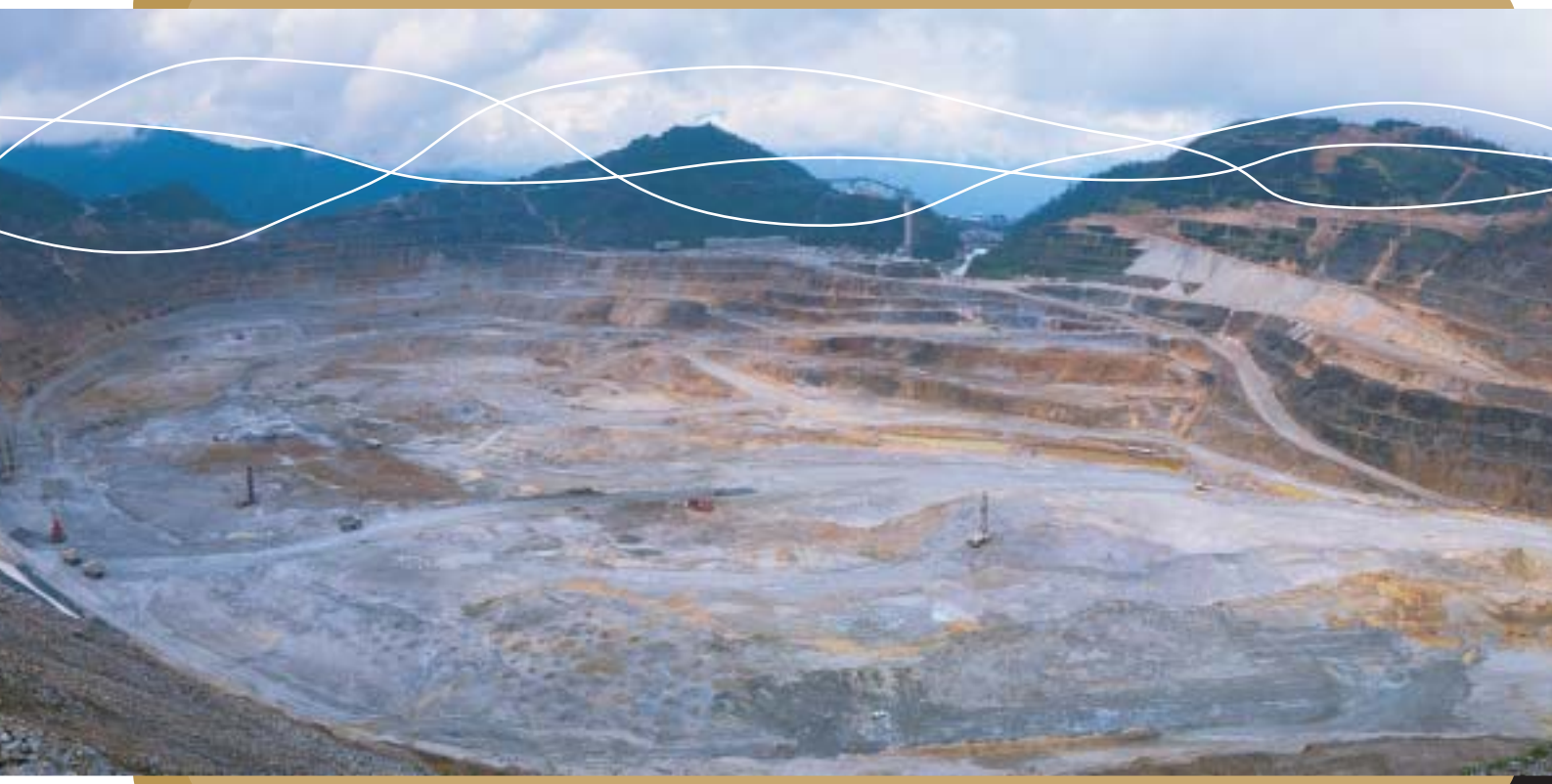
OK TEDI MINING

2003 Annual Review

CONTENTS



Above: The Pit at Ok Tedi's Mt. Fubilan Mine.

CHAIRMAN'S REPORT

Two years have now passed since the arrangements were put in place, in February of 2002, which established the basis for Ok Tedi's future operation. These arrangements encompass all aspects of Ok Tedi's business, from the corporate governance of the Board of Directors to its management and reporting obligations with respect to its ongoing environmental performance.

The following is my report card on how the Company is doing in meeting its obligations under these arrangements. These arrangements were structured around a simple premise; Ok Tedi must operate to create positive benefits for all the communities of interest that it directly or indirectly impacts. The positive benefits will continue if Ok Tedi is successful in generating long-term sustainable profits which are then reinvested back into Papua New Guinea through its dividends, taxes, employment and direct assistance to the communities. To keep the benefits positive requires ongoing diligence on Ok Tedi's part to minimize the environmental impacts of the mine.

Based on the past eighteen months, I am happy to say that Ok Tedi is meeting its obligations under the arrangements. We also see lots of opportunities ahead for Ok Tedi which can further reinforce its positive contribution. All of us at Ok Tedi are excited to be part of this unique challenge.

Economic Benefits

Ok Tedi changed its year end to December 31st and, therefore, the financial results I refer to are for the eighteen months ended December 31st, 2003. During that period, Ok Tedi generated net sales of approximately US$749 million and reported a net profit of US$22.4 million. This compares to net sales for the prior twelve month period of US$433 million and a net loss of US$27.5 million. This significant increase in revenue and profit was a result of record production levels for both copper and gold and from rising metal prices. This success was achieved in spite of the fact that Ok Tedi had to manage through a very dry period at the end of 2002 that impacted the ability of the mine to operate at full capacity. Ok Tedi also undertook a major repair of its mill early in 2003 which idled half of its capacity for two months.

Based on its financial performance in the past eighteen months, Ok Tedi has provided significant financial benefits to the Papua New Guinea economy. The table on page 3 illustrates that a large part of the economic benefits generated by Ok Tedi, in one way or another, accrues to Papua New Guinea.

The current metal price environment is very positive both for copper and gold. The outlook is for metal markets to remain quite strong over the coming years, and this should ensure that the benefits identified above are sustainable for some time. However, since metal markets are cyclical, Ok Tedi must be vigilant regarding its operating costs so it can remain profitable. In this way, even at the bottom of the metals price cycle, it will be able to sustain its positive contribution over its entire mine life.

Social Benefits

A key aspect of the new arrangements is the Community Mine Continuation Agreements ('CMCA's'). The implementation of the CMCA's is still at a very early stage, however, good progress has been made. By the end of 2003, 8 village trusts had been established and US$18.1 million has been paid by Ok Tedi so far into those trusts.

The mine's community relations team and the communities involved are working closely to ensure these funds are spent wisely now or prudently invested for the future.

Ok Tedi continues to work with local communities in the Western Province to improve the standard of living. Ok Tedi is involved in a number of initiatives, assisting local communities to develop businesses that will be sustainable at the end of the mine life. A good example of this is the Obo barramundi fishery that supplies the mine and exports its product to Australia. Ok Tedi is also supporting the development of the rubber industry through support for North Fly Rubber. Ok Tedi has also committed, through the tax credit scheme, to funding a part of the nationally vital restoration of the Highlands Highway.

While the mine is operational, it is important to provide for a transition to another economic base that can replace some of its current positive economic benefits after mine closure.

Environmental Impacts

The new arrangements also included a new environmental regime, which Ok Tedi reports on its compliance in a comprehensive annual report. Ok Tedi also continues to expend significant effort and resources in studying the environmental impacts of the mine and in implementing mitigating measures. In addition, through the mine closure fund, Ok Tedi is ensuring that sufficient financial resources will be available at the time of closure to meet its obligations to responsibly decommission the mine.

Ok Tedi's expenditures in all areas associated with its environmental management efforts are broken down as per the tables below.

These expenditures are a significant portion of Ok Tedi's cash flow. This is clearly a demonstration of Ok Tedi's financial commitment to address the management of this very challenging aspect of its operation.

Employees and Board of Directors

The new arrangements were also designed to ensure that Ok Tedi continued to attract, train and retain capable staff. Ok Tedi has done a great job in this regard. Ok Tedi attracts employees from all over the globe. However, its most important source is from Papua New Guinea. Of Ok Tedi's 1974 employees, 1856 are PNG Nationals. Our work force is well trained, dedicated and committed to making Ok Tedi a success and we are very proud of their commitment to the Company. Our employees are also benefiting from the positive financial results of Ok Tedi. Under the Company's 'Share in Success Scheme', 5.2 per cent of Ok Tedi's cash flow is paid to our employees. For the eighteen months ended December 31st, 2003 this amounted to US$6.9 million.

One of the other important aspects of running a world class mining company like Ok Tedi is to have strong leadership. Ok Tedi has a Board of Directors that is comparable with any in the international mining industry. As required under the new arrangements, shareholders sought internationally qualified independent expertise on the Board to ensure Ok Tedi continues to excel. As a result, we now have strong independent leadership from Alan Roberts, Dick Zandee and Keith Faulkner. Also, the positive contributions to the Board from the PNGSDPL and from the Government of Papua New Guinea are also critical in coordinating efforts to maximize Ok Tedi's benefits for all stakeholders.

Future

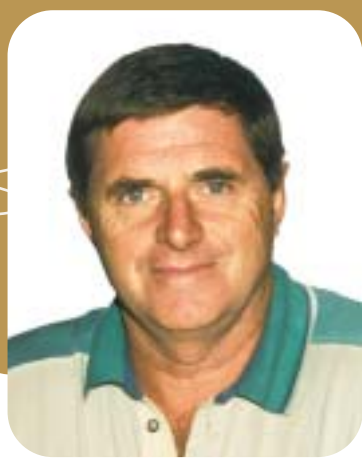
I hope that you agree on my assessment of our progress at Ok Tedi so far. The future looks very bright in the mining industry in the coming years and it is very fortunate that Ok Tedi, and therefore Papua New Guinea, are in a position to reap those benefits.

There is still much uncertainty regarding the environmental impacts of Ok Tedi, but there is no uncertainty regarding Ok Tedi's efforts now and in the future, to ensure that the positive benefits we have seen so far can continue.

Environmental Program	Expenditures for the 18 months ended 31/12/2003 (US$000's)
Dredging	$46,453
Additional limestone mining	$6,033
Environmental department & consultants	$4,306
Mine closure financial assurance fund	$22,600
TOTAL	**$79,392**

Economic Benefits to Papua New Guinea	Expenditures for the 18 months ended 31/12/2003 (US$000's)
Payments to PNG suppliers of goods and services	$171,505
Salaries and wages paid to PNG nationals	$31,855
Payments to communities (CMCA's & other trusts)	$7,104
Dividends to PNGSDPL and PNG shareholders	$109,750
Income taxes and mining levy	$58,123
TOTAL	**$378,337**

Richard Ross
Chairman
Ok Tedi Mining Limited



MANAGING DIRECTOR'S REPORT

In 2003 Ok Tedi Mining Limited completed its first year as an independent Papua New Guinea mining company. The year had its share of disappointments and setbacks, but on balance it was a year of solid success and progress.

At Ok Tedi we are committed to the goal of achieving 'zero harm' but tragically in July we were reminded of the need for constant attention to this goal. Early in the morning of July 15 an accident claimed the life of Namuru Karuminip when the D11 dozer he was operating was lost in a catastrophic failure of the Southern waste dump. Our sympathy is extended to his family and workmates. The investigations by the Department of Mines and independent experts showed some holes in our safety defences which have been addressed, but the impacts of the accident on operations have been significant. The major impact was reduced waste mining. Waste dumping at the Southern dump was suspended for two months and then resumed under much tighter controls, including the use of remotely controlled dozers. By year end we were almost back to the required waste mining rates but by then we were around 10 million tonnes of waste behind plan. Whilst there had been little impact on ore mining, flexibility in the pit had been reduced and the shortfall in waste mining resulted in a reduced capacity to blend difficult ores, depressing recoveries in the last two months of the year.

The year had begun with two major capital projects undertaken over the longest maintenance shut in Ok Tedi's history. Half the plant was shut for 52 days from January 13 to March 6 in order to change out the shell of the 32 foot diameter semi-autogenous grinding mill No 1, and also to upgrade the flotation circuit for improved recoveries of copper and gold. Both tasks, along with several other lesser projects, were completed successfully and without any significant safety incidents. This was a major achievement and its success was a credit to all involved in the control, planning and implementation of these projects.

The new SAG mill has operated without problem since installation and the flotation upgrade has seen recovery improvements in the order of 6% in copper and gold, although this has been obscured to some degree by the difficult ores treated in recent months.

The weather and rainfall has been kinder to Ok Tedi in 2003 compared to 2002. In spite of the driest June on our records, the year has generally seen high river levels for shipping allowing us to maintain minimum stocks of copper concentrate, and production losses due to power shortages have been minimal for most of the year.

Market conditions also improved strongly during the year, with copper prices moving from around US cents 72 per pound to around US$1 and, gold also showing strong gains from US$350 per ounce to touch US$415 at year end. At the same time demand for our product, copper concentrate, remained very strong with growth in China's consumption of copper in particular drawing down world stocks of finished copper. The weakness in the US dollar also drives some of the strength in copper and gold prices, but it has a downside for Ok Tedi. As much of our cost base is in Australian dollars and PNG Kina, the weaker US dollar in effect increases our costs.

OTML will not tolerate less than full honesty, transparency and integrity in business conduct. The Ok Tedi Charter states that we value integrity and that is a requirement of all of our business dealings, and also in our dealings with the communities impacted by the mine.

