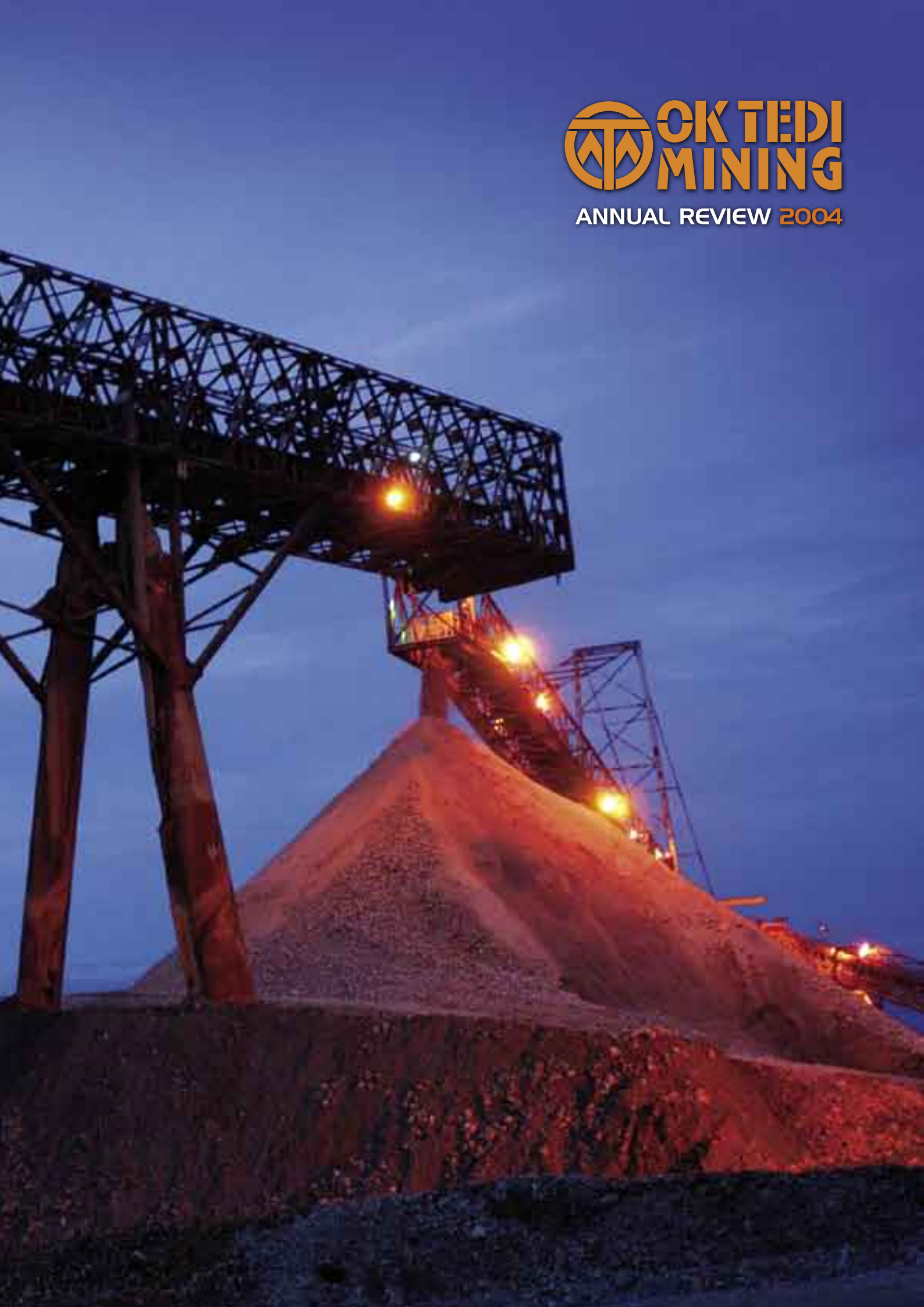


OK TEDI MINING

ANNUAL REVIEW 2004

CONTENTS

CHAIRMAN'S REPORT

Alan Roberts

In 2004, Ok Tedi Mining Limited (OTML), in its third year as an independent Papua New Guinean resource company, continued to deliver very significant benefits to its shareholders, employees and the wider community.

OTML's continued operation is based on the 2001 decision made by the people of Papua New Guinea that the benefits derived from the mine far outweigh the environmental impacts of riverine disposal of the mine waste. That decision remains valid but the Board and Management is conscious that justification to continue operations must be tested continuously through environmental and social research and monitoring. Further, we must ensure that the mine remains an internationally competitive producer of copper / gold concentrates.

PERFORMANCE IN 2004

It is pleasing to report that the operations maintained a high standard of safety performance and that the safety effort is increasingly more inclusive of contractors. Buoyed by favourable market conditions, OTML turned in a strong result for 2004, despite some operational difficulties. The failure of one of the semi-autogenous grinding mills early in the year was a setback to production and was compounded by fuel shortages and restricted logistic movement due to dry weather late in the year. Production of copper fell short of Plan by 10% and gold by 7%. Operational costs rose steeply due to the falling US dollar and rising cost of mining equipment, spares and consumables.

> "It is pleasing to report that the operations maintained a high standard of safety performance and that the safety effort is increasingly more inclusive of contractors."

Financially, however, the Company performed strongly, with commodity prices sustained at high levels by the phenomenal growth in the Chinese economy.

Sales for the year were US$660 million for a net profit of US$133 million. Restricted shipping on the Fly River in the last quarter resulted in almost 100, 000 tonnes of inventory at year-end, which had a negative impact on sales for 2004.

In addition to dividends of US$133 million paid to our three shareholders (PNG Government, PNG Sustainable Development Program Company and Inmet Mining), a total of US$85 million in taxes, mining levy and royalties was paid to the National and Provincial Governments in 2004.

That means a total of US$191 million generated by the mine went to the benefit of the people of PNG. In addition almost 2000 people were employed directly by the Company, with around 1500 contractor employees as well as US$ 51 million spent in PNG on other goods and services.

OTML continues to be a mainstay of the PNG economy.

ENVIRONMENT

OTML's riverine disposal of waste and the impact of that waste on the Ok Tedi and Fly River system are well known features in the OTML story. What is less well known is the extent of the research and monitoring conducted by Company employees, in conjunction with world experts, in order to better understand those impacts. Dredging of sediment from the lower reach of the Ok Tedi is only a partial and imperfect solution to the problem of mine waste in the river system. Detailed monitoring and modelling of the fate of the sediments that pass the dredge site and the potential for acid rock drainage from the mine site and throughout the system is work of the highest importance, performed to the highest standards. The purpose of this work is to ensure that the methods used to manage the environmental impacts are the most effective and efficient, given that total waste containment at the mine is not possible. Around US$40 million per year is spent on this work.

COMMUNITY

The Community Mine Continuation Agreements is a contract between OTML and the people of the river system who acknowledge the impact of the mine and for which they receive direct benefits, often in the form of community projects. The remoteness and extent of the river system - 50,000 people in 160 villages over 800 kilometres of river – has, in the past, been an impediment to efficient delivery of projects against promises. In 2004 a re-organisation of resources, manpower and systems brought about a significant improvement in the delivery of these projects. The improved logistics has had an additional benefit, whereby OTML can now support the delivery of government and social services to the remote villages and people.

