.21	31.08	30.14	29.14	21.89
-	-	-	0.44	0.41	0.41	0.42	0.42	0.42	0.46	0.47	0.51	0.46	0.55	0.60	0.61	0.64	0.64	0.70	0.73	0.76
-	-	-	0.50	0.41	0.43	0.48	0.42	0.48	0.55	0.60	0.59	0.50	0.75	0.82	0.90	0.87	0.80	1.02	1.03	0.77
-	-	-	224.6	552.0	585.5	586.6	581.8	542.3	636.9	598.6	576.4	510.4	584.7	658.6	615.6	596.8	596.0	640.8	650.2	438.1
-	-	-	68.7	166.0	178.2	178.6	175.0	164.4	183.2	170.0	165.4	146.8	170.8	198.6	182.3	176.5	172.5	184.1	182.9	124.0
-	-	-	30.1	30.1	30.4	30.5	30.1	30.3	28.8	28.4	28.7	28.8	29.2	30.2	29.6	29.6	28.9	28.7	28.1	28.3
-	-	-	31.0	25.1	25.8	27.9	24.7	28.9	28.3	29.3	29.2	27.5	33.7	35.5	36.3	33.9	30.5	32.0	31.6	27.3
-	-	-	91.2	87.7	86.4	85.9	79.3	81.9	74.4	72.1	73.5	72.2	76.3	79.8	77.0	76.1	71.0	72.3	69.0	69.3
-	-	-	250.8	570.8	567.6	589.4	560.0	550.8	636.1	599.6	596.2	494.4	586.5	640.9	614.8	605.8	587.0	665.8	625.2	434.4
-	-	-	40.2	45.4	32.6	43.2	44.1	51.9	47.0	46.6	49.8	54.5	56.0	51.0	54.8	42.3	42.7	51.5	54.8	48.1
-	-	-	34.3	23.4	33.5	15.4	15.7	12.3	11.0	6.6	3.3	4.1	3.7	3.2	1.6	1.7	1.7	0.0	0.0	0.0
-	-	-	25.5	27.7	33.9	41.4	40.2	35.8	42.0	45.1	45.4	41.4	40.3	42.0	39.9	46.5	53.8	41.9	37.8	49.4
-	-	-	0.0	3.5	0.0	0.0	0.0	0.0	0.0	1.7	1.5	0.0	0.0	3.8	3.7	9.5	1.8	6.6	7.4	2.5
-	-	0.3	260.0	561.0	489.4	417.9	381.3	373.4	454.6	343.6	355.2	386.3	407.0	294.5	266.3	260.3	219.4	307.4	270.8	118.8
-	-	61	68	68	60	54	61	53	52	51	54	51	60	64	66	74	69	74	83	83
-	-	38	31	30	38	44	37	45	46	47	44	46	37	34	32	24	29	25	16	16
1.04	1.05	1.05	1.17	1.16	1.10	1.03	1.00	1.11	1.19	1.35	1.48	1.50	1.41	1.42	1.27	1.26	1.31	1.43	1.42	1.19
103.0	106.0	119.8	129.0	117.9	81.0	62.3	64.3	62.4	71.9	67.1	79.0	99.2	89.8	61.9	59.3	63.6	55.9	93.3	80.9	48.6
344.0	362.2	382.8	381.0	436.8	446.7	367.9	317.3	360.8	423.5	375.6	459.9	614.7	304.7	193.5	147.8	124.8	160.9	158.7	97.3	58.2
-	-	-	-	18.5	15.4	7.7	4.8	2.0	9.3	1.9	3.9	12.2	28.5	15.1	9.2	13.7	16.0	42.7	69.7	18.9
-	-	-	-	27.1	22.6	11.3	7.0	2.9	13.6	2.8	5.7	17.8	20.9	12.0	7.1	10.3	11.5	28.6	39.5	6.9
-	-	-	-	27.0	23.0	11.0	7.0	4.0	13.0	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	401	401	401	401	401	401	401	401	401	401	267	267	267	267	267	267	267	260**
19 851	19 982	20 532	21 287	21 966	22 650	24 680	27 117	30 435	32 834	36 486	38 027	38 326	38 750	40 935	43 820	50 082	54 129	55 558	45 353	46 726
-	-	-	-	.002/1	.004/1	.005/1	.006/1	.009/1	.010/1	.020/1	.017/1	.005/1	.015/1	.019/1	.037/1	.040/1	.044/1	.052/1	.072/1	.062/1
1	6	13	330	610	699	706	704	749	751	756	801	877	851	855	853	858	942	980	929	971
1	6	10	1 987	2 950	3 025	2 993	2 948	2 987	3 058	3 174	3 377	3 416	3 314	3 243	3 063	2 989	3 094	3 242	2 915	2 594

***1972 to 1979 figures are after adjustment for the 1980 capital reconstruction

****1989, 1990 and 1991 include extraordinary items of K26.1 million, K28.7 million and K309.2 million respectively

*****1990 includes extraordinary items of K76.3 million for insurance litigation settlement and K51.5 million for depreciation.

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