Unfortunately this year it has been necessary to reinforce the rules of good business conduct after a number of incidents of fraud, collusion and inappropriate business conduct were detected. These matters were dealt with by internal disciplinary processes including the dismissal of several employees. In certain instances civil and criminal charges are being pursued. Rules concerning

Above: Rice is one food crop that is actively promoted by OTML to local villagers including its employees who are encouraged to take home and cultivate. This picture shows a rice plot planted by trainees at a Village Based Agricultural Centre in Songty Valley, Lower Ok Tedi.

conflict of interest, business relationships and transparency in business conduct have been re-stated to all employees, contractors and suppliers. A number of OTML's business processes have been altered to improve control and transparency. Included in these changes are processes for handling community funds, with an independent third party contracted to oversee community compensation funds and administering community development trust funds. These arrangements were put in place following an internal OTML investigation which revealed that some earlier community compensation payments had been made incorrectly, to individuals rather than communities. This situation was corrected and the communities properly compensated. Over the past year the Company has conducted a thorough review of its activities and processes in the areas of community relations and development in order to ensure the highest standards of governance and administration.

Informed consent for the continuation of the mine, from all stakeholders but in particular the communities impacted by the mine's operations, is the foundation of the mine's operations. This consent requires a continuous process of the highest standard in open communication, consultation and participative decision making. To this end OTML welcomes suggestions, advice and constructive criticism from any interested party to assist in the building of consultative arrangements that will achieve this aim.

The questions that I am asked most often are 'What is the future for Ok Tedi? Will we close in 2010? Is there any life for the mine beyond that?' The answer is that at present we are scheduled to close at around that time and we must plan for it, but this is also the time to explore what the future might hold. We have a simple strategy for dealing with the future. First we must be the best, most competitive copper mining operation that we can be, for without that status any operation beyond our current agreements would be impossible. Second we must take a fresh look at our resources and see what the potential may be. In 2003 we have commenced a review of the mine plan starting with revising the geological model, then aligning the optimum pit that fits the model and finally scheduling out the best mining plan to achieve that pit. By year end the schedule still indicated a 2011 closure, but that's not the whole story. Further minesite drilling and optimisation could see further extension and we are also taking a new look at the potential in the exploration leases that we hold surrounding our Mount Fubilan mining lease. We should know more about the future potential in the coming year as the drilling and exploration program progresses. We must remember however, that extending much beyond 2011 would require the agreement of the shareholders, the Government of PNG and the people affected by the mine's operation and waste disposal. Any decision about mine life extension can only be taken when we can say with confidence what the impact of mine life extension will be on the Ok Tedi and Fly River systems and thus the communities that depend on the rivers. It will take some time yet to work through the technical, financial, environmental and social implications of mine life extension before any extension could be proposed.

Finally, Ok Tedi continues to be Papua New Guinea's largest single private enterprise and generator of wealth, providing employment and benefits to thousands of people. It is a highly professional world competitive copper mining operation. Its strength lies in an excellent resource, a dedicated and well trained workforce, and a broad range of stakeholders that continue to see its value as a strong independent company.

Keith Faulkner
Managing Director
Ok Tedi Mining Limited

Operations

Safety

SEFTI EM I NAMBAWAN remains OTML Operation's catchcry but we have now added the goal of "ZERO HARM" to our safety efforts. We believe all employees should return to their families in the same state of health as they were when they left for work.

By the close of 2003 OTML employees had worked 169 days without a lost time injury since the tragic accident that claimed the life of a dozer operator on July 15, 2003. That incident occurred when the Southern Waste Dump collapsed carrying away the dozer and operator.

Following this event dumping of waste was suspended and the rules surrounding waste dumping were reviewed and safety defences improved to ensure the tragedy cannot be repeated. The mine now uses remote controlled dozers to push waste over the dumps with stringent rules covering access to any potentially unstable zones in the waste dumps.

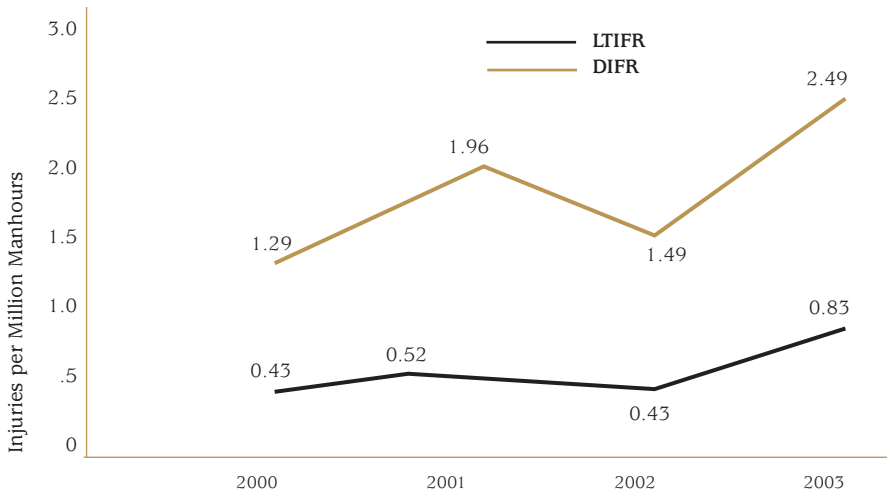
OTML is a NOSA Four Star Operation and we continue to lift our effort rating and improve performance. All Business Units conduct a six month risk review to assess and improve risk reduction strategies. Safety and environment task team, including contractors, gather information from incident reports, safety audits and risk registers to identify deficiencies and opportunities for improvement.

Comprehensive health monitoring for all employees, with special emphasis on those with particular exposures such as laboratory workers or specialists welding tasks, will commence in 2004.

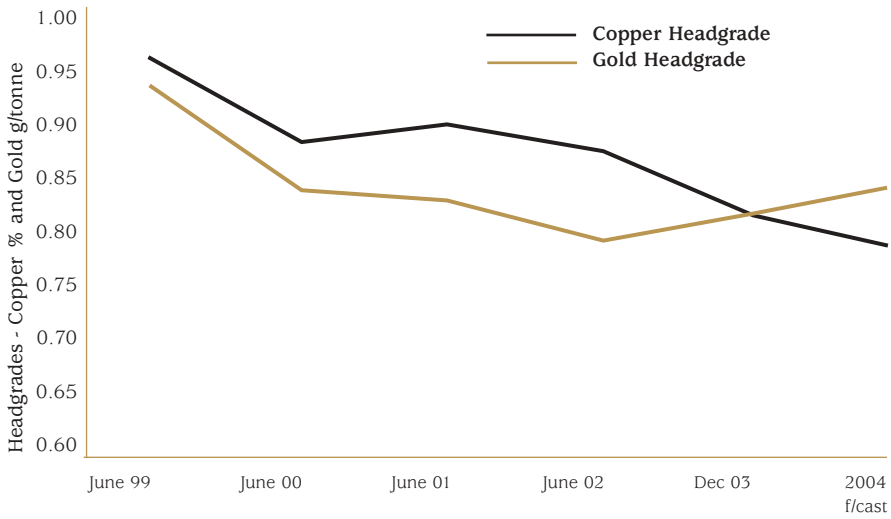
Production

OTML has changed from a July to June financial year to calendar year reporting. This report covers the 18 month period of the change over, from July 2002 to December 2003. Production statistics for both the 18 month period and the

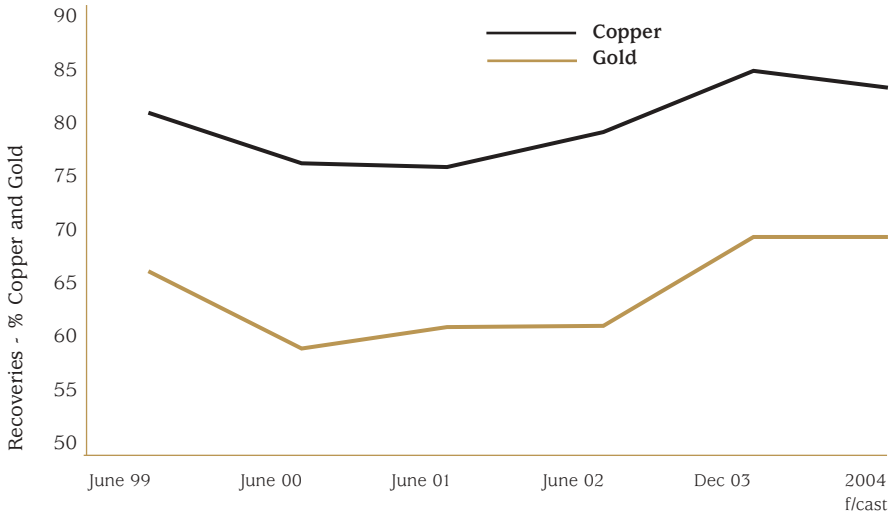
OTML - LTFIR & DIFR 2000-2003



Headgrades



Recoveries



calendar year of 2003 are contained in Tables on page 26 for comparison purposes.

Production was maintained at around historical levels for the period even though a number of events and circumstances occurred which made sustaining output a challenge to the operations team.

An extended dry period in the latter half of 2002 caused some production losses through lack of power as river flows at the 55 Mw Ok Menga power station dropped to very low rates. The diesel generation at the Tabubil Power Station has a 48 Mw capacity and cannot always meet production demands in these circumstances. A 10 Mw diesel gas turbine generator set has been purchased to address the shortfall and will be installed before the next 'dry' season in 2004. Fortunately 2003 was much wetter and satisfactory hydro-power generation was maintained except for a short period in June of that year.

River levels in the Fly have also been satisfactory for most of 2003 and there were very few occasions when river transport was affected.

A major disruption to production occurred when the planned replacement of a semi-autogenous grinding mill (SAG #1) was undertaken in January and February of 2003. The replacement was necessary due to a long-term problem of alignment of the mill which compromised its structure and mechanical integrity. This was the longest planned shut in OTML's history, taking half the production capacity out for over six weeks. Several other maintenance works were tailored into the shut including the Moscow Tunnel tailings line replacement and extensive works on the in-pit crusher and the crushed ore conveying systems.

The most significant additional work was the completion of the flotation upgrade project aimed at lifting recoveries of copper and gold by some 3% to 5%. This upgrade included lifting launder and pumping capacity at various points in the circuit, improving recoveries in the rougher and cleaner cells.

All projects were completed successfully and performance both the mill and flotation circuit proving up close to expectation, although two subsequent events have obscured the improvements for the present.

The two events referred to are the protracted suspension of waste dumping following the fatal accident at the southern waste dump and the failure of SAG #2.

The need to revise waste dumping procedures and convert to remote controlled dozers saw the mine fall behind in waste mining by almost 50% or 11 million tonnes for the half year. The mine normally has a greater ore exposure than might be the case in other open pit mines. This is necessary due to the complex nature of the various ore types making up the Mount Fubilan orebody, and the need for blending flexibility. It was due to this extensive ore exposure that it was possible to maintain ore production through the period of very low waste mining activity in the second half of the year. However this came at an increasing cost to blending flexibility and consequently recoveries and throughput in the processing plant. Metal production was kept to within 5% of targets even with these constraints.

Catch up on waste mining commenced late in 2003 and will continue into 2004 to recover mining and blending flexibility.

The sudden failure of SAG #2 early in 2004 has also obscured the flotation upgrade benefits as an ore blend and throughput rate for total metal production, rather than recovery, was targeted. SAG #2 was repaired and back in operation by mid-March 2003 after 8 weeks of downtime.

Even with these setbacks recovery improvements as a result of the flotation upgrade are evident from the chart on page 7 in spite of slightly declining headgrades over the past few years.

Mine Life and Exploration

A review of mine life was commenced in 2003 and is expected to be completed in 2004.

The review has commenced with a complete revision of the resource model and will work its way through pit optimisation to a final mine schedule. Some extra data is required and drilling for that information is underway in the current mine area. Whilst this work is far from complete there is no current indication of significant ore reserve extensions for the Mount Fubilan mine.

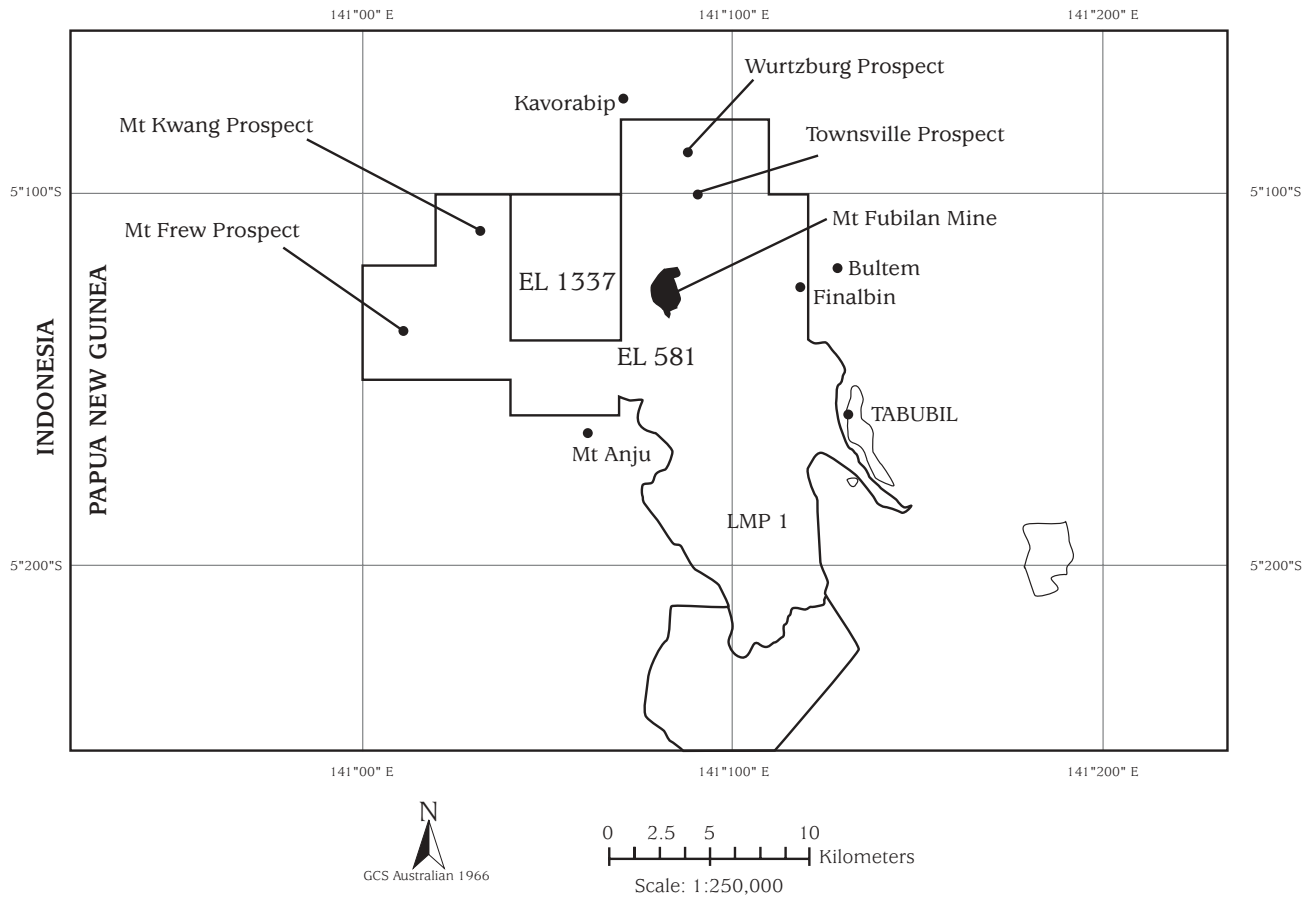
Whilst the resource extends beyond the current pit design in the west wall and the Moscow ridge, current data shows high strip ratios and a poor economic profile. Work on the mine life potential will continue through 2004.