The shape of the Mt Fubilan pit at February 2004.

OUTLOOK

Commodity prices remained high at the end of 2004 and do not show signs of weakening. The mine is well placed to take advantage of the price cycle in terms of metal production, but cost pressures remain of primary concern. The weakening US dollar, increasing costs of consumables and parts, and steeply rising concentrate treatment changes are eroding OTML's competitive position. These cost pressures must be addressed in the coming year in order that OTML remains competitive and profitable when the commodity price cycle turns, which is a matter of "when", not "if". The business also needs to be shaped for the future. The consultative Mine Closure Planning process will address some of the important questions surrounding the future of Tabubil, North Fly District and the Western Province. However, whether the mine closes in 2012, or whether our exploration effort enables mining to continue beyond this date, now is the time to examine how OTML can best be shaped to face the future.

Richard Ross, representing OTML's 18% shareholder Inmet Mining on our Board of Directors, retired as Chairman of OTML on February 5, 2005. Richard was a Director of OTML for over five years and resigned to concentrate on his new role as President and CEO of Inmet Mining. We thank Richard for his invaluable contribution to the Company's successful journey to independence. Inmet's new representative on our Board is Jochen Tilk, who has been a regular visitor to Tabubil for many years.

We note with sadness the passing of Koiari Tarata who, as Secretary for Treasury, represented the Independent State of Papua New Guinea on the Board for almost five years. The new representative is Simon Tosali, Acting Secretary for Treasury.

I am pleased and proud to have been appointed Chairman of OTML's Board of Directors and, with the Board, look forward to assisting the management team in their challenging task of taking OTML forward for the benefit of all stakeholders.

ALAN ROBERTS
Chairman of the Board of Directors

MANAGING DIRECTOR'S REPORT

Keith Faulkner

Operationally, 2004 was a year of challenges and change for OTML.

Our commitment to safety however is constant. "Zero Harm" is our goal and whilst we still have a long way to go, safety performance for the year showed steady improvement from the two previous years. There were four lost time injuries, fortunately none serious, one OTML employee and three contractor employees. Disabling injuries also reduced markedly over previous years; however, we still have gaps in our defences that need attention. Our thrust for the coming year is to concentrate efforts on behavioural safety, to ensure that the people doing the work in the field, where the hazards exist, think and act with safety in mind at all times. Our "Take Five and Stay Alive" campaign, a technique designed to be a last line of defence against making an unsafe act, was re-launched during 2004. Unfortunately, as in many places, using public roads and driving light vehicles is one of our major risks, and in which our record is poor. Our road safety campaigns are aimed at employees, contractors and the public at large.

The year commenced poorly when one of our two semi-autogenous (SAG) mills failed and required extensive repairs. The year finished with a lengthy spell of dry weather, which constrained Fly River shipping and resulted in high copper concentrate inventory levels. During the course of the year there were many changes to the mining industry, copper markets, cost pressures, management team, operating practices and delivery of our obligations to the community, all of which required prompt and effective response. At the close of the year we had met the challenges and had either overcome the problems or had plans in place to meet them.

Review of mine plans and reserves saw an increase in mine life, from 2010 to 2012. The final mine pit has not changed significantly and the same volume of rock will be mined, but more material has been classified as ore. The change in mine life is consistent with the Ok Tedi Mine Continuation (9th Supplemental) Agreement Act and the Community Mine Continuation Agreements.

OPERATIONS

The failure of the SAG mill was a serious setback which required skill, expertise, creative thinking and dedicated hard work to resolve and to minimise the impact on production. It is a tribute to the maintenance, planning, operations and logistics teams that they were able to find a repair solution for the seriously damaged mill, and implement the repair in eight weeks. Mine and mill personnel reconfigured plans and parts of the plant so that the latter part of the eight week outage was at 75% of planned output from about half production capacity.

Great professionalism was also shown in mine planning and operations in putting the mining operation back on track. In 2003, when waste mining was interrupted following a fatal accident on the waste dumps, the mine plan was compromised when ore mining got well ahead of waste mining. The loss of flexibility in the pit was compounded by the dry weather that occurred in the third quarter of 2004. Fuel and explosives supplies were interrupted causing restricted waste mining once again; however, a review and change in mine plans and production focus in the last few months of the year resulted in a return of flexibility and favourable ore blend.

Total production of 173,370 tonnes of copper and 16,313 kg of gold for the year was disappointingly 10% and 7% respectively below Plan; however, given the difficult circumstances it was a creditable result.

COSTS

Of concern is the growing cost of operations. The falling value of the US dollar and appreciation of the Kina and Australian dollar has a negative impact on OTML's costs. During the past year, this factor alone has increased costs by approximately 10%. In addition, the prices of operating spares, mill reagents, grinding media, fuel and explosives have risen steeply. The increase in costs is unsustainable and OTML appears to have slipped in its competitive position compared to the world's best producers, placing us at risk when the metal price cycle turns down. Management is targeting much more stringent cost control measures and cost reduction strategies in the coming year. It is not acceptable for us to concede that these are uncontrollable external cost pressures. We must find ways to offset or reduce their impacts if we are to remain competitive, because our competitors will certainly be attacking these costs. We have to run harder to keep up.

"Management is targeting more stringent cost control measures and cost reduction strategies in the coming year."

MANAGEMENT AND THE INDUSTRY

The resources boom of the past year is continuing into 2005. Attracting and keeping the best technical, operational and management talent is a competitive challenge. There has been a high turnover in the senior team at OTML in 2004 but we have been fortunate in attracting very talented and experienced people. The new group brings fresh ideas and positive change to address the need for greater productivity, cost reduction and future improvement, and their impact was already being felt in the organisation towards the end of the year.

MARKETS

The copper market is in new territory for the miners. Stocks of finished copper are at record low levels, driving a high copper price because demand, from China in particular, is so high. The anomaly is that the smelters are limited in capacity to supply the finished copper, but copper concentrate from miners is readily available. The outcome for the miner, such as OTML, is that the charge that the smelter makes for smelting and refining the concentrate is now very high, again at record levels. Whilst this is a cost to OTML, we are fortunate in that virtually all of our concentrate production for the coming year is already sold forward under contract. Over-supply of concentrates in the future could occur as production from some of the new mines and expansion of existing mines begins to come onto the market.

Who can predict how long the favourable market for finished copper will last? Will the pressures on the US dollar and the Chinese Yuan cause a major shift in world economics? OTML cannot predict or control these matters - all we can do is focus on becoming as competitive, productive and efficient as we can in order to secure our future.

COMMUNITY RELATIONS

We underestimated the difficulty in delivering against our agreements (CMCA's) with the river communities. The logistical and communication challenges presented by the vast Fly River system saw our performance in delivering projects to communities fall below their, and our, expectations. During the year we changed our approach from six monthly patrols to a more frequent contact by setting up permanent bases at strategic points along the river. From these bases we are able to conduct our programs, projects and support more efficiently, and hear people's concerns more directly. This approach in the South and Middle Fly has seen much improved relationships and satisfaction in the communities. This more outreaching style enabled us to address some of the severe health problems in the South Fly. By working with the Provincial Health Authorities we were able to mount an extensive health patrol to treat an outbreak of yaws in the South Fly, and to address many other basic health issues. This co-operation with the authorities has grown into a province-wide co-operative effort to deliver improved immunisation, disease prevention, and ante-natal and post-natal care.