OTML also has exploration licences around the Mount Fubilan mining lease. These have been held for some years, and a review of their potential is currently underway.

Drilling of the Townsville prospect to the north of Mount Fubilan is currently underway. Data gathered by aeromagnetic techniques in the 80's and 90's has been re-interpreted for OTML's exploration licence and field mapping and sampling undertaken in the Frew, Anjou, Binnie and Kwang areas. Induced polarisation (IP) scenarios are also being conducted in and around the minesite over targets identified by the re-interpretation of old data.

Exploration of EL 581 and data gathering by drilling in the pit will continue throughout 2004.

ELI Location Map



Above: Bige dredge site.

ENVIRONMENTAL MANAGEMENT

Acid Rock Drainage

Mining of sulphide ores, such as at Ok Tedi, increases the risk of acid rock drainage (ARD) occurring from mine wastes and therefore the potential for possible adverse impacts downstream of the mine. During 2003, OTML continued to develop mitigation strategies aimed at reducing or eliminating this risk.

At the Bige dredge site on the lower Ok Tedi studies have continued on the most effective means of reducing the risk of acid generation from sulphides contained in the dredge stockpiles. During 2003 a number of additional measures were adopted including the development of a staged construction sequence for dredge stockpiles to optimise safe placement of sulphide-bearing sands and the selective extraction of river sands to minimise sulphide content in unsaturated parts of the stockpiles.

Monitoring continues to indicate that no acid drainage is occurring at Bige. However, to better understand the hydrological processes occurring in the stockpiles as well as monitor water quality, the existing network of boreholes was extended during 2003 to include recently completed reclamation areas.

To better understand the risk of acid generation from mine-derived sediments deposited on the floodplain of the lower Ok Tedi and Fly Rivers, several investigations were carried out during 2003. This work included the establishment of hydrological monitoring networks at two sites on the floodplain of the lower Ok Tedi, downstream of the Bige dredging operation, and a comprehensive sampling program aimed at assessing the risk of acid generation from sediments deposited on the levee banks in the main channel of the Fly River. As with previous surveys conducted in these environments, the work indicated that no acid drainage was occurring in the sampled environments. However, at several sites elevated sulphur levels in sediments were identified and further work is planned to fully assess the risk of ARD in these areas.

Ecology Monitoring

It has long been contended that additional sediment in the river system accounts for the historical decline in fish numbers, primarily through the loss of fish habitat. Following a specific literature review to define a range of relevant parameters, a significant investigation was undertaken to establish the relationship between channel aggradation and fish habitat in the upper Middle Fly River. Accordingly, this study showed that aggradation and associated loss of fish habitat can now be considered as one of the main factors for any decline in fish populations observed in the Ok Tedi / Fly River system. Further investigations will map this relationship in other sections of the river system.

One of the compliance monitoring requirements under the Environmental Regime relates to the edibility of crops and other floodplain food resources. As the standard used by the Regime is not fully appropriate for the Fly system nor the crops grown along it, CSIRO's Centre for Environmental Contaminants Research was commissioned to undertake a comprehensive literature search and a review of OTML's relevant investigations to ultimately devise a standard against which crops grown within the Ok Tedi and Fly River floodplain can be assessed. One of the major recommendations from this review was to gain a holistic viewpoint of community health rather than looking in isolation at fish edibility, crop edibility, water potability, etc. A multi-compartment community health study will consequently be used to develop a food crop edibility standard. This eighteen month study is scheduled to commence in 2004.

Dieback

Following increasing data and knowledge, estimates of the total area to be impacted by dieback were again undertaken in April 2003. These estimates concluded that approximately 2,400 km2 of land along the Ok Tedi and Fly Rivers have been or will be affected. This is shown in the following diagram on page 14.

These latest estimates closely reflect those made in 1999 leading up to the HERA (Human and Ecological Risk Assessment) which reported a likely area of 2,569 km2 would be impacted.

While mine related impacts influence the majority of estimated dieback, the total area includes all forest dieback (i.e. forest dieback arising from mine related impacts, naturally occurring flooding processes and the effects of forest fire destruction). Climatic conditions greatly influence the area of land under dieback or recovery processes.

Above L-R: David Posile, David Willy and Kalim Kamugas discussing essay samples.

This is illustrated in the following diagram which shows historical growth in dieback (black line) and recovery (brown line). The steep rise in 1998 - 2000 is a result of the wetter than normal 30 month La Nina period while the increase in recovery is mainly the result of drier than normal conditions in late 2002.

Environmental Audits

While continuous internal audits and assessments are undertaken, the following external environmental audits were conducted during the year.

Environmental Management System Audit

The OTML Environmental Management System (EMS), based upon the Company's Environmental Standards, aims to:

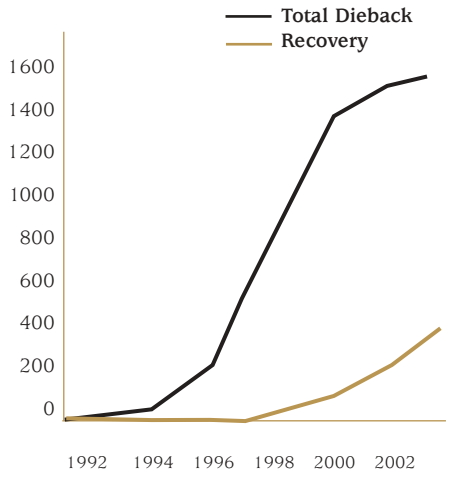
- define consistent environmental management requirements to support the implementation of the OTML Charter, the Environmental Regime and the Environmental Policy across OTML.
- facilitate a consistent approach to environmental management within OTML that seeks continuous improvement in performance.
- provide a consistent framework against which environmental management system performance can be reported.

The annual (external) audit against these standards was conducted in May 2003. The audit objectives were:

- to determine the extent to which the OTML business meets the requirements of the Environment standards; and
- to define the degree of compliance against AS/NZS ISO 14001: 1996

The average score across the 20 standards for 2003 was 3.6 (out of a possible 5). This was an improvement from the 2002 average score of 3.2. Whilst considerable progress has been made over the past 12 months a number of areas were identified for improvement and these will form the foundation of the 2004 EMS action plan.

Vegetation Dieback and Recovery



Contaminated Sites

During 2003 an additional audit, with associated training, was undertaken to meet the following objectives:

- to undertake a site-wide contaminated site audit for OTML; and
- to train members of OTML's Environment Department in accredited environmental auditing (specializing in contaminated site assessment).

The training component occurred in August and included certified environmental training, a short course in contaminated sites assessment and the use of the Niton Field-portable XRF unit. A total of eight Environment Department personnel attended the training and all participants were successful in the assessment stage at the end of the course.

The site-wide contaminated site audit was undertaken in September.
The investigation was designed to determine the extent and environmental significance of contaminated locations within the operation. The potential contaminants included hydrocarbons, copper-concentrate, gold tailings and PCB's. The identified locations are incorporated into the OTML Contaminated Sites Register and mitigation / remediation strategies have been identified for inclusion in the 2004 Environmental Action Plan.

Riverine Review

To conduct the assessment of OTML's performance within the receiving riverine environment, an independent external auditor was asked to address three questions:

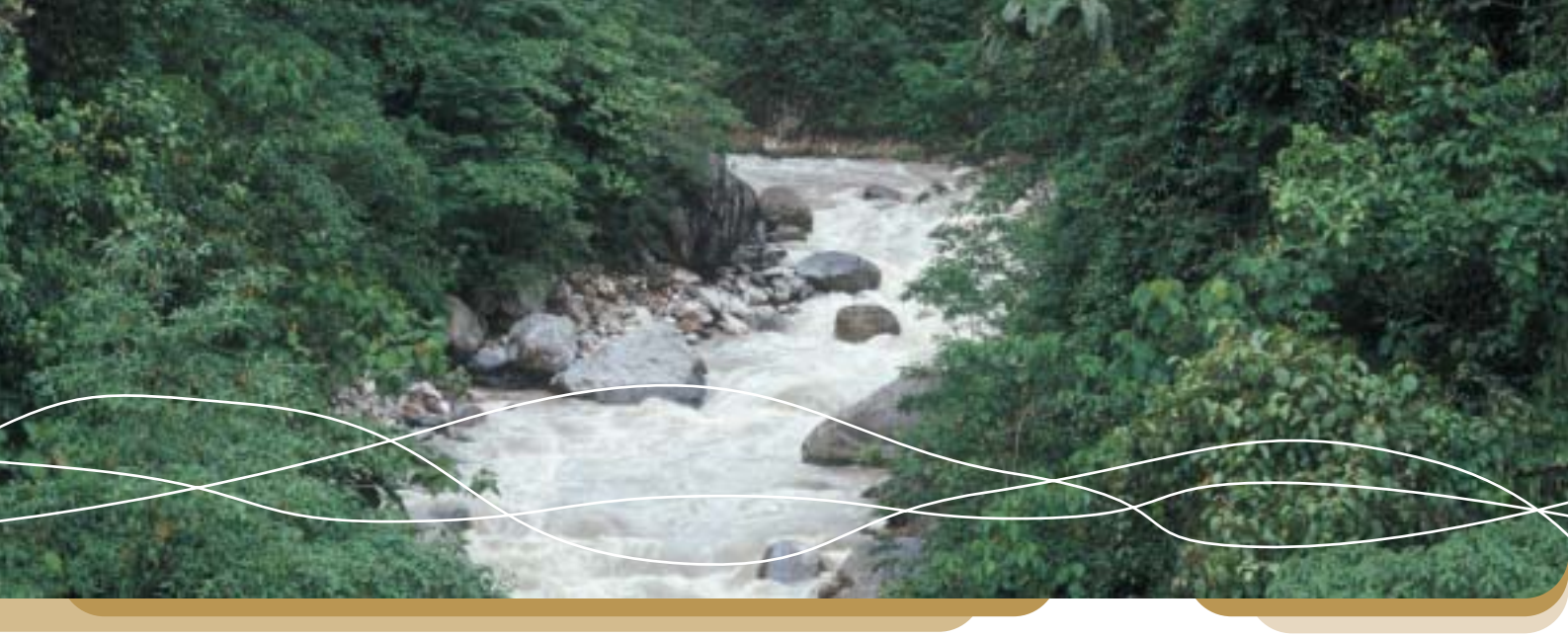
- Does OTML comply with the obligations set out in the Regime?
- Is the correct science being undertaken?
- Does the science being undertaken constitute good science?

The review recognised the extensive range of environmental management activity being undertaken and concluded that predominantly both the correct science is being undertaken to address the relevant issues and this activity constitutes sound and valid science. The review also made a number of recommendations. The main recommendation was consistent with the need to undertake the multi-compartment community survey which is being planned to commence in 2004.

Community Liaison

While OTML's Public and Community Affairs (PCA) Business Unit undertakes routine six monthly community patrols, its Environmental Community Liaison Section acts as the conduit between the communities and the Environment Department, exchanging information on results of investigations and monitoring as well as collecting community concerns and areas of uncertainty. Environmental staff assist this process by participating in the patrols, addressing landowner groups, and liaising with villagers during field trips. To further enhance this process, two environmental staff were included in the PCA community liaison training course conducted by the University of Technology staff from Lae.

Below: Yaru Pohei, OTML Environmental Liaison Officer talking to Aiambak villagers about environmental issues during one of OTML Community Relations major six monthly patrols in 2003.



Above: Ok Tedi River from Pratts Crossing, looking up towards the Star Mountains.

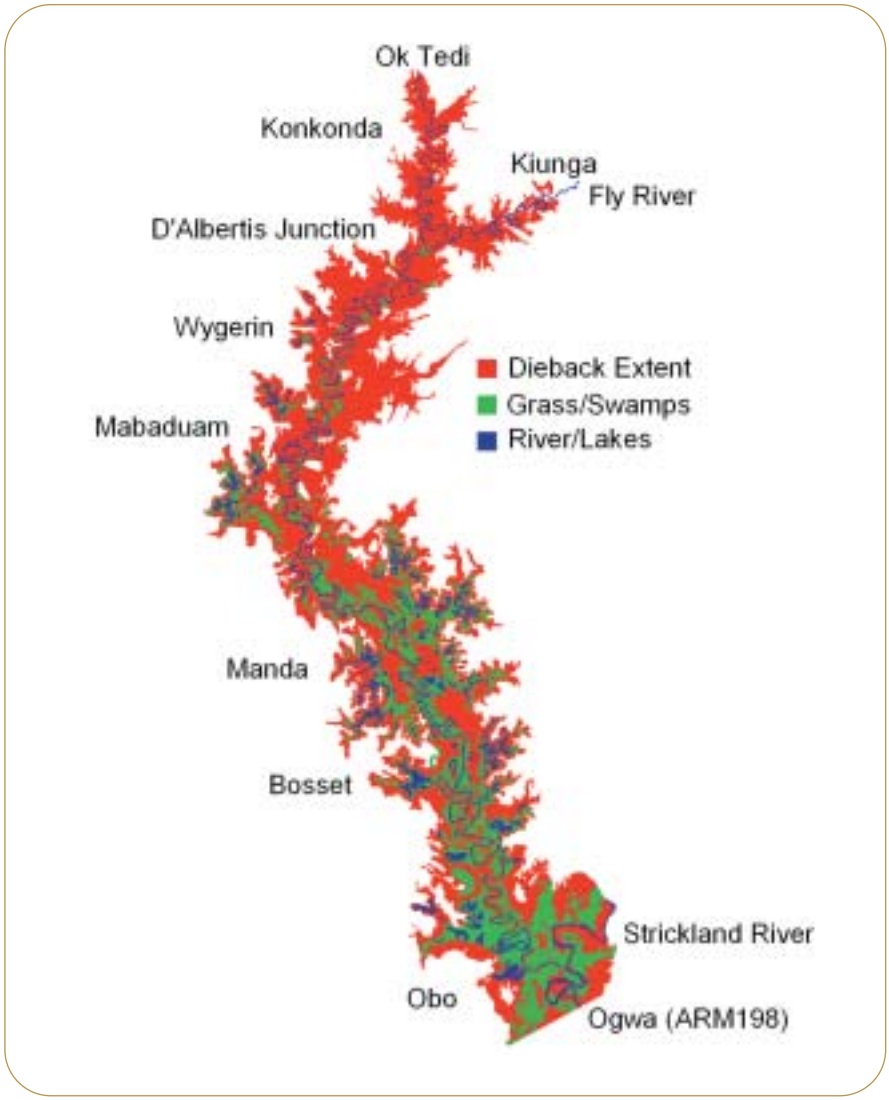
Environmental Laboratory

The majority of samples collected by OTML's Environment Department are analysed in the OTML Environmental laboratory. During 2003, this laboratory processed approximately 30,000 individual samples comprising liquid samples analysed for dissolved and particulate metals, cations, anions, suspended sediment and general water quality parameters; solid samples analysed for metals, total sulphur and various ARD parameters; and fish tissue samples analysed for metals. Ten percent of all samples are dispatched to external laboratories as part of the OTML validation process.

OTML's Environmental Laboratory retained its accreditation through PNGLAS (the PNG equivalent of the Australian NATA system) through an audit in May. The laboratory achieved this accreditation under the more stringent requirements of ISO/IEC 17025, making it one of the two laboratories within PNG to have this rating. To obtain this international laboratory accreditation standard, a laboratory must be able to demonstrate that: it operates a quality control system; it is technically competent; and that it is able to generate technically valid results.

Vegetation Dieback and Recovery

Likely (dredging to mine closure) dieback extent - Lower Ok Tedi and Middle Fly River. Graphic produced April 2003.



Some of the 394 employees who received long service awards from OTML Managing Director, Keith Faulkner.

Above: Aviation Rescue personnel go through regular training to keep fit. Here Robin Ignatius is stepping off the helicopter skids during a rappelling exercise.

ASSET PROTECTION DEPARTMENT

Star Mountain Local-Level Government [By-] Laws

The Star Mountain Local-Level Government [By-] Laws are presently under review by the Department of Provincial and Local Government Affairs. The Star Mountain Local-Level Government [By-] Laws have been integrated into the Special Purpose Authority schedule for implementation.

Rescue and Response Capabilities

The Aviation Rescue and Recovery capability was established during FY 2003 with ongoing training being conducted for teams and Hevilift pilots on a scheduled basis to maintain currency and pilot accreditation.

During November 2003 the Fire Rescue Teams were skills audited by QFRA and in December an Incident Command Course was conducted for selected Auxiliary Fire Rescue personnel from Kiunga, Mine and Mill to rectify identified Command and Control deficiencies.

During the first quarter of 2004 the Department will commence a program of training to establish a swift water rescue and recovery capability for rescue teams, particularly Kiunga and Bige.

Reserve Police

A review of the Memorandum of Understanding between OTML and the Royal Papua New Guinea Constabulary is presently being undertaken. The revised MOU will replace the existing document, which is deficient in its scope.

Single Line Pay Grading and Salary Structure

The Company and the Union agreed in September 2000 to work towards introducing a single line pay grading and salary structure [clause 15 of the OTM&AWU Agreement]. After review, and subsequent to a majority vote on the part of Award employees, the 15 level single line pay grade and annualised salary structure was introduced on 30th June 2003.

As a consequence previous hourly paid employees transferred to an annualised salary package. The term 'Award' employees is now defunct. All employees are members of the OTML Team, either as Senior National contract employees at grades PG09 and above, or National employees at Grades PG01-PG08.

Shares In Success Scheme

The Shares in Success Scheme (SISS) was rolled out to all eligible employees in December 2002 and allows Ok Tedi's permanent employees to share in the success of the Company. The OTML Charter talks about Shared Success. SISS is the reward for that success.

SISS is part of OTML incentives program. OTML incentives reward eligible employees for achieving individual and company goals. SISS provides rewards to employees for overall improvement in productivity and profitability for the Company.

Rewards under SISS are paid from a SISS Trust. Money for the SISS Trust comes from 5.2 per cent of OTML's available cash flow and is paid into the Trust at the end of each financial year, according to OTML's available cash flow position, and maybe zero for any given year.

Superannuation Fund

In October 2003, Ok Tedi Mining Limited Superannuation Fund became the first private scheme in PNG under the Superannuation Fund Act 2000.

OTML Superannuation officially operates as licensed superfund alongside other funds such as Nasfund, POSF and the Defence Force Retirement Benefit Fund.

Under Central Bank regulations, OTML Superannuation is required to nominate an administrator, a trustee Company and an investment manager in order to be granted its various licenses and authority. The superfund administrator remains as OTML. The trustee Company is OTML Superannuation Fund Limited, with a board of seven trustees who are all OTML employees.

ANZ bank was nominated and approved by Bank of PNG as the OTML Superannuation Fund investment manager, responsible for identifying and administering sound investment opportunities for the fund.

The OTML Superannuation fund has a membership of 1907. Its investments are valued at K38 million, 90 per cent of which is in treasury bills while 10 per cent is in term deposits.

HIV/AIDS Policy

A revised OTML HIV/AIDS policy was released in October 2003. The policy was put together in consultation with OTML & Allied Workers Union and is in two parts. The first states the Company's position on HIV/AIDS and the second comprises OTML's procedures that have been put in place to manage cases and prevent the spread of the virus.

The policy is non-discriminatory and ensures the safety of the individual, other employees and the public.

Other significant elements of the policy include: Pre-employment HIV testing and HIV testing with the informed consent of the persons concerned, HIV/AIDS tests in pre-employment medical tests of expatriates before entry into PNG, no discrimination of any employee on the basis of his/her HIV/AIDS status, and dissemination of information and awareness.

The National AIDS Council has commended OTML on the policy. Following the release of the revised OTML HIV/AIDS policy, 11 people including four OTML employees, were issued Certificates to conduct HIV/AIDS counselling in Tabubil and the surrounding communities. This was after they attended a HIV/AIDS Counselling workshop.

Below: Former Union President and trustee Joe Poiou, OTML Managing Director Keith Faulkner, General Secretary of the Union Tony Aki and BPNG Deputy Governor Benny Popoitai celebrate the outcome of mutual partnership at the Ok Tedi Superannuation signing ceremony.

OPERATING EXCELLENCE PROGRAM

2003 saw the Operating Excellence Program continue to return real results. The total amount of tangible benefits captured from the Operating Excellence program for 2003 was USD 4.5 million. The projects that contributed greatly to this accumulated amount are listed below along with their benefits:

Gravity Concentrator Optimisation Project This project resulted in greater amounts of gold recovered from the Knelson Concentrators located in the Mt Fubilan Mill.

Rougher Electrical Trip Minimisation Project This project resulted in modifications made that eliminated electrical trips in this area and the resulting loss of copper concentrate.

Light Tools Project The outcome of this project was to put in place restrictions, which reduced the amount of light tooling requistioned by employees.

Helicopter Usage Project This project continued to return savings from a reduction in the number of helicopter units located onsite. The Operating Excellence team continued to provide world class Six Sigma training to support the projects being carried out. From experience gathered in 2003 the Operating Excellence training strategy was modified resulting in an increase in the number of projects carried out by employees who had completed Operating Excellence Basics training. To date 450 employees have attended this training.

CORPORATE TRAINING

Corporate training has moved forward with its new structure, continuing existing training programs as well as taking a number of new initiatives.

Competitive Edge Program

Middle management training continues with the Competitive Edge Program. A total of 291 employees completed CEP courses in 2003. After considerable preparation through the year, the accreditation proposal for the CEP was submitted to the National Training Council for approval.

Trade Training

Another 30 apprentices were selected to commence in 2004, bringing the total to 117, across 13 trade categories. Since 1982 OTML has recruited 779 men and women apprentices, graduating 654 apprentices as qualified trades people.

In addition to formal training, apprentices undertook a number of practical community projects, including furniture fabrication for Rumginai Hospital, Ningerum Jail plumbing and electrical repairs, maintenance of Government housing in Tabubil, structural fabrication of the Wangbin church and electrical installations for Finalbin housing.

Post Trade TAFE Training

Continuing with its program which commenced in 1996, OTML Corporate Training delivered Diplomas in Electrical Engineering, Mechanical Engineering, Building and Construction, in partnership with Australian TAFE institutions. In addition a Certificate in Instrumentation course was conducted as a joint venture with Chevron. These programs follow on from our in house technical training.

In 2003 OTML Corporate Training became an official training centre to support the phasing out of CFC refrigerants in PNG by 2008. This initiative involves training for the replacement of CFC refrigerant with HCFC in anticipation of the UN Montreal and Kyoto Protocols. The training was set up in partnership with Sydney Institute of Technology.

Above: Benny Dennis, Instruments Technician, left, with Joel Juhombe putting theory work into practice during an electrical engineering course.

Block Courses

Approval to offer block course training was gained for Heavy Equipment Fitting in 2001 in recognition of the standard of staff and facilities at OTML.

Plans were initiated to add block course training in Building and Construction, Cabinet Making, Metal Fabrication, Electrical and Electronics, Fitting and Machining, to commence in 2004. Block course training in Instrumentation through a joint venture with Chevron PNG was also initiated.

Trade Testing

Trade testing represents a new approach to apprenticeship training, whereby people can use their existing skills and experience to enter formal trade training. This is in line with the Education Reform initiatives of 1998. In 2003 NATTB approved Metal Fabrication / Welding, adding to Carpentry / Construction Carpentry / Construction and Electrical trades. Since the beginning of this program in 2001, a total of 111 candidates have been trade tested. Plans are now in progress for Trade Testing approval up to Level II and III in all core trade areas.

Light Vehicle Driver Training

In keeping with OTML's campaign to continually lift safety performance, a Defensive Driving training program and a 4x4 Driving training program was introduced this year using an external training provider. Over 100 employees were trained during 2003.

Load Shifting Equipment

Load shifting training was fully localised in 2003, with all training programs covering 8 different pieces of equipment continued uninterrupted. A review of training and permitting procedures was initiated and to ensure efficiency and safety standard compliance, preparation was initiated for the first periodic external audit to be conducted in 2004.

First Aid

OTML's First Aid trainer successfully completed the St Johns Ambulance to Senior and Occupational First Aid Instructors course in Townsville, Australia. This accreditation makes OTML Corporate Training one of the few centres in PNG with the capacity to provide St John certified training at these levels.

Preferred Area Development and Local Traineeships

Corporate Training began pilot program for trade testing in metal and building trades and 16 Local Local trainees were rated Competent at Level 1. In addition all 16 Local Local mine operators completed their 2 year Traineeship and were employed.

The total new PAD and Local Local Traineeships offered in 2003 was 17 for training in areas as diverse as power station, clerical, motor rewind, line haul and bus drivers. Total Traineeships current within the PAD / LL program in 2003 was 47. Sponsorship and assistance to attend external training totalled 507 persons, of which 32 were fully sponsored.

Above L-R: Jack Stanley, Brian Ivosa, Gideon Francis, Managing Director Keith Faulkner, Human Resources Officer Marisa Giti, Issac Wani, Daniel Sosi, Nou Ako and Gima Gamato.

Graduate Development Scheme

The Graduate Development Scheme has been in existence since 1988 and have had 163 graduate trainees go through the two year cadetship.

This year saw a slight change in the selection process. Working closely with the universities, OTML obtains names of top ten students with B-average results or a Grade Point Average of 3.0 in each of the required disciplines. This replaced the screening process undertaken after newspaper advertisements which was found to have been costly and tedious.

The recommended students are tested while on the recruitment drive where a promotional session is staged as well. The Heads of Departments and selected Senior Lecturers are interviewed for the purpose of gauging their opinion on other significant attributes including attitude towards work and leadership qualities.