Projected mine life has been extended to 2012.

OUTLOOK

The coming year is full of opportunity for OTML and its stakeholders. In the three years since the departure of BHP Billiton from the project, the shareholders, the State, the employees and contractors have enjoyed dividends and benefits greater than those anticipated at the time of the passing of the Ninth Supplemental Agreement Act. Some of that good fortune arises from extremely buoyant prices, but most importantly, we have in place a skilled and enthusiastic team, a mine that is in good shape and unprecedented support from the community.

We now have a mine life through to 2012, and in that period OTML should continue to provide superior benefits to all stakeholders.

KEITH FAULKNER
Managing Director

OPERATIONS

SAFETY

"Safety is the Priority" remained the strategic theme for all OTML operations in 2004, together with the goal of "Zero Harm".

OTML believes that every employee should return to his or her family in the same state of health as when they went to work.

The Company takes a broad approach to health and safety, including the Health Surveillance Program, which has completed checks on all Mine and Mill personnel, with extensions to all other employees scheduled for 2005.

Some activities have been identified as having higher risk factors, and the OTML system of Risk Assessment and Job Safety Analysis applies.

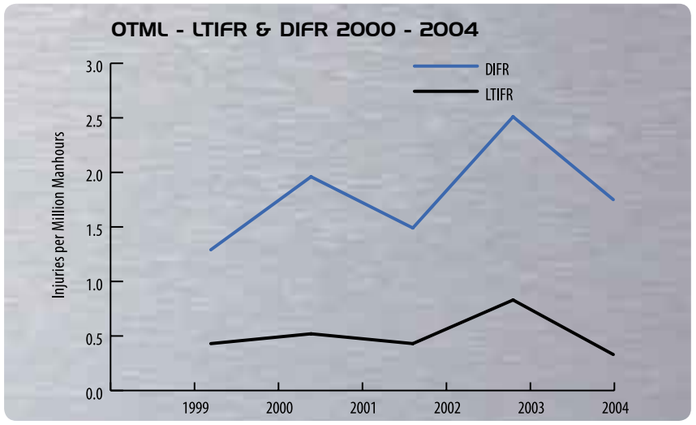
Employees and the safety systems which apply to their work are often put to the test.

A recent example was when in late 2004, the Company's newly acquired 10 megawatt power generator was moved from Kiunga to the Tabubil. The largest piece of this equipment is the gas turbine unit which weighed in at around 150 tonne, possibly the heaviest single item ever moved along the highway.

This major transport task necessitated civil works to bridges and roads connecting the two sites to ensure their capacity to handle the loads involved.

Moving the turbine involved the participation of a large number of OTML personnel, and a series of planning and risk identification meetings were held before the job began, to ensure that appropriate safety systems would apply to this operation.

The whole complex operation was successfully achieved without significant incident, a tribute to the planning and skill of the many employees and contractors involved.



Both the Lost Time Injury Frequency Rate and the Disabling Injury Frequency Rate reduced in 2004 compared to the previous year, falling to 0.33 and 1.85 respectively, statistics which include OTML's contractors.

As of 30 December 2004, OTML employees had completed 534 days (or 6.8 million man hours) without a lost time injury. Unfortunately a lost time injury involving an OTML employee occurred on 31 December, which though minor, ended a record performance. There were three lost time injuries involving contractors during 2004, fortunately neither were serious injuries.

To help the workforce re-focus on the daily risks of their tasks, 2004 saw the re-launch of the effective Take Five, Stay Alive safety campaign, involving PNG sports hero Stanley Nandex.

Stanley made personal appearances at Tabubil, Kiunga, Bige, the mine and the mill, and used his very popular appeal and personal regime of sporting discipline to create an effective role model for hundreds of employees and their families, as well as the general public.

The Take Five campaign is widely promoted through posters, billboards, radio and television.

OTML remains a "Four Star" operation under the NOSA safety system.

PRODUCTION

In 2004 OTML produced 173, 000 tonnes of copper metal in concentrate and 525,000 oz of gold. Copper concentrate produced was 628,000 dry metric tonnes. Shipping delays on the Fly River resulted in sales being less than production with the balance stockpiled at the Kiunga port.

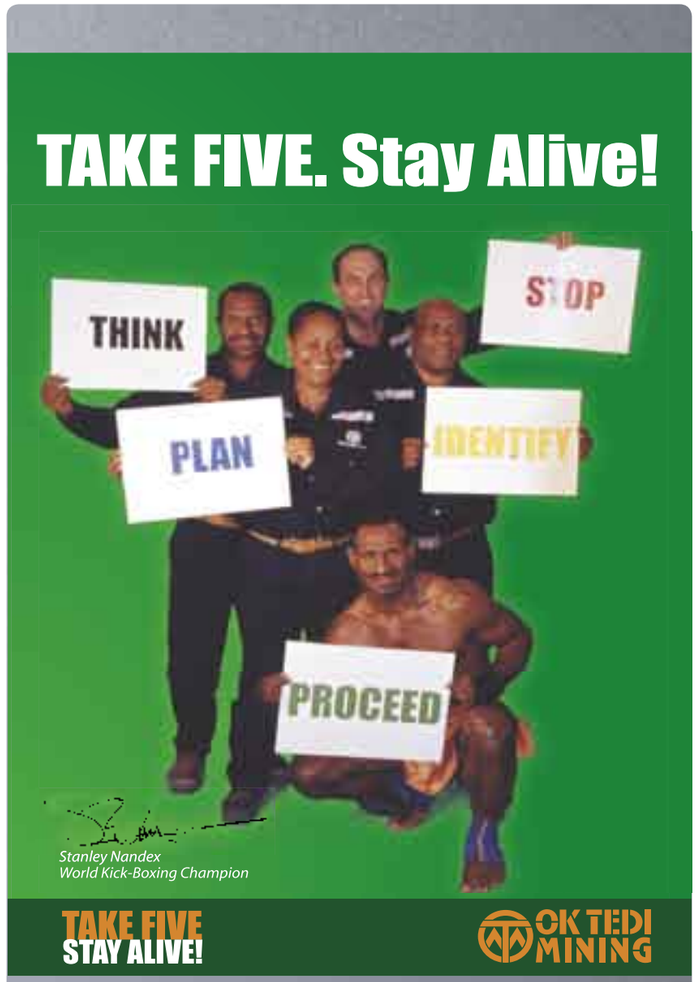
Gold is recovered into the copper concentrate as well as a separate high gold gravity concentrate. Total gold production in both these concentrates was 16 tonnes. Silver production was 36 tonnes.

Gravity gold production was 94 dry metric tonnes.

Customers of the former ownership arrangements have re-entered into forward contracts for concentrate, and regard OTML as a valuable independent producer of significant size in the world market.