An elimination process which the line departments are a significant part of provides the short-list of a maximum of three per students per discipline.

The recruitment process still includes an intensive assessment centre where the shortlist students are brought on site for. This includes the crucial interviews with the line department involvement as well as negotiation and case study exercises. A leadership quality activity has also been built into the assessment centre.

In 2003, a total of 17 graduate trainees, seven of them female, in various disciplines were recruited. Currently in year two there are eight graduate trainees.

Prize Awards to Top Graduating Students

This year OTML is introducing an incentive scheme to encourage university students to achieve academic excellence. Starting this year, the Company is presenting awards to four outstanding degree students in four disciplines at the PNG University of Technology, University of Papua New Guinea and the Divine Word University.

The award for the top graduate in Computer Science and Mining Engineering will go to students at the University of Technology while for the best student in Geology will go to a student at the University of Papua New Guinea and the one for the outstanding Accounting & Business Studies student will go to a graduate at the Divine Word University.

Each award consists of a plaque, a cash reward and automatic offer of placement in the Graduate Development Scheme.

The criteria for selection include best overall academic results and good leadership qualities to the student who is in their first degree at bachelor level. This award is only available to citizen students.

Commercial

MARKETING

Copper reached its lowest price for many years (US$0.59 per pound) in November 2001 and stayed in the US$0.60 per pound to US$0.75 per pound range until mid 2003 when it commenced a steady climb towards US$1.00 per pound. The last time copper was US$1.00 per pound was 1997. One of the reasons for the increase in price in the second half of 2003 can be seen in the chart below which shows a corresponding decrease in copper metal stocks available for consumption in London Metal Exchange warehouses. After being in the doldrums for a number of years, usage of copper had begun to grow strongly in 2003.

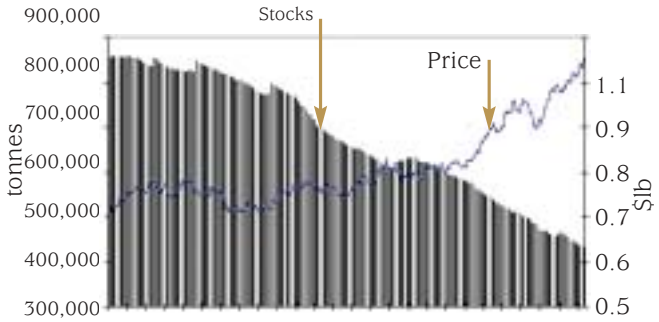
Dramatic increases in Chinese demand were and still are driving the market. Consumption in China was 24.1% higher in 2003 than in 2002 and it has now overtaken the United States as the largest consumer of copper in the world. To further strengthen the market base already laid by China in 2003, demand growth began to improve in North America, Europe and the rest of Asia, making the outlook for the coming years as positive as it has been for a long time.

As a producer of gold bearing copper concentrate, there are other market factors influencing Ok Tedi's financial position (although the copper price is most important). One is the treatment and refining charges Ok Tedi pays to smelters. This charge continued to drop through 2003 as mining companies failed to keep up with growing smelter demand, until an Ok Tedi sale in December was concluded at the lowest treatment charge the market had ever seen. Also, the gold price had a significant influence on performance in 2003. The price broke through US$400 per ounce in November 2003 for the first time since briefly reaching this level in February 1996.

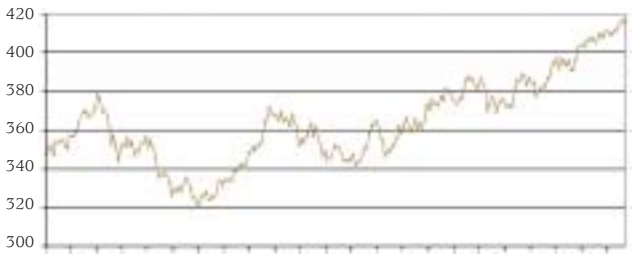
Ok Tedi is fortunate in being able to produce significant amounts of gold in copper concentrate but also as a gravity concentrate, a product which is becoming increasingly popular with a number of its Asian smelter customers. 66.5 tonnes of this valuable material were produced and sold during 2003.

But Ok Tedi's main market is the Asian smelters, principally those located in Japan, the Republic of Korea, the Philippines and India and to a lesser degree in Europe, particularly Germany. In addition, a number of contracts with various trading companies provide access to many copper smelters in China. Trader customers also supply Ok Tedi concentrate to other smelters in Asia. Over 800,000 tonnes of concentrate were shipped to customers in 2003 containing almost 230,000 tonnes of copper, 580,000 ounces of gold and 1,214,000 ounces of silver.

London Metals Exchange Copper Price and Stocks 01/01/03 - 31/12/03



Gold Price 01/01/03 - 31/12/03



PUBLIC AND COMMUNITY AFFAIRS

Community Mine Continuation Agreement

Delivery of community projects under the CMCA continues to progress with many villages choosing long term investments such as permanent housing and community facilities.

Agriculture projects such as poultry and vanilla also are popular although people are constantly reminded that these projects may not be viable on a commercial scale.

Class Action

In January 2004, the Victorian Supreme Court dismissed the class action proceeding former South Fly MP Gabia Gagarimabu led against OTML.

In December 2003, the same court dismissed a separate proceeding, which was not a class action, initiated by Rex Dagi. The Dagi case was dismissed by consent.

OTML can now go on with operating the mine to the benefit of all parties, including nearly 50,000 people from more than 150 villages in Western Province who had signed the Community Mine Continuation Agreement (CMCAs) with OTML and the PNG Government.

The class action dismissal is a good outcome for the people of Western Province, for Papua New Guinea and for OTML.

Ok Tedi Dredge

OTML and the leaders of seven clans who own the West Bank of the Ok Tedi River where Bige dredging and rehabilitation operations are located signed the LMP 79 Lease Compensation Agreement in January 2004. LMP 79 covers 1504 hectares and is primarily for sand stockpile from the dredging operations. It will also be used for rehabilitation and dredging activities and some support infrastructure. The negotiation process began in 2000 and was undertaken in different stages with different people.

Below: Manda villagers of the Middle Fly region.

Above: OTML's river port of Kiunga.

Agriculture Field Days

The Agriculture Field Days, held for a week, was a show-case of the work OTML departments involved in agricultural activities, fisheries, forestry, women/ gender, and business development do.

External exhibitors including Farmset, DAL, North Fly Rubber and Kiunga Vocational Centre also displayed their products and services. The aim of the Field Days was to help employees plan for life after mine closure. The opportunity was particularly for employees in core functions - the mine and mill - to see and learn what they could do when they returned to their home provinces. Employees saw various displays and exhibitions set up by different stall holders at the Basketball Stadium and visited the Agriculture Centre.

Mine Closure Plan

A Draft Mine Closure Plan was submitted to the Government in December 2002 in accordance with the requirements of the Ok Tedi Mine Closure and Decommissioning Code 2001. The Minister for Mining approved the plan in August 2003.

Incremental development of the Mine Closure Plan has been ongoing in preparation for submission of an updated plan in December 2004.

Specifically OTML Environment Department has been developing the Rehabilitation Plan in consultation with the Government Department of Environment.

OTML chief engineer has developed detailed mine closure decommissioning costs which were submitted to the government for approval in December 2003.

A Community Consultation strategy has been developed by OTML and government officers. OTML Public and Community Affairs Business Unit has been restructured and the mine closure planning coordination transferred to the General Manager Business Support. On going support from the Public and Community Affairs Business Unit is provided by a mine closure coordination committee, particularly in community consultation, and preparation of the social and economic component of the mine closure plan.

Above: Replacing of conveyor belt at the inpit crusher.

RESOURCE AND RESERVE STATEMENT

The information in the tables below relates to Mineral Resources and Ore Reserves based on information complied by Michael Humphreys and Andrew Sharp (respectively) who are Members of the Australian Institute of Mining and Metallurgy.

Michael Humphreys and Andrew Sharp are full-time employees of OTML. Michael Humphreys and Andrew Sharp have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity to which they are undertaking to qualify as a competent person as defined in the 1999 edition of the Australasian code for reporting of Mineral Resources and Ore Reserves. Michael Humphreys and Andrew Sharp consent to the inclusion in the table of the matters based on their information in the form and context in which it appears.

Resource and Reserve Statement as at 31st December 2003

Ore Resource				Ore Reserve				Conversion
Category	million tonnes	Cu%	Au g/t	Category	million tonnes	Cu%	Au g/t	Reserve /Resource
Measured	432	0.87	0.97	Proven	215	0.91	0.97	50%
Indicated	216	0.55	0.65	Probable	31	0.57	0.66	15%
Inferred	15	0.45	0.46	-	-	-	-	0%
Total	663	0.76	0.85	Total	246	0.87	0.93	37%

Resource and Reserve Statement as at 30th June 2002

Ore Resource				Ore Reserve				Conversion
Category	million tonnes	Cu%	Au g/t	Category	million tonnes	Cu%	Au g/t	Reserve /Resource
Measured	471	0.87	0.96	Proven	254	0.90	0.94	54%
Indicated	218	0.55	0.65	Probable	34	0.57	0.67	16%
Inferred	16	0.46	0.46	-	-	-	-	0%
Total	704	0.76	0.85	Total	288	0.85	0.91	41%

Above: Rose Konie.

Financial Statements

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE EIGHTEEN MONTHS ENDED 31 DECEMBER 2003 - US DOLLAR

C O N T E N T S

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Special purpose audit opinion

In our opinion,

a) the special purpose consolidated financial report of Ok Tedi Mining Limited:
   - gives a true and fair view of the financial position of Ok Tedi Mining Limited and its subsidiaries at 31 December 2003, and of their performance for the eighteen month period ended on that date using the US Dollar as the measurement currency, and
   - except for using the US Dollar as the measurement currency, is presented in accordance with International Accounting Standards and other generally accepted accounting practice in Papua New Guinea

b) proper accounting records have been kept by the group as far as appears from our examination of those records; and

c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the rest of our audit report.

SCOPE

Basis of preparation

Ok Tedi Mining Limited uses the PNG Kina as the measurement currency for its general purpose financial statements prepared for statutory reporting purposes. These special purpose US Dollar financial statements have been prepared by Ok Tedi Mining Limited at the specific request of certain shareholders. They have been prepared as if the US Dollar was the measurement currency of the Company and in particular in accordance with note 1 in the financial report. Accordingly, these special purpose financial statements are not a translation of the general purpose financial statements prepared using PNG Kina as the measurement currency, and in that respect do not comply with International Accounting Standards.

The financial report and directors' responsibility

The special purpose consolidated financial report comprises the balance sheet, profit and loss account, statement of changes in equity, statement of cash flows, and the accompanying notes to the financial statements for Ok Tedi Mining Limited and its subsidiaries (the group), using the US Dollar as the measurement currency, for the eighteen month period ended 31 December 2003. The group comprises both the Company and the entities it controlled during that year.

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS CONTINUED

Audit Approach

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

We performed procedures to assess whether in all material respects the special purpose financial report presents fairly, using the US Dollar as the measurement currency, International Accounting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the group's financial position, and of its performance as represented by the results of its operations and cash flows.

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

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

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

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

Independence

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

JW Sisam

JW Sisam
Registered under the Accountants Act 1996
Lae

2004

Ok Tedi Mining Limited and its Subsidiaries Special Purpose Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Eighteen Months Ended 31 December 2003

	Notes	31 Dec 2003 US$'000	30 June 2002 US$'000
OPERATING REVENUE:			
Sales Revenue	2(a)	749,407	433,463
Other Income	2(b)	573	1,285
		749,980	**434,748**
Deduct			
Operating Costs	3(a)	684,839	443,800
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		65,141	(9,052)
Net Finance Costs	3(b)	(5,029)	(3,975)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX		**60,112**	**(13,027)**
Income Tax Expense	4	(37,708)	(14,503)
NET PROFIT/(LOSS) AFTER INCOME TAX		**22,404**	**(27,530)**

This statement is to be read in conjunction with the notes on pages 36 to 53.

Ok Tedi Mining Limited and its Subsidiaries Special Purpose Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Eighteen Months Ended 31 December 2003

	Notes	Share Capital US$'000	Hedge Reserve US$'000	Retained Earnings US$'000	Total US$'000
Balance at 30 june 2001		285,820	-	274,303	560,123
Net Loss for the year		-	-	(27,530)	(27,530)
Dividends	20	-	-	(23,792)	(23,792)
Recognition of fair value of derivative financial instruments on adoption of IAS 39	26	-	1,401	-	1,401
Deferred tax on recognition	26	-	(420)	-	(420)
Change in Fair Value		-	(853)	-	(853)
Realisation of derivative financial instruments	26	-	(548)	-	(548)
Realisation of deferred tax		-	420	-	420
Balance at 30 June 2002		**285,820**	**-**	**222,981**	**508,801**
Net Profit for the 18 months		-	-	22,404	22,404
Dividends	20	-	-	(125,970)	(125,970)
Change in Fair value of derivative financial instruments	26	-	(16,580)	-	(16,580)
Deferred tax asset	16	-	4,974	-	4,974
Balance at 31 December 2003		**285,820**	**(11,606)**	**119,415**	**393,629**

This statement is to be read in conjunction with the notes on pages 36 to 53.

Ok Tedi Mining Limited and its Subsidiaries Special Purpose Financial Statements

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Notes	31 Dec 2003 US$'000	30 June 2002 US$'000
CURRENT ASSETS:			
Cash and Short Term Investments	5	88,019	71,247
Receivables	6	36,777	34,715
Inventories	7	70,743	62,790
Other	8	12,875	9,342
Derivative Financial Instruments	26	156	-
TOTAL CURRENT ASSETS		**208,570**	**178,094**
NON-CURRENT ASSETS:			
Inventories	9	-	-
Property, Plant and Equipment	10	209,476	276,142
Pre-production Expenditure	11	95,445	127,276
Restoration & Rehabilitation	12	53,081	65,330
Other	13	27,632	37,539
Financial Assurance Fund	24	22,852	-
Derivative Financial Instruments	26	111	-
TOTAL NON-CURRENT ASSETS		**408,597**	**506,287**
TOTAL ASSETS		**617,167**	**684,381**
CURRENT LIABILITIES:			
Creditors	14	28,459	22,029
Dividends Payable		17,330	8,038
Income Tax Payable		12,163	10,798
Provisions	15	14,755	7,123
Derivative Financial Instruments	26	2,474	-
TOTAL CURRENT LIABILITIES		**75,181**	**47,988**
NON-CURRENT LIABILITIES:			
Derivative Financial Instruments	26	19,983	-
Deferred Income Tax Liability	16	6,016	12,587
Provisions	17	10,021	6,963
Restoration and Rehabilitation	18	112,337	108,042
TOTAL NON-CURRENT LIABILITIES		**148,357**	**127,592**
TOTAL LIABILITIES		**223,538**	**175,580**
NET ASSETS		**393,629**	**508,801**
SHAREHOLDERS' EQUITY:			
Issued Capital	19	285,820	285,820
Hedge Reserve		(11,606)	-
Retained Earnings		119,415	222,981
TOTAL SHAREHOLDERS' EQUITY		**393,629**	**508,801**

For, and on behalf of, the board

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DIRECTOR **DIRECTOR**

This statement is to be read in conjunction with the notes on pages 36 to 53.

Ok Tedi Mining Limited and its Subsidiaries Special Purpose Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOW

For the Eighteen Months Ended 31 December 2003

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	634,141	453,235
Payments to suppliers and employees	(384,704)	(337,353)
Interest received	1,135	960
Finance charges paid	(1,716)	-
Royalty payments	(12,674)	(6,874)
Mining levy paid	(17,603)	(13,452)
Amounts paid to compensation trust fund	(3,390)	(2,952)
Amounts paid under Mine Continuation Agreements	(8,264)	-
Income tax paid	(40,520)	(18,962)
Net Cash Flows From Operating Activities	**166,405**	**74,602**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(11,943)	(9,353)
Proceeds from sale of property, plant and equipment	144	888
Net Cash Flows From Investing Activities	**(11,799)**	**(8,465)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(116,678)	(15,754)
Net Cash Flows From Financing Activities	**(116,678)**	**(15,754)**
Net (decrease)/increase in cash held	15,076	50,383
Cash at the beginning of the period	71,247	21,031
Foreign exchange effect on foreign currency balances	1,696	(167)
CASH AT THE END OF THE PERIOD	**88,019**	**71,247**
CASH COMPRISES:		
Cash and bank balances	**88,019**	**71,247**

This statement is to be read in conjunction with the notes on pages 36 to 53.

Ok Tedi Mining Limited and its Subsidiaries Special Purpose Financial Statements
CONSOLIDATED STATEMENT OF CASHFLOW (continued)
For the Eighteen Months Ended 31 December 2003

RECONCILIATION OF NET PROFIT AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
Net profit/(loss) after taxation	22,404	(27,530)
Add back non cash items and reclassified amounts:		
Depreciation and amortisation	102,448	71,796
Amortisation - Restoration and Rehabilitation	12,249	6,441
Amortisation - Lower Ok Tedi Compensation	803	508
Non cash finance charges	4,472	2,531
Unrealised hedging losses (net)	4,803	-
Net (profit)/loss on sale of Property, Plant & Equipment	9,017	(836)
Net exchange (gain)/loss	(1,250)	172
Amounts credited to provisions against assets	3,150	2,350
Changes in assets and liabilities:		
(Increase)/Decrease in trade and other debtors	(1,688)	23,828
(Increase)/Decrease in non current receivables	5,093	3,826
(Increase)/Decrease in inventories	(11,012)	11,239
Increase/(Decrease) in trade and other creditors	6,431	(11,896)
Increase/(Decrease) in provisions	8,096	1,160
Increase/(Decrease) in income tax provision	1,520	7,328
Increase/(Decrease) in deferred tax provision	(131)	(16,315)
Net Cash Inflows from Operating Activities	**166,405**	**74,602**

This statement is to be read in conjunction with the notes on pages 36 to 53.

1. PRINCIPAL ACCOUNTING POLICIES

In accordance with SIC - 19 - Reporting Currency - Measurement and Presentation, Ok Tedi Mining Limited adopted the PNG Kina as measurement currency for its general purpose financial statements prepared for statutory reporting purposes. These special purpose financial statements have been prepared as if the US Dollar was the measurement currency of the Company except for the tax expense and balances relating to tax that is based on the Kina financial statements. Accordingly these special purpose financial statements are not a translation of the general purpose financial statements prepared using PNG Kina as measurement currency.

In all other respects these special purpose financial statements comply with International Accounting Standards and other generally accepted accounting practices in Papua New Guinea.

(a) Basis of Accounting

The accounts have been prepared in accordance with generally accepted accounting principles in Papua New Guinea on the basis of historical costs and do not take into account changing money values or current valuations of non-current assets, other than for most financial instruments which are measured at fair value. Cost is based on the fair values of the consideration given in exchange of assets. The accounting policies have been consistently applied, unless otherwise stated.

(b) Revenue Recognition

Revenue from the sale of copper concentrate is brought to account at the time of shipment to the buyer when risk and control are transferred to the buyer. The revenue is based on provisional weights, assays and prices and is adjusted when actual values are determined and invoiced in accordance with the terms and conditions of the relevant sales contract.

Unfinalised shipments at balance date are valued using metal prices, weights and assays known at that date. Where, in accordance with the terms of the sales contract, prices have not been finalised, sales values have been determined using spot prices at year end.

(c) Mineral Hedging

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. On the date a derivative contract is entered into, the Company designates the contract as a hedge against specific future production. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged.

Changes in the fair value of derivatives that are designated against future production, qualify as cash flow hedges and are deemed highly effective, are recognised in equity. Amounts deferred in equity are transferred to the income statement and classified as revenue in the same periods during which the hedged sales affect the income statement.

Certain derivative instruments, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted production is ultimately recognised in the income statement. However, if the committed or forecasted production is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific forecast concentrate sales. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

In assessing the fair value of non-traded derivatives and other financial instruments, the Company obtains a valuation from an independent external party.

(d) Depreciation and Amortisation

Property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated economic lives or the life of the mine, whichever is shorter. Capital spare parts are depreciated over the life of the equipment for which they are purchased.

The range of estimated economic lives of the major asset categories are:

Buildings	5 years to life of mine
Automotives and other equipment	4 - 10 years to life of mine
Mobile Mining Equipment	4 years to life of mine
Support facilities	5 years to life of mine
Processing equipment	10 years to life of mine

Profits and losses on disposal of fixed assets are brought to account in the determination of operating profit.

Pre-Production Expenditure

Pre-production expenditure represents the net cost incurred by the Company prior to the commencement of commercial production on 31 January 1985. Such expenditure is being amortised on a straight-line basis over the life of the mine

(e) Life of Mine

Mining and processing copper ore operations are estimated to continue until the end of 2010.

(f) Restoration and Rehabilitation

In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', a provision is raised for anticipated expenditure to be made on restoration and rehabilitation to be undertaken after mine closure. These costs may include the costs of dismantling and demolishing of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas. The amount of any provision recognised is the full amount that has been estimated based on current costs to be required to settle present obligations, discounted using a pre-tax risk-free interest rate of 3.0%.

Estimates of future cost are reassessed annually and due to the long period before estimated mine closure are subject to uncertainty.

Where future economic benefits are probable a corresponding asset is raised and subsequently amortised using the straight line method.

The Company's restoration, rehabilitation and environmental expenditure policy identifies the environmental, social and engineering issues to be considered and the procedures to be followed when providing for costs associated with the site closure. Site rehabilitation and closure involves the dismantling and demolition of infrastructure not intended for subsequent community use, the removal of residual materials and the remediation of disturbed areas. Community requirements and long term land use objectives are also taken into account.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

(g) Compensation

The Company has signed various compensation agreements with the landowners and other surrounding communities affected by the mine. Compensation packages are denominated in local currency and are payable over the life of mine.

The amounts payable annually are divided over the twelve months period and provided for in the balance sheet and expensed to the profit and loss in the respective year. Payments are off-set against the provisions when they are due. Where payments have to be made regardless of mine continuation, a full provision is created against future expected payments using the same principles as in note 1 (f).

(h) Inventories

Copper concentrate and product in process are physically measured or estimated and valued at the lower of cost and net realisable value. Cost is derived on an absorption costing basis which includes fixed and variable overheads and depreciation. Net realisable value is the amount estimated to be obtained from the sale of inventory in the normal course of business, less any costs anticipated to be incurred prior to sale.

Spare parts and consumables are valued at weighted average cost into store, excluding freight. An appropriate provision for stock obsolescence is raised in respect of slow moving inventory.

(i) Foreign Exchange

Transactions denominated in foreign currency are translated at a rate of exchange which approximates the rate of exchange at the date of the transaction. Amounts owing to and by the Company denominated in foreign currencies at balance date are translated at exchange rates current at that date.

The rates used at 31 December 2003 for United States dollars and Australian dollars were 0.3045 and 0.4054 equal to one Kina respectively (June 2002 - 0.2520 and 0.4382 respectively).

Realised and unrealised foreign exchange variations on revenue accounts are recognised in the income statement.

(j) Income Tax

The Company provides for all taxes estimated to be payable on net profit for the period. It prepares and lodges its return using PNG Kina as the measurement currency.

The Company recognises deferred taxes for all deductible and taxable temporary differences between the value for income tax purposes of assets and liabilities at balance date and their corresponding book values, on the basis of the tax rates expected to apply when these differences are extinguished.

Deferred tax assets arising from deductible temporary differences and any tax losses carried forward are recognised to the extent that it is probable that they can be utilised against future taxable profit.

Income tax expense in the statement of profit and loss comprises the estimated tax payable and the movement in temporary deferred tax balances.

(k) Employee Benefits

(i) **Wages and salaries, annual leave and sick leave**. Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) **Long service leave**. A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(l) Retirement Benefits

The Company contributes to defined contribution schemes and contributions are charged direct to the profit and loss account when payable.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

(m) Roadco User Charge

The total commitment under the Roadco agreement, for use of the Tabubil Kiunga road during the life of the Mine, was fully prepaid in August 1995. The prepayment is being charged to the profit and loss account on a straight-line basis over the remaining life of the mine.

(n) Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash includes cash at bank and on hand, net of overdraft, and deposits held at call with banks.

(o) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors, derivative financial instruments and borrowings. These instruments are, generally, carried at their estimated fair value. For example, receivables are carried net of the estimated doubtful receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Where possible, financial assets are supported by collateral or other security. These arrangements are described in the individual policy statements associated with each item.

(p) Use of Estimates

The preparation of financial statements in accordance with International Accounting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant estimates and assumptions relate to the long term copper and gold price, mineral reserves and remaining mine lives, provision for restoration and rehabilitation obligations, recoverability of long-lived assets (including pre-production costs) and depreciation. Actual results could differ from those estimates and may affect amounts reported in future periods. Management believes that the estimates are reasonable.

(q) Significant Risks and Uncertainties

In estimating the remaining life of the mine for the purpose of amortisation calculations, due regard is given to the volume of remaining economically recoverable reserves but not to limitations that could arise from the potential for changes in technology, demand and other issues, such as early mine closure. These are inherently difficult to estimate and this uncertainty can lead to a financial limitation on the bases of amortisation adopted and will be reviewed annually under prevailing circumstances.

Major costs being amortised over the existing mine life that would have a significant financial impact should early mine closure eventuate are:

	Unexpired costs	
	31 Dec 2003	30 June 2002
	US$'000	US$'000
Property, plant and equipment	209,476	276,142
Preproduction costs	95,445	127,276
Restoration and rehabilitation	53,081	65,000
Lower Ok Tedi (LOTL) Compensation	3,733	4,063
Roadco prepayment	24,593	30,267
Total unexpired costs	**386,328**	**498,606**

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

(r) Impairment of Assets

Impairment of assets are recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is measured as the higher of net selling price and value in use. Value in use for individual assets is calculated by discounting future cash flows using a risk adjusted pre-tax discount rate.

(s) Comparative Figures

Comparative figures have been amended where appropriate to comply with changes in presentation adopted in the current period.

(t) Borrowing Costs

Prior to the commencement of commercial production in 1985, the amount of interest costs eligible for capitalisation was based on the actual interest costs incurred because the borrowings were incurred to fund development of the mine property. Capitalisation of borrowing costs ceased following the commissioning of the assets upon commercial production. These are amortised using the straight line basis over the life of the mine. Borrowing costs are expensed when incurred. Interest is expensed on the effective interest method. Facility fees are amortised over the period of the facility.

(u) Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership are assumed by the Company, are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised over their useful lives. Lease payments are allocated between the reduction of the lease liability and the interest expense for the period.

Operating lease payments, where substantially all the risks and benefits remain with the lessor, are expensed as incurred.

(v) Consolidation

The subsidiary undertakings and special -purpose entities for which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operation are consolidated. They are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All inter-entity transactions, balances and unrealised gains and losses on transactions between group companies are eliminated

In the Company's financial statements, investments in subsidiaries are stated at the lower of cost or recoverable amount.