DRY WEATHER CONDITIONS

Dry weather conditions in September, October and November had a detrimental impact on the operation. Shipping on the Fly River was hampered for extended



Employee safety champions joined kickboxer Stanley Nandex to re-launch the Take Five safety campaign.

periods interrupting the supply of vital materials to the mine and mill. Hydro station power was reduced by poor river flows and the reliance on diesel-generated electricity caused the rationing of power at times. Waste mining in the pit was restricted by shortage of diesel oil and explosives.

MINE OPERATION

Total movement of ore and waste from the mine was 74Mt in 2004. Ore mined was 26Mt. Total waste mined was 48Mt. This movement was achieved despite the dry weather.

The waste mined included 7.3Mt of limestone. The limestone is mined from outside the limits of the main pit and blended with the pit waste in the dumps. This activity is aimed at minimising the risk of future acid generation from the mine waste stream.

The lower movement of ore and waste in 2004 reflected production interruptions from dry weather and the unexpected mechanical failure of semi-autogenous mill #2 at the beginning of the year. Waste movement in particular was affected by dry weather when all waste mining was stopped to conserve diesel fuel and explosives supplies.

Head grades for the year were lower than in previous years but in line with long term mine planning predictions. Reconciled grade of the 2004 production was 0.80% Copper and 0.88g/t gold.

A concerted effort to increase truck and shovel productivity through a combination of improved operational practices and short term scheduling was beginning to make an impact on mine performance by year end. It is expected to deliver significant advantages to the business during 2005.

OTML operates one of the world's largest fleet of radio controlled remote dozers. These are used for pushing of waste over high faces of the waste dumps without exposing the dozer operator to the risk of the dump failing beneath the machine. Operation of these machines became routine in the mine during 2004. This required substantial effort on the part of both operators, trainers and maintenance staff. They are now operating productively and have significantly improved the safety of the waste dumping operations.

MILL OPERATION

In February, one of the plant's two semi-autogenous (SAG) mills failed at the discharge end where the mill shell connects to the trunnion. This failure required extensive repairs reducing production capacity for eight weeks. Mitigation of the production loss was achieved by altering mine plans and some reconfiguration of the flotation plant; however, loss attributable to the failure was approximately 12,000 tonnes Cu and 900 kilograms of gold in concentrate.

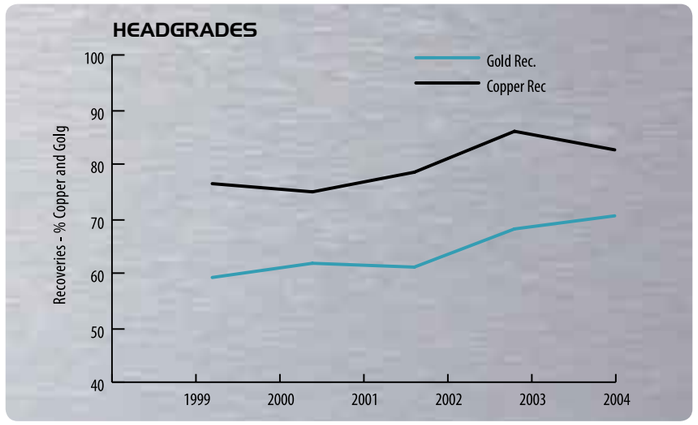
Great team work by both OTML and external experts returned the mill to operation earlier than expected but the downtime did cost the Company production. New parts for the mill have been acquired. However the performance of the repair work does not indicate a need to fit them at this time.

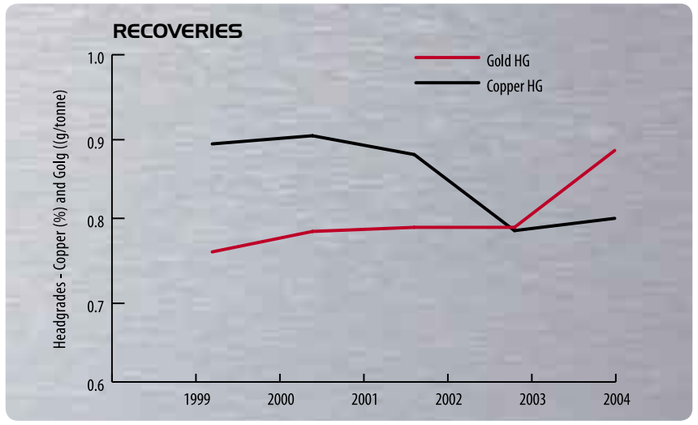
EXPLORATION

OTML continued an active exploration program during 2004. Twenty nine holes were drilled for a total metres of 10,529 at a cost of USD$4.1M. All of this activity was concentrated close to the Mt Fubilan mine where there is the greatest chance of success. The program's most significant success was in defining extensions to skarn mineralisation with potential economic grades located under the west wall of the ultimate pit design. This deep skarn mineralisation will be the subject of conceptual design and economic studies in 2005. The results of these studies will be used to help decide if further drilling is justified.

Exploration drilling, targeted to find skarn mineralisation in the New York area immediately to the north east of the pit, was successful in finding the predicted geological formations. Unfortunately the grades were not of economic interest. Results of this drilling have been used to assist with understanding the regional geology and improved definition of the next targets.

Continued exploration near the mine and at prospects within close proximity has been approved in the 2005 budget. The program includes drilling of holes into the better defined targets, aero magnetic surveys and scouting exploration of targets further out from the mine.





MINE GEOLOGY AND PLANNING

Short term planning and pit geological control at Ok Tedi is focused on ensuring the mine delivers a steady blend of the different ore types found in the pit. Correct ore blend control allows the concentrator to achieve the optimum recovery and concentrate product quality. The complex mix of ore types that we mine makes this a challenging task, requiring detailed control and good coordination of all people in the mine and mill. Geologists now work around the clock on rotating shifts to help provide the level of control required.

A change in the short term mine planning strategy, in the second half of 2004, to mine the ore in batches with consistent blends over periods of days has also be successful in maintaining a stable mill feed while giving improved mine equipment productivity.

MINE LIFE

In longer term mine planning, a complete review of mine life production schedule, cut off grades and final pit design resulted in extension of the estimated mine life by two years to 2012. This was achieved through a combination of innovative changes to the final pit design, optimisation of the cut off grade and rescheduling. These long term optimisation studies will continue in 2005.
Mining operations at Ok Tedi occur in 12m of annual rainfall. At present the pit is still high enough that the water drains freely from the pit over the southern waste dumps. The present mine plan indicates that from 2008 onwards the pit will no longer be free draining, posing a significant challenge to the business. In 2004 engineering studies were commenced to investigate the best solution to this challenge. As a result water diversion drainage and monitoring works at the pit perimeter and on the West wall have already commenced and will continue in 2005. Further studies are planned to determine if pumping or drainage by tunnel is the best long term solution.
At the northern end of the pit sits the modest size, but high grade Taranaki skarn ore body. Mining of this ore has been delayed in previous years because it lies under the Taranaki crusher infrastructure. Preliminary designs were completed in 2004 to allow mining of this ore body to commence. This will involve modification of the mine's principal crushing facility (the In Pit Crusher) and removal of the Taranki crusher. Mining the Taranaki ore body will have a positive impact on the business with particular benefit in higher gold production.