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
2.(a) SALES REVENUE		
Copper	494,170	299,892
Gold	254,856	128,881
Silver	6,285	4,142
	755,311	432,915
Gains (losses) on derivative financial instruments (refer note 26)	(5,904)	548
	749,407	**433,463**
2.(b) OTHER INCOME		
Dispatch earned	-	206
Reimbursement of commitment fees:		
PNG Sustainable Development Program Company Ltd	492	-
Other	81	243
	573	**449**
3.(a) OPERATING COSTS		
Changes in inventories of product on hand and in process (increase)/decrease	(2,735)	1,954
Operating costs, external charges and materials	214,976	120,172
Contractors and consultants	106,290	67,498
Consumables	117,608	75,148
Services and others	66,274	60,483
Salaries, wages and associated staff costs	57,908	39,800
Loss/(profit) on sale of non current assets	9,017	(836)
Depreciation of property, plant and equipment	79,521	55,887
Amortisation of pre-production expenditure	22,928	15,909
Amortisation of restoration and rehabilitation asset	12,249	6,441
Amortisation of Lower Ok Tedi compensation asset	803	508
	684,839	**442,964**
Included in operating profit before tax are the following items:		
Auditor's remuneration - auditing	121	60
- other services	31	24
Charge to provision for employee benefits	4,623	4,884
Charge to provision for obsolete stock	3,059	3,508
Roadco user charge amortisation	5,675	3,782
Charge to provision for compensation	3,781	2,455
Charge to provision for doubtful debts	91	2
Donations	67	22
Charge to provision for Community Mine Continuation Agreements (CMCA)	6,009	-
Royalties paid/payable	7,962	4,237
Mining levy paid/payable	17,530	11,834
Provision for employee incentives	6,939	-
Legal fees payable	1,352	-
Net foreign exchange (gains)/loss	9,426	(3,547)
Operating lease expense	57,620	30,041

	Notes	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
3. (b) FINANCE COSTS			
Interest income		(1,136)	(960)
Realisation of discount on long term provisions:			
Compensation		178	150
Restoration & Rehabilitation		4,294	2,381
Finance charges		1,693	2,404
		5,029	**3,975**
4. INCOME TAX EXPENSE / (BENEFIT)			
The prima facie tax charge on the profit for the period is reconciled to the income tax expense as follows:			
Profit/(loss) for the period		60,112	(13,027)
Income tax on the profit for the period at 30%		18,034	(3,908)
Tax effect of permanent differences:			
Non-deductible items		13,503	16,561
Non-taxable income		(78)	-
Under / (Over) provision in prior years		6,377	1,920
Double deduction - staff training		(128)	(70)
		37,708	**14,503**
Tax expense comprises:			
Income tax - current year		46,627	24,211
- prior year adjustments		(3,426)	2,059
Deferred tax- adjustments - exchange rate		(2,872)	119
- current year		(1,257)	(11,695)
- prior year adjustment		(1,364)	(191)
		37,708	**14,503**
5. CASH AND SHORT TERM INVESTMENTS			
Cash at bank and on hand		70,689	63,209
Dividends declared yet to be disbursed		17,330	8,038
		88,019	**71,247**

		31 Dec 2003 US$'000	30 June 2002 US$'000
6.	**RECEIVABLES (CURRENT)**		
	Accounts receivable - trade	32,644	32,080
	Accounts receivable - sundry	4,292	2,691
		36,936	34,771
	Less: Provision for doubtful debts (refer note below)	159	56
	Total Current Receivables	**36,777**	**34,715**
	Provision for doubtful debts		
	Opening balance	56	140
	Additional provision	91	2
	Exchange variance	12	-
	Write-offs applied to provision	-	(86)
		159	**56**
7.	**INVENTORIES (CURRENT)**		
	Consumables:		
	Spare parts and consumables	30,472	27,299
	Goods in transit	7,998	5,957
		38,470	33,256
	Concentrate:		
	Product in process	6,636	6,512
	Product on hand	25,637	23,022
		32,273	29,534
		70,743	**62,790**
8.	**OTHER ASSETS (CURRENT)**		
	Prepayments	12,295	8,909
	Home Ownership Scheme loans receivable	580	433
		12,875	**9,342**
9.	**INVENTORIES (NON-CURRENT)**		
	Spare parts and consumables	6,201	3,142
	Less: Provision for obsolete stock	6,201	3,142
	Total Non-Current Inventories	-	-
	Provision for obsolete stock		
	Opening balance	3,142	164
	Provisions created	3,059	3,508
	Less: Inventory write-offs applied to provision	-	(530)
	Closing balance	**6,201**	**3,142**

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US$'000	Plant Machinery and Equipment US$'000	Capital Works in Progress US$'000	Total US$'000
30 Jume 2002				
Opening cost	312,818	769,308	4,267	1,086,393
Opening accumulated depreciation	(218,529)	(591,722)	-	(810,251)
Opening net book amount	94,289	177,586	4,267	276,142
Additions	-	-	11,718	11,718
Transfer from Capital Works in Progress	134	14,446	(14,580)	-
Disposals and adjustments	-	(360)	1,497	1,137
Depreciation charge	(16,999)	(62,522)	-	(79,521)
Net book value at 31 December 2003	**77,424**	**129,150**	**2,902**	**209,476**
Cost	312,951	777,461	2,902	1,093,314
Accumulated depreciation	(235,527)	(648,311)	-	(883,838)
Net book value at 31 December 2003	**77,424**	**129,150**	**2,902**	**209,476**

In accordance with the Mining (Ok Tedi Agreement) Act the Independent State of Papua New Guinea ('the State') has the right, at any time prior to the closure of the mine, to acquire certain infrastructure fixed assets. Notwithstanding such acquisition the Company shall have the right to use and priority of use of these facilities. The accounting written down value of these fixed assets is US$86,990,612 (30 June 2002: US$107,065,369). At the time that these accounts were prepared the Company has not received, and does not expect to receive, notice that the State intends to acquire any of the assets concerned.

11. PRE-PRODUCTION EXPENDITURE

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
Opening net book amount	127,276	146,817
Disposals and adjustments	(8,903)	-
Reclassification - cost	-	5,279
Reclassification - accumulated depreciation	-	(8,911)
Amortisation	(22,928)	(15,909)
	95,445	127,276
Cost	421,720	461,616
Accumulated amortisation	(326,275)	(334,340)
Net book value at 31 December 2003	**95,445**	**127,276**

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
12. RESTORATION AND REHABILITATION ASSET		
Opening net book amount	65,330	45,430
Re-assessment of expected realisation and rehabilitation costs	-	26,341
Provision for amortisation	(12,249)	(6,441)
	53,081	65,330
Cost	84,631	84,631
Accumulated amortisation	(31,550)	(19,301)
Closing balance	53,081	65,330
13 OTHER ASSETS (NON-CURRENT)		
Roadco prepayment {refer note 1(m}	20,809	26,484
Home Ownership Scheme loans	987	1,027
Advance to Starwest (A)	1,500	4,500
Prepaid Lease Cost	603	932
LOTL Compensation asset (B)	3,733	4,063
Prepaid WestLB facility fee	-	533
Total Other Assets Non-Current	**27,632**	**37,539**

A. This advance is secured under an operating lease for Hydraulic Excavators and is repayable in equal installments of US$166,667 with the final installment payable in 2005. The current portion of the advance is $2.0million and is included in Accounts Receivable - sundry.

B. This asset was created when a provision was created for all the payments in terms of the Lower Ok Tedi compensation agreement. The compensation payments give the Company the benefit of future mining. The balance is depreciated over the life of mine.

14. CREDITORS (CURRENT)		
Current (unsecured)		
Accounts payable - trade	25,146	19,632
Accounts payable - other	3,313	2,397
	28,459	**22,029**
15. PROVISIONS (CURRENT)		
Employee entitlements (Refer note 17)	5,081	2,919
Compensation provision - 8th Supplemental (refer Note 17)	2,740	1,065
- Lower Ok Tedi (LOTL) (refer Note 17)	622	617
Mine Continuation Agreement Provision (refer 15a)	761	2,522
Employee Incentives	5,551	-
Total Current Provisions	**14,755**	**7,123**
15.(a) MINE CONTINUATION AGREEMENT (CURRENT)		
Opening balance	2,522	-
Provisions created	6,007	2,522
Less: Payments made against the provision	(8,265)	-
Exchange gain/(loss)	497	-
Closing balance	**761**	**2,522**

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
16. DEFERRED TAX (NON CURRENT)		
Provisions	(20,624)	(14,641)
Prepayments / Consumable stock	16,670	12,110
Fixed assets	14,742	17,793
Trading stock tax valuation	968	985
Hedging	(4,974)	-
Others	(766)	(3,660)
	6,016	**12,587**
17. OTHER PROVISIONS (NON CURRENT)		
Employee Entitlements	5,391	3,606
Lower Ok Tedi Compensation	3,242	3,357
Employee Incentive	1,388	-
Total Other Provision (Non Current)	**10,021**	**6,963**
Employee Benefits (Current and Non current)		
Opening balance	6,524	5,455
Provisions created	4,623	4,884
Less: Payments made against the provision	(2,037)	(3,046)
Exchange gain/(loss)	1,362	(769)
Closing balance	10,472	6,524
Current (Refer note 15)	5,081	2,919
Non Current	5,391	3,605
The closing balance consists of current and non-current provisions	**10,472**	**6,524**
Compensation provision (Current and Non current)		
Opening balance	5,039	6,302
Provisions created	3,781	2,455
Less: Payments made against the provision	(3,390)	(2,952)
Exchange gain/(loss)	1,174	(766)
Closing balance	**6,604**	**5,039**
Current- 8th Supplemental and Lower Ok Tedi (refer note 15)	3,362	1,682
Non current - Lower Ok Tedi Compensation	3,242	3,357
The closing balance consists of current and non-current provisions	**6,604**	**5,039**
18. RESTORATION AND REHABILITATION (NON CURRENT)		
Restoration and Rehabilitation provision	**112,337**	**108,042**
Restoration and Rehabilitation provision (Current and Non current)		
Opening balance	108,042	79,320
Re-assessment of provision	-	26,341
Interest charged	4,295	2,381
Closing balance	**112,337**	**108,042**
19. PAID UP CAPITAL		
Issued and paid up capital:		
235,000,000 ordinary shares with no par value	**285,820**	**285,820**

20. DIVIDENDS PAID AND DECLARED

As defined in the Company Constitution, the Available Cash Flow of the prior financial year determines, without the need for declaration, the level of ordinary dividends payable each year.

The Constitution provides that holders of not less than 85% of the ordinary shares of the Company may vote to:
- pay interim dividends as in the judgment of the Directors that the position of the Company justifies.
- reduce or increase the amount or delay the payment of an ordinary dividend.

Available Cash Flow for the 18 months ended 31 December 2003 totalled US$133,450,000. An amount of US$65,970,000 was carried forward from the prior year.

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
Prior financial year:		
First interim dividend	32,985	13,792
Final dividend	32,985	10,000
Current financial year:		
First interim dividend	20,000	-
Second interim dividend	40,000	-
Total Dividends	**125,970**	**23,792**

21. CONTINGENT LIABILITIES

Contingent liabilities at balance date, not otherwise provided for in these accounts, arise from:

	31 Dec 2003 US$'000	30 June 2002 US$'000
Bank of South Pacific	28	21
Westpac	-	13
ANZ	-	374
CBA	-	75
ING Group (BBL Australia Ltd)	-	482
Total	**28**	**965**

Credit Facility Covenants

OTML has an unutilised credit facility with WestLB for US$75 million. If funds are withdrawn th ı the balance must at all times be covered by the collateral value of 80% of stock and 90% of receivables.

The following collaterals are provided:
1. Fixed and floating charge over all finished concentrate inventory.
2. Assignment of all rights of OTML under the Export Contracts, in particular the rights to receive funds from the off-takers.
3. All export proceeds routed through collection account held at West LB.

21. CONTINGENT LIABILITIES CONTINUED

Litigation

In April 2000 two legal actions were commenced in the Victorian Supreme Court against OTML and BHP Billiton (then BHP), one being a class action and the second an individual action, claiming specific performance of the 1996 Settlement Agreement. Both actions against OTML have now been dismissed, the individual action on 19 December 2003 and the class action on 16 January 2004. The plaintiffs have agreed that at all times OTML has complied with the 1996 Settlement Agreement. All parties have vacated claims for legal costs and the court made no further orders as to costs. OTML will pay A$1.9 million in costs awarded by the court against OTML in February 2002. Provision has been made for this payment.

A challenge to the Mining (Ok Tedi Mine Continuation (Ninth Supplemental) Agreement) Act 2002 was commenced by Sir Michael Somare and Gabia Gagarimabu in April 2002. Both Sir Michael and Mr. Gagarimabu have transacted notices of discontinuance in this matter.

Mine Continuation

The agreement that led to the dismissal of the proceedings referred to above included an undertaking by OTML to use best endeavours to include the villages that supported the actions in the Community Mine Continuation Agreement (CMCA) process. There is no obligation for the inclusion of these villages to add to the total amount paid under the existing CMCA's.

22. COMMITMENTS

(a) Operating Leases

Further minimum lease payments under operating leases for property and equipment not provided for in the accounts are:

	18 months to 31 Dec 2003 US$'000	12 months to 30 June 2002 US$'000
Due within 1 year	27,319	26,576
Due within 1-2 years	22,810	25,875
Due within 2-5 years	51,199	61,511
Due after 5 years	10,029	29,576

The lease commitments for the year were calculated on the following property and equipment:

Basis	Expiry dates	Renewal options		Restrictions
Sea Transport	Daily rates	January 2009	Yes	No
Air Transport	Monthly rates	August 2004	Yes	No
Hydraulic Excavators	Monthly rates	July 2005	Yes	No
Other property and equipment	Daily rates	August 2004	Yes	No

(b) Capital Expenditure

At 31 December 2003, the Company had contracted for capital commitments totalling US$1,606,000 which are not provided for in the accounts (30 June 2002: US$2,317,000).