MILL TECHNICAL SUPPORT

The focus for technical studies in the mill during 2004 was on low capital cost optimisation of the concentrator performance and consolidation of the gains from the flotation upgrade project of the previous year. (Recoveries are shown in the chart on page 9). Annual recoveries are affected by the complex blend of different ore types and head grades treated during the year and the impact of the recovery optimisation work is not always obvious in an annual summary chart. Recovery performance, given all the complex variables at Ok Tedi, continues to improve. Following the success of the gravity gold recovery achieved in 2004, design and justification of an upgrade to the gravity gold recovery circuit in the mill was completed and engineering had commenced by the end of 2004.

Mill upgrages contributed to improved recoveries.

ENVIRONMENTAL MANAGEMENT

Environmental management activities are reported to the State in September each year in OTML's Annual Environmental Report. The 2004 report contained a compendium of approximately 40 supporting documents produced during the preceding twelve months. These covered specific studies related to each of the Regime's four (ARD, Aquatic, Terrestrial and Industrial Sites) programs and covered topics such as oil spill modelling, statistical analysis of historical biological data, the results of pit, ground, surface and river water monitoring programs, QA/QC programs, dieback and navigability.

COMMUNITY HEALTH STUDY

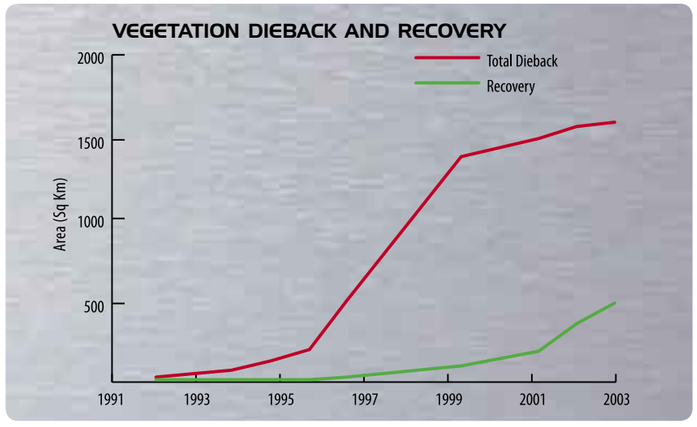
A Community Health Study, to examine the potential for human health impacts from the OTML operation, commenced during the year. Using matched impact and control populations throughout the catchment, this study is generating data for exposure pathways (via air, food, soil and sediment, and drinking and recreational waters) for a suite of contaminants and essential metals. When completed in late 2005, the study's data will be compared with recognised international health standards and will evaluate three of the Regime's six values relating to water potability, and the edibility of aquatic and terrestrial foods. While these values are currently assessed separately, this integrated study will determine total exposure for humans within the catchment, from all potential exposure sources.

SEDIMENT TRANSPORT MODELLING

A major sediment transport modelling study, to update predictions of long term impact of mining on the river system and to investigate various options for mine closure and changes to dredging rates, has been completed. An uncertainty analysis was also carried out to estimate the limits of accuracy in the model's predictions.
The model predicts that the heavy sediment accumulation in the Ok Tedi between logi and D'Albertis Junction will clear by about 2060. The Lower Ok Tedi will hold material for longer and deposition will persist in some reaches to at least 2060. There will be local build-ups of sediment in the lower part of the Middle Fly after about 2020. The bulk of mine derived deposition will occur along the Middle Fly in the reach between Manda and Obo showing little sign of clearing by 2060. Indeed, it is very likely that deposition will occur in the lower Middle Fly for hundreds of years.

DIEBACK

Continuing dry conditions favoured the onset of vegetation recovery of areas impacted by dieback. The 2004 mapping shows a total of 1,554 km^2 have been impacted by dieback. This includes all historical dieback (i.e. caused by mine impact, natural processes and forest fires, as well as previously impacted areas that are now under recovery) and represents a 2% increase of dieback over the last 12 months. However, recovery has increased by 33% over the same period to 459 km^2. The likely total area to be impacted will be about 2,500 km^2. While about 30% of the historical dieback affected area is now under some form of recovery, this can readily decline if wetter, La Nina like conditions, are experienced.



ARD MITIGATION

Two operational areas having the greatest ARD production potential continue to be the waste rock deposits in the mine area creeks and the dredge stockpiles at Bige.
The Mining Plan requires additional limestone to be mined solely for the purpose of mixing it with waste rock materials in the creeks immediately adjacent to Mt Fubilan. This has been designed to ensure there is no acid rock drainage production either during the life of the mine or into the future following mine closure. This program is now being fully implemented and six monthly intensive sampling and analysis demonstrate its success.
Comprehensive monitoring activities have continued at Bige. So too has the further assessment of the various mitigation options to safeguard against future ARD. This has led to the implementation of specific stockpile design criteria being incorporated in the newly created stockpile development on the west bank. The further trialling and implementation of selected mitigation options will continue into 2005, as will an assessment of impact on the Environmental Regime's values if ARD is released from Bige.

ESTUARINE BIOTA

Historically, OTML has monitored and reported changes in populations of fish, prawns and mud crabs in the Fly estuary, together with metal levels from tissues of mud clams and barnacles, which are good bioaccumulators. With the introduction of the Environmental Regime, it was noted that estuarine sampling could be reduced if there were no trends of increasing metal levels. Consequently, a major review was undertaken of historical estuarine data and a reassessment of human metal intake through the consumption of mud clams estimated against the Provisional Maximum Tolerable Daily Intake (PMTDI).
Following this review, sampling will continue at a reduced frequency. Additionally, estimates reinforced the previously held belief that consumption of estuarine mud clams is unlikely to cause an exceedance of the PMTDI and consequently does not pose a health threat.

ENVIRONMENTAL MANAGEMENT

Newly commissioned research vessel "Tahua Chief" conducts environmental monitoring at trans-shipment points.

TRANS-SHIPPING MONITORING

Copper concentrate produced by OTML is transported down the Fly River in motorised barges, transferred to a silo vessel and again into customer export vessels. The silo ship is anchored at Umuda at the mouth of the Fly River or, during the months when the south-east Trade Winds make conditions too rough, in Port Moresby Harbour. OTML conducts bi-annual surveys at these two anchoring points to determine any potential effects of trans-shipping activities on the marine environment, predominantly with regard to spillage of copper concentrate whilst transferring product between vessels.

Previous monitoring has identified the potential for copper contamination in the sediments surrounding the Port Moresby Harbour anchorage, but not at the Umuda site. Consequently, the monitoring program was expanded to examine the effects of trans-shipping activities not just on sediment chemistry, but also on water chemistry, the potential for bioaccumulation in the marine environment, sediment toxicity to marine organisms and on infaunal (sediment invertebrate) communities. A complicating fact is that there are many sources of contamination within the Port Moresby Harbour catchment. A control site at Bootless Inlet is located about 20 kilometers along the coast.

The level of toxicity of a trace metal depends on whether the metal is present in a form that is easily absorbed by the biota. This 'bioavailability' will depend on the biota species and the primary form of the trace metal. Bioavailability analysis of Port Moresby Harbour sediments infers that little of the trace metals present in the samples are bioavailable.

Additionally, the results of the toxicity tests conducted also suggest that the metals are not in bioavailable form. None of the water samples showed evidence of contamination.

Continuing investigation will examine infaunal community ecology to help clarify any effect the sediment contaminants may have on ecosystem function. Further monitoring of sediment and water chemistry will occur as will studies of the extent of bioaccumulation in edible shellfish and other species.

AIR / WATER QUALITY MONITORING – KIUNGA

The concentrate processing and ship loading facility at Kiunga has the potential to generate dust with a subsequent air quality reduction for the adjacent township. To identify any significant impact, two projects were undertaken during the year:

- real-time air quality particulate monitors were trialled
- analysis of drinking waters from rainwater tanks throughout the community

Three different nephelometric (laser light-scatter) units were located deliberately within close proximity of the copper concentrate storage sheds down-wind of the prevailing wind direction. Results will be compared to a high volume air sampler to be used on site in early 2005 as part of the Community Health Study prior to choosing a permanently installed air monitor.

Water samples were collected from 22 rainwater fed tanks throughout Kiunga and analytical results were compared to drinking water guidelines. With one exception, all results were well within the PNG Drinking Water Guidelines, indicating that the OTML facility is having a negligible impact on the Kiunga township from a human health point of view. The exception related to unacceptably high lead levels from one tank located at the Kiunga Community School. Further investigations revealed these levels were associated with a lead-based paint used in the past to cover the roof that fed this particular tank. On OTML's data, the school Principal decommissioned the tank.

ENVIRONMENTAL PERFORMANCE AUDIT

Each year, an external audit of the site's environmental performance within its industrial sites is undertaken, in accordance with the requirements of ISO 14010 "Guidelines for Environmental Auditing". Findings from the audit are risk rated and used to update the OTML Environmental Risk Register. Significant environmental risks then form the basis for the Environmental Action Plan (EAP) for the following year. The audit in late 2004 determined that the site achieved 83% implementation of the 2004 EAP's eighty seven actions.

Air quality monitoring at Kiunga. Data is being downloaded by Andy Ikuavi. The concentrate storage sheds are in the background.

KEY STATISTICS

RESOURCE AND RESERVE STATEMENT

KEY STATISTICS

	CY 2004 Actual	CY 2003 Actual	Variance	%
Mine Production				
Ore Mined (tonnes '000')	26,311	28,594	(2,283)	-8.0%
Waste Mined - incl limestone (tonnes '000')	46,927	46,699	228	0.5%
Total Material Mined (tonnes '000')	73,238	75,293	(2,055)	-2.7%
Additional Limestone (tonnes '000')	7,298	2,305	4,993	216.6%
Average Material mined / Day (tonnes '000')	200	206	(6)	-3.0%
Headgrade - Copper (%)	0.80	0.85	(0.05)	-5.8%
Headgrade - Gold (g/t)	0.88	0.82	0.06	7.3%
Mill Production				
Mill Throughput (tonnes '000')	26,221	28,219	(1,998)	-7.1%
Ave Tonnes milled per day (tonnes '000')	71.6	77.0	(5.4)	-7.0%
Recoveries - Copper (%)	82.6	86.4	(3.8)	-4.4%
Recoveries - Gold (%)	70.5	71.4	(0.9)	-1.2%
Concentrate Production (DMT)	627,762	671,477	(43,715)	-6.5%
Contained Copper (t)	173,370	195,655	(22,285)	-11.4%
Contained Gold (kg)	15,365	15,202	163	1.1%
Contained Silver (kg)	36,091	33,321	2,770	8.3%
Gravity Gold (kg)	948	481	467	97.1%
Copper content in concentrate (%)	27.6	29.1	(1.48)	-5.1%
Sales				
Concentrate Shipments (DMT)	598,622	811,444	(212,822)	-26.2%
Contained Copper (t)	166,328	228,997	(62,669)	-27.4%
Contained Gold (kg)	15,272	18,262	(2,990)	-16.4%
Contained Silver (kg)	35,217	37,759	(2,542)	-6.7%
Concentrate Inventory				
Total (Dry Metric Tonnes)	98,965	66,559	32,406	48.7%

Financials US$				
Operating Revenue ('000')	660,015	609,848	50,167	8.2%
Total Operating Costs ('000')	301,842	272,351	29,491	10.8%
Operating costs/Revenue (%)	45.7%	44.66%	0.01	2.4%
Net Profit after tax ('000')	133,322	27,303	106,019	388.3%
Average Copper Price (clb)	1.33	0.82	0.5	62.2%
Average Gold Price ($)	411.00	356.00	55.00	15.4%
Net Assets ('000')	400,866	393,377	7,489	1.9%

RESOURCE AND RESERVE STATEMENT

Resource and Reserve Statement as at 31st December 2004

Ore Resource				Ore Reserve				Conversion
Category	**Mtonnes**	**Cu%**	**Au g/t**	**Category**	**Mtonnes**	**Cu%**	**Au g/t**	**Resv/Reso**
Measured	361	0.79	0.92	Proven	226	0.85	1.04	62%
Indicated	352	0.56	0.67	Probable	24	0.76	1.26	7%
Inferred	176	0.49	0.68					0%
Total	**890**	**0.64**	**0.78**	**Total**	**250**	**0.84**	**1.06**	**28%**

Resource and Reserve Statement as at 30th June 2004

Ore Resource				Ore Reserve				Conversion
Category	**Mtonnes**	**Cu%**	**Au g/t**	**Category**	**Mtonnes**	**Cu%**	**Au g/t**	**Resv/Reso**
Measured	375	0.79	0.92	Proven	239	0.84	1.03	64%
Indicated	353	0.56	0.67	Probable	25	0.75	1.27	7%
Inferred	176	0.49	0.68					0%
Total	**904**	**0.64**	**0.78**	**Total**	**264**	**0.84**	**1.05**	**29%**

The information in the tables above relates to Mineral Resources and Ore Reserves based on information compiled by Michael Humphreys and Andrew Sharp (respecitvely) who are Members of the Australian Institute of Mining and Metallurgy. Michael Humphreys and Andrew Sharp are full-time employees of OTML. Andrew is also a member of the PNG IE. Michael Humphreys and Andrew Sharp have sufficient experience which is relevent to the style of mineralisation and type of deposit under consideration and to the activity to which they are undertaking to qualify as a competant 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.

Original signed by:

Michael Humphreys
Snr Resource Analyst

Andrew Sharp
Manager Mine Planning

Keith Faulkner
Managing Director OTML

January 2005

COMMUNITY & BUSINESS SUPPORT

ASSET PROTECTION

Tabubil is home to about 15,000 people, most of whom take pride in it being clean, green, well-appointed and generally safe.

Facilities include a golf course, a swimming pool, a large recreation hall and sports centre, an international school and excellent health facilities.

While law and order may be an issue in other parts of PNG, it is generally under control in Tabubil where OTML has an excellent working relationship with the law enforcing bodies and the general community.