22. COMMITMENTS CONTINUED

(c) Compensation Payments

The Mining (Ok Tedi Restated Eighth Supplemental Agreement) Act 1995 (No. 48) of Papua New Guinea was enacted in August 1995 and required Ok Tedi to make annual payments to compensation trusts over the remaining life of the mine. Required payments have been made by the Company and current liabilities are recognised in the accounts.

In 2001, the Ok Tedi Restated Ninth Supplemental Agreement Act of Papua New Guinea was enacted and required Ok Tedi to make annual payments aggregating to K171.6 million over the life of mine to landowners, Middle Fly, North Ok Tedi, Lower Ok Tedi, South Fly and Highway Communities. The Act was an agreement between the respective communities to allow the mine to continue to its planned closure date in 2010.

23. INSURANCE

The Company self insures the first US$2,500,000 of its insurable property risks and the first US$20,000,000 of its insurable business interruption risks under its Industrial Special Risks Policy.

24. SUBSIDIARIES AND SPECIAL PURPOSE ENTITIES

The holding company has an investment in the following subsidiaries:

	Ordinary Shares	% Shareholding
Ok Tedi Development Foundation	2	100%
OTML Shares in Success Scheme Limited	2	100%

Ok Tedi Development Foundation

Apart from the share capital the Company does not have any assets or liabilities and did not trade during the period.

OTML Shares in Success Scheme Limited (SISS)

SISS is a Trustee company established during the period to assist in the retention of employees until the end of mine life by making annual incentive payments.

OTML is required to pay SISS an annual amount of 5.2% of Available Cash Flow (denominated in US dollars).

Ok Tedi Financial Assurance Fund

In accordance with the Mining Act (Ok Tedi) Ninth Supplemental Agreement a separate independent bank account must be created for semiannual payments by Ok Tedi to provide sufficient cash at mine closure for settlement of mine rehabilitation and restoration liabilities. To give effect to the arrangement, the Ok Tedi Financial Assurance Fund has been established with an independent Trustee. Ok Tedi makes semi-annual payments to the Fund and these are held by the Trustee to be applied in assisting both the Company and the State to comply with their respective obligations under the Mine Continuation Act and the Mine Closure Plan.

The assets of the Fund are legally separate from the Company and are not available to meet the claims of creditors in any winding up of the Company. They are irrevocably dedicated to funding the mine closure costs and cannot be used for any other purpose.

24. SUBSIDIARIES AND SPECIAL PURPOSE ENTITIES CONTINUED

However, in accordance with accounting practice, the Fund is considered to be a special purpose entity controlled by the Company. The assets of the Fund at 31 December 2003 comprised cash on deposit of US$ 22.8 million with Standard Chartered Bank in Jersey.

25. RELATED PARTY INFORMATION

Ownership

Shareholders and their respective shareholding are as follows:

	Ordinary Shares	% Holding
PNG Sustainable Development Program Limited (PNGSDP)	122,200,000	52
Inmet Mining Corporation	42,300,000	18
Independent State of Papua New Guinea	47,000,000	20
Minerals Resources Ok Tedi No 2 Limited	23,500,000	10
	235,000,000	

The terms of the Company's constitution and the shareholders' agreement do not provide PNGSDPL with any control over the Company independent from other shareholders.

26. FINANCIAL INSTRUMENTS

(a) Derivative Financial Instruments

	31 Dec 2003 US$'000	30 June 2002 US$'000
Current Assets		
Lease rate swap	156	-
Non-current assets		
Lease rate swap	111	-
Current liability		
Forward contracts	(2,221)	-
Put options	(253)	-
	(2,474)	-
Non-current liability		
Forward contracts	(18,881)	-
Lease rate swap	(1,102)	-
	(19,983)	-
Net Derivative Financial Instruments	**(22,190)**	**-**

Hedging is undertaken in order to avoid or minimise possible adverse financial or cash flow effects of movements in commodity prices.

The Company did not actively enter into hedging instruments during 2002 hence at June 2002 there were no open hedging positions. In 2003, the Company entered into gold hedging contracts and options.

26. FINANCIAL INSTRUMENTS CONTINUED

The following gold forward contracts, which were entered into with Macquarie Bank Limited, were outstanding at balance date:

Contract Period	Periodicity	Ounces per Period	Total Ounces	Committed Price US$
Jan 2004 - Feb 2004	Monthly	20,000	40,000	367.28
Oct 2004 - July 2005	Quarterly	18,750	75,000	366.00
Oct 2005 - July 2006	Quarterly	18,750	75,000	368.00
Oct 2006 - July 2007	Quarterly	18,750	75,000	370.00
Oct 2007 - July 2008	Quarterly	18,750	75,000	372.00
			340,000	

All commodity contracts are settled other than by physical delivery of the underlying commodity. On maturity, the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the Company.

The Company has also entered into commodity options with an independent financial institution, being both bought put options and sold call options. Bought put options enable the Company to exercise its discretion depending on the level of the spot price when the option expires. If the spot price is greater than the option strike price on expiry, the Company will not exercise the option but instead sell the commodity in the spot market. If the strike price is higher than the spot price, the option to sell the commodity at the strike price is exercised.Sold call options are at the option of the purchaser. If the spot price is greater than the option strike price on expiry, the Company would expect the purchaser to exercise its option and require the sale of the commodity at the strike price. Conversely, if the spot price is less than the strike price on expiry, the Company would not expect the option to be exercised.

The following options were outstanding at balance date:

	Put options bought		**Call options sold**	
	Ounces	Minimum Price US$	Ounces	Minimum Price US$
2004	90,000	375.00	45,000	467.00
2004	-	-	45,000	454.20
	90,000		90,000	

The Company does not enter into hedging transactions that have provisions for margin calls.

Future derivative financial instrument gross income is expected to be a minimum of US$125.4 million. Gross income based on the same number of ounces at the prevailing spot price at 31 December 2003 of US$415.75 would be US$141.4 million.

At balance date, the estimated fair value of the total hedge portfolio was determined by an independent financial institution to be US$22.190 million out of the money. This represents the amount the Company would be required to pay if it terminated all derivative financial instruments at 31 December 2003.

US$16.6 million of this liability has been recognized as effectively hedged and accordingly has been deferred and transferred to equity as hedge reserve.

Included in sales revenue for the period is derivative financial instrument income of:

26. FINANCIAL INSTRUMENTS (Continued)

		31 Dec 2003 US$'000	30 June 2002 US$'000
Gold	- Realised gain/(loss)	(1,101)	543
	- Unrealised gain/(loss)	(4,803)	-
Silver	- Realised gain/(loss)	-	5
Total hedging gain (loss)		**(5,904)**	**548**

(b) Credit Risk Exposures

The credit risk on financial assets of the Company which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

For off-balance sheet derivatives, credit risk arises from the potential failure of counter parties to meet their obligations under the respective contracts. With respect to commodity contracts outlined above, the Company has an exposure to loss in the event counter parties fail to settle on contracts which are favourable to the Company.

For trade receivables and financial commitments the Company only deals with counter parties with a credit rating of BBB - or better. Since trade sales are spread over a number of customers the Company believes that no significant concentration of credit risks exists.

(c) Interest Rate Risk Exposures

The Company does not enter into term deposits or other long term investments. At the balance sheet date the Company did not have any interest bearing finance.

(d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying value.

27. RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

	31 Dec 2003 US$'000	30 June 2002 US$'000
Assets:		
Cash - PNG Kina	(304)	1,076
- Australian Dollars	1,884	950
Receivables - PNG Kina	2,493	2,064
Liabilities:		
Payables-Australian Dollars	5,761	2,588
- PNG Kina	17,504	18,994
Income tax provision - PNG Kina	12,163	10,798
Deferred income tax - PNG Kina	6,016	12,587
Compensation and CMCA Provisions - PNG Kina	7,365	7,561

Due to the nature of the Company's revenue and expenditure the Company does not enter into formal currency hedge contracts.

28. INCORPORATION AND NATURE OF ACTIVITIES

The Company is incorporated in Papua New Guinea. The principal activity is the mining and processing of copper and gold ore.

The Registered Office and Address for Services: Dakon Road, TABUBIL, Western Province, Papua New Guinea.

29. POST BALANCE DATE EVENTS

There were no significant events requiring additional disclosure from 31 December 2003 to the date of this report.

30. EMPLOYEE BENEFITS

The average number of people employed by the Company during the 18 month period to 31 December 2003 was 1,974 (30 June 2002: 1,980).

Staff costs comprise of the following:

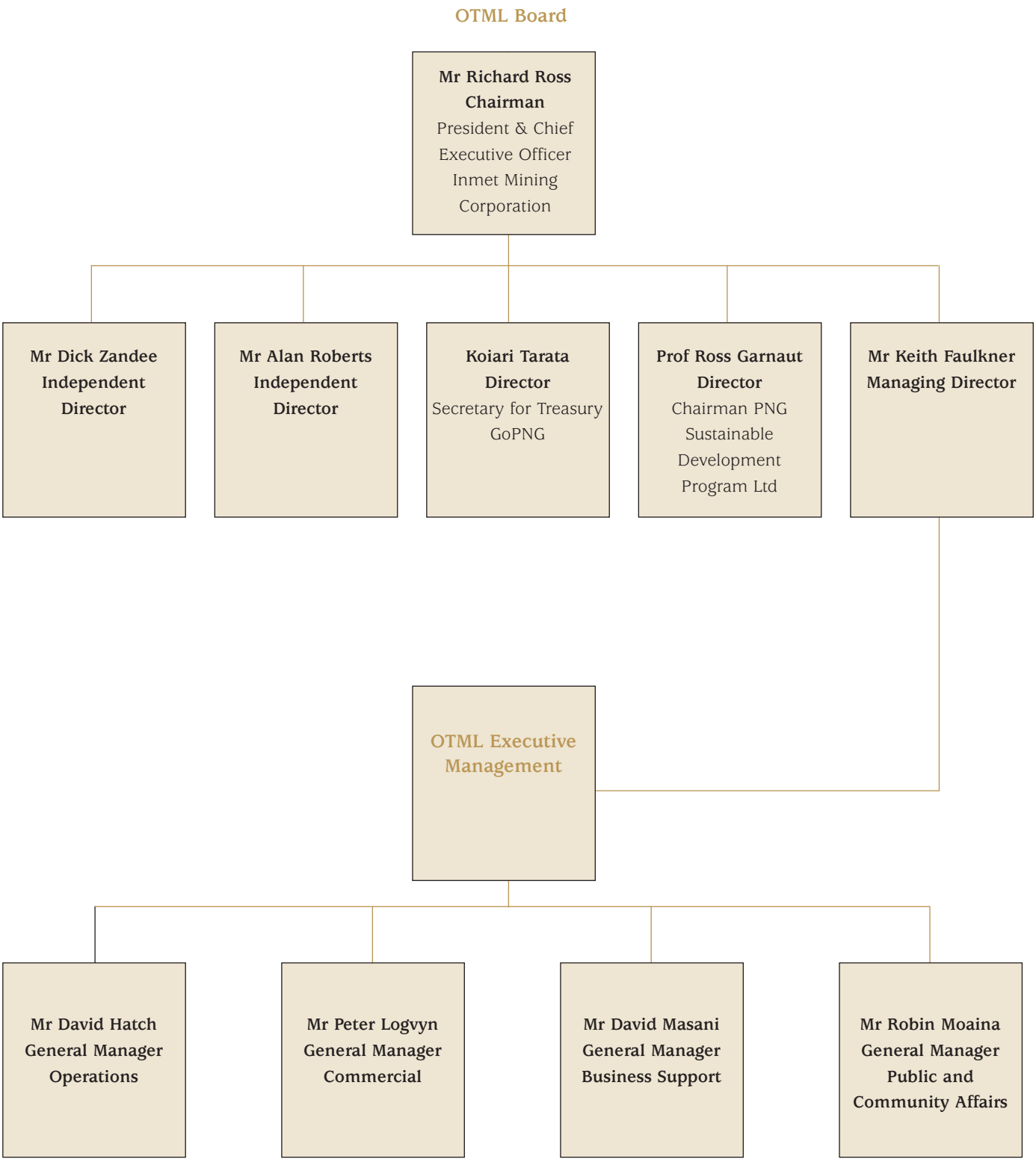
	31 Dec 2003 US$'000	30 June 2002 US$'000
Salaries and wages	54,857	37,054
Contribution to retirement benefit funds	2,420	1,685
Fringe benefits	631	384
	57,908	**39,123**

31. SEGMENT REPORTING

The Company produces copper and gold in Papua New Guinea.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Production										
Copper concentrate (tonnes)	587,644	613,957	542,415	334,130	491,336	623,987	693,654	694,900	720,078	671,475
Contained gold (ounces)	476,643	482,132	425,611	265,758	413,265	401,568	533,959	455,222	514,861	504,252
Contained silver (ounces)	971,440	914,109	854,180	509,460	838,619	1,065,559	1,447,842	1,150,031	1,039,368	1,071,293
Contained copper (tonnes)	207,236	212,737	185,665	111,515	151,556	187,920	203,060	203,762	211,313	195,655
National Economic Importance										
Exports (kina million)	535.6	882.2	606.1	296.9	701.8	805.1	1025.6	1148.2	1,242	1,863
Contribution to total PNG exports (%)	20.0	25.8	18.4	9.7	19.9	16.1	17.6	18.8	20.6	23.8
Goods and services (kina million)	143.6	140.2	159.0	176.1	320.9	463.5	319.4	300.1	307.0	734.0
Proportion bought in PNG (%)	53.5	52.5	55.8	48.8	41.3	42.0	39.1	45.4	42	38
Taxes/duties/fees (kina million)	13.4	24.3	63.0	62.3	52.2	92.1	113.9	124.0	109	142
Mining Levy (kina million)	-	-	-	-	-	19.4	49.2	58.8	42	43

OTML STRUCTURE



Ok Tedi River from Pratts Crossing, looking up towards the Star Mountains.

Ok Tedi Mining Limited
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