A revised Memorandum of Understanding between the Royal Papua New Guinea Constabulary (RPNGC) and OTML was signed in 2004, paving the way for a much improved relationship between the police force and OTML security operations.

Throughout 2004, Asset Protection Department (APD) Community Policing put in place a Village Court system, which encompasses the ten Wards surrounding the Tabubil Township.

The system will significantly ease the burden on the local Law and Order resources and greatly improve the management of crime within the North Fly region of the Western Province.

During 2004, assistance to the RPNGC, the Correctional Institutional Service (CIS) and the Judiciary by OTML saw Police communications improved throughout the region, the Ningerum jail remained open despite infrastructure and climatic difficulties and the Magisterial housing was also repaired. OTML has significantly benefited from the good relationships that have generated from these efforts.

Significant fire maintenance projects were completed during 2004, with the Mine Administration building, Mill Met lab, Flotation Administration Floor and Grinding SAG #1 offices all completed on time and within budget.

In compliance with the requirements of the International Ship and Port Facility Security Code (ISPS Code), the Asset Protection Department, in conjunction with a Recognised Security Organisation (RSO) appointed by the PNG Department of Transport, produced a Port Facility Security Plan for the Port of Kiunga, which was duly certified on the 23rd June 2004.

Finally, APD has expanded its Aviation Rescue capability during 2004 and is now regarded as one of the most professional aviation rescue organisations in the resource fraternity nationwide.

Tabubil is perhaps the only town in PNG where radar guns and breathalysers are used to ensure the town's roads are safe.

HUMAN RESOURCE MANAGEMENT

CORPORATE TRAINING

Corporate Training continues to provide improved services and training opportunities to employees and local contracting personnel.

COMPETITIVE EDGE PROGRAM

The Competitive Edge Program (CEP) is primarily aimed at Company employees already occupying supervisory positions, while others in non supervisory positions but identified as "potential leaders", also participate in the program. A total of 437 OTML employees attended various modules in 2004.

In 2004 the National Training Council of Papua New Guinea recognised the standard and quality of Ok Tedi's Competitive Edge Program and accredited the first two levels of the program and in so doing allowing the participants who complete all the modules for each level to be awarded a Certificate In Management for level one and an Advanced Certificate In Management for level two.

The certificate is awarded through the National Training Council and the Star Mountains Institute.

TRADE TRAINING

Of the 30 apprentices selected to commence in 2004, 17 were from the Preferred Area, Which includes Western Province and Telefomin in Sandaun Province. A total of 112 apprentices are currently in training across the thirteen trade categories and at various stages.

Since 1982 the total number of apprentices who have either been trained or are currently in training is 809.

Apprentices, across all trades, were again involved in many community projects including the refurbishing of the magistrate's house, bus shelters, village projects and the fourth year apprentices were involved in travelling down the Fly River to assist the communities in repairs to solar panels, water pumps, out board motors and vehicle repairs. The fourth year apprentices also provided basic training to the local villages in house repairs and basic maintenance.

APPRENTICE OF THE YEAR

Serah Tito, a 22 year old Metal Trade apprentice, made history when she became the first OTML woman to win the national title and only the second female ever to become the Papua New Guinea Apprentice of the Year.

In November, Serah put in an outstanding performance to beat nine other contenders, all male, to snatch the PNG Apprentice of the Year award and the Lord Casey trophy for scoring the highest points in theory.

Serah Tito in the Ok Tedi mine workshop gauging a large part from a 789 mine dump truck.

Serah impressed the judging panel with a model while undergoing her four year apprenticeship with OTML.

The model was of a junction box which is currently being used in the Mill operations.

"I thank my employer Ok Tedi for providing the opportunity for me to undertake world-standard training, in safe working conditions and an environment of encouragement," a proud Serah Tito said after the win.

PREFERRED AREA DEVELOPMENT AND LOCAL TRAINEESHIPS

OTML continues its commitment to the Preferred Area (PA) people by providing training and education opportunities to PA's who don't have a parent working for the company.

A forum consisting of employees from the principle districts and sub districts of the North Fly region, meet mainly at the beginning of each year to discuss applications for training and education assistance.

In 2004, OTML through the Preferred Area Development Forum, approved 36 applications to attend full time study in Technical Training Certificates at different technical iInstitutions located around the country.

In addition, 10 applicants were awarded full time scholarships to attend universities to study while a further 564 Preferred Area applicants received various assistance to attend schools, private colleges and short course programs.

A total of 41 trainees are undergoing training in different traineeship programs in; Metal Fabrication & Welding, Carpentry Construction, Business Studies, Driver Training (Transport), Driver Training (Mine Operations), Power House operators, Motor Re-winders and Public Health.

"Tabubil Express", first train in the Western Province, built by apprentices as part of their trade training.

POST TRADE TAFE TRAINING

For the past nine years OTML has engaged TAFE Queensland to provide advanced post trade training to OTML tradesmen and women including contractors.

The focus of the training continues to be in the core trade areas; Electrical and Mechanical but the company continues to support the building trade diploma as this is seen as an important program for the village housing scheme.

In addition to the Electrical, Mechanical and Building diplomas, OTML is currently in negotiations with Box Hill TAFE to conduct Certificate/Diploma Programs in Instrumentation.

Mid 2004, thirteen participants (two from Lihir) completed the remaining two modules to be awarded diplomas in Technology Engineering (Mechanical). A further eleven participants are to complete their final two modules to qualify for their diplomas in February 2005.

Six Electrical/Electronics participants passed their diploma course towards the end of year while a further eight students passed their Mechanical diploma course.

GRADUATE DEVELOPMENT SCHEME

In 2004 the Graduate Development Scheme saw 178 graduates from various disciplines go through the two year cadetship program. A total of 12 new graduates were hired in 2004 alone.

The selection process includes obtaining names of top ten students in required disciplines from PNG Universities based on requests from line departments.

The graduate recruitment process begins with an initial testing that allows for only successful candidates to continue through the rest of the Assessment Centre which includes interviews with line departments, negotiation skills and case study exercises.

HUMAN RESOURCE MANAGEMENT

A leadership skills exercise has also been built into the Assessment Centre.

This year also saw a review in graduate rosters and salaries which will allow the scheme to be on par with other similar graduate schemes in the country, particularly in the mining industry.

OTML PRIZE AWARDS

2004 was the second year for OTML to issue prize awards to the best performing graduate in four main disciplines including Geology, Computer Science, Mining Engineering & Business Studies. The awards are spread over UPNG, UNITECH and Divine Word Universities.

RECRUITMENT AND RETENTION

The current worldwide increase in mining activity has created a strong demand for experienced PNG national and expatriate mining professionals, particularly in Engineering and Geology. Consequently, mining operations generally are experiencing difficulty in recruiting and retaining mining professionals. OTML is no exception. Strategies to offset this include increasing the intake of Graduates into the Graduate Development Scheme, and appointing more quality final year Tradesmen from the OTML Apprenticeship Training Scheme. At the same time a review and revision of the Terms & Conditions and the benchmarking of world trends in remuneration and other employment benefits are ongoing.

COMMUNITY RELATIONS

OTML is enjoying the best relationship the company has had for quite a long time with the local communities around the mine site and down the river and the company believes people are beginning to see a real demonstration of OTML's commitment to improving the lives of people throughout the Western Province.

OTML is now a recognised partner in supporting health and education services in the rural areas of Western Province and Telefomin in the Sandaun Province.

Lgistical difficulties and isolation are two of the greatest impediments to effective service delivery in the region.

Training courses such as Negotiation Skills are aimed at equiping employees with social interactive experience.

COMMUNITY RELATIONS

Under the new partnership quarterly health patrols involving both OTML and provincial health workers are to be carried out in the province.

The highlight of the 2004 programs was the patrol in October 2004 to administer the second phase of yaws treatment program. At the same time the team conducted general immunisation for children many of whom had not received vaccines for a long time.

Programs covered under the health patrol include child health care, antenatal and maternal health care, malaria and bed nets, filariasis, tuberculosis and leprosy.

Village Health Volunteer training programs are also conducted during the quarterly visits.

One of the highlights of 2004 was the renewal of the commitment by Ok Tedi Special Mining Lease landowners to ensure the mine continues to operate smoothly.

Leaders of mine villages of Kavorabip, Atemkit, Finalbin, Bultem, Wangbin and Migalsim sealed their support for Ok Tedi mine during the signing of a Memorandum of Agreement between themselves and the Western Provincial and National Government in Tabubil. The MOA relates to the benefits the local people receive from the operations of Ok Tedi mine.

Governor Bob Danaya (left) and Mining Minister Sam Akoitai agreeing to work together to ensure Ok Tedi mine benefits flow to the people of Western Province.

Thousands of children are destined for better health as a result of the new partnership between OTML and the Fly River Provincial Government.

The MOA requires the landowners not to disrupt OTML operations at any time during mine life should any problem arise that require resolution. The agreement also calls on the Western Provincial Government to implement the previously drawn up long term economic development plan for the Tabubil area while the National Government will ensure OTML continues its policy of giving business spin-offs to economically-sound local companies and running training programs designed to professionally develop the Preferred Area people and other Papua New Guinea nationals.

For their part, the landowners are now receiving 50 per cent of the royalties from OTML. The balance goes to the Western Province Government. Previously, the landowners received only 30 per cent of the royalties.

COMMUNITY RADIO STATION

Radio Fly, OTML's Tabubil-based community radio station which was launched in September 2004, is very popular amongst the local people and the workforce.

Radio Fly, which currently reaches communities as far as Telefomin, Lake Murray and parts of Middle Fly, broadcasts both entertainment and informative social awareness programs.

REGIONAL DEVELOPMENT

COMMUNITY MINE CONTINUATION AGREEMENT

The delivery of outstanding community projects was the main focus for Regional Development.. A total of 430 projects were delivered across the nine Trust regions by the end of 2004. The department achieved its target to deliver or close off over 95 per cent of the projects before the end of the year.

The projects included housing, motor vehicles, outboard motors and dinghies, musical instruments, sports equipment, sewing kits, HF radios and agricultural projects.

Community development training was also conducted with over 280 participants attending the Village Planning Committee program, 67 attending the sports administration course and 187 attending the sewing machine workshop.

DUDI DEVELOPMENT TRUST

Dudi Development Trust represents over 9,000 people in 16 villages along the South Bank of the South Fly Region. Payments made to Dudi trust from 2001 to 2004:

Investment Fund	K2.6 million
Development Fund	K1.6 million

KIWABA DEVELOPMENT TRUST

Kiwaba Development Trust represents over 4,000 people from 13 villages in the Kiwai and the Wabada group of islands in South Fly. Payments made to Kiwaba trust from 2001 to 2004:

Investment Fund	K1.7 million
Development Fund	K2.6 million

MANAWETE DEVELOPMENT FOUNDATION

The Manawete Development Foundation represents over 10,000 people in 21 villages along the North Bank of South Fly region. Payments made to Manawete from 2001 to 2004:

Investment Fund	K1.7 million
Development Fund	K2.6 million

MIDDLE FLY RIVER DEVELOPMENT FOUNDATION

The Middle Fly River Development Foundation represents over 8,000 people from 16 villages. Payments made to the trust by OTML from 2001 to 2004:

Community Members:	K7.8 million
Children's Fund:	K7.2 million
Development Fund:	K22 million

NUPMO DEVELOPMENT FOUNDATION

Nupmo Development Foundation represents over 3,000 people from 17 villages in the North Ok Tedi region. Payments made to Nupmo between 2001 and 2004:

Community Members:	K3.1 million
Investment Fund:	K0.8 million
Development Fund:	K0.9 million

SUKI FLY GOGO DEVELOPMENT FOUNDATION

Suki Fly Gogo represents almost 8,000 people in 16 villages in the South Fly region. Payments made to Suki Fly Gogo trust between 2001 and 2004:

Investment Fund:	K3.1 million
Development Fund:	K1.5 million

TUTUWE DEVELOPMENT FOUNDATION

The highway region covers 29 villages along the Tabubil Kiunga road. Payments made to Tutuwe between 2001 and 2004 :

Community Members:	K2.8 million
Investment Fund:	K1.8 million
Development Fund:	K2.4 million

WAI TRI DEVELOPMENT TRUST

Wai Tri covers 16 villages in the Lower Ok Tedi region with a total population of almost 4,000 people. Payments made to Wai Tri between 2001 and 2004:

Future Generation Fund:	K3.7 million
Development Fund:	K8.7 million

MINE VILLAGES

Under the CMCAs, Mine Villages comprise six communities located within the Special Mining Lease. They are Kavorabip, Atemkit, Finalbin, Bultem, Wangbin and Migalsimbip. The total population of the six communities is over 2,000. Payments made to Mine Villages between 2001 and 2004:

Kavorabip:	K1.4 million
Atemkit:	K1.4 million
Bultem:	K1.4 million
Finalbin:	K2.4 million
Wangbin:	K4.1 million
Migalsimbip:	K1.7 million

ALICE RIVER TRUST (ART)

The Lower Ok Tedi region is also benefiting from another agreement that was reached in 1997. Under this agreement the people have formed a trust called the Alice River Trust (ART).

Ok Tedi Mining Limited has been paying money annually to the ART. Projects that were implemented under this trust are: village housing scheme, sports equipment, uniforms, outboard motors and dinghies, school fees, business projects, sewing machines and second hand clothing,. Alice River Trust has an Education Assistance fund to assist students with school fees.

One of the youngest villagers to be surveyed in the Community Health Study conducted by the Environment Department in 2004.

FOOD SECURITY

An exposure trip arranged for a group of farmers is yielding positive results.

Manda farmers that went on the trip are planting more rice, vegetables and have dug fish ponds.Rice farming continues to progress with more and more local villagers growing rice. Hand mills have been purchased and distributed to local schools and farmers.

Institutional agriculture programs are also delivering positive results. Wangbin primary school is expected to harvest about 1 tonne of rice early in 2005.

Trout fish farm ponds at Bultem have been stocked with trout fingerlings. A joint collaboration with Australian Centre for International Agriculture Research (ACIAR) on the breeding and distribution of 2 native species of fish has commenced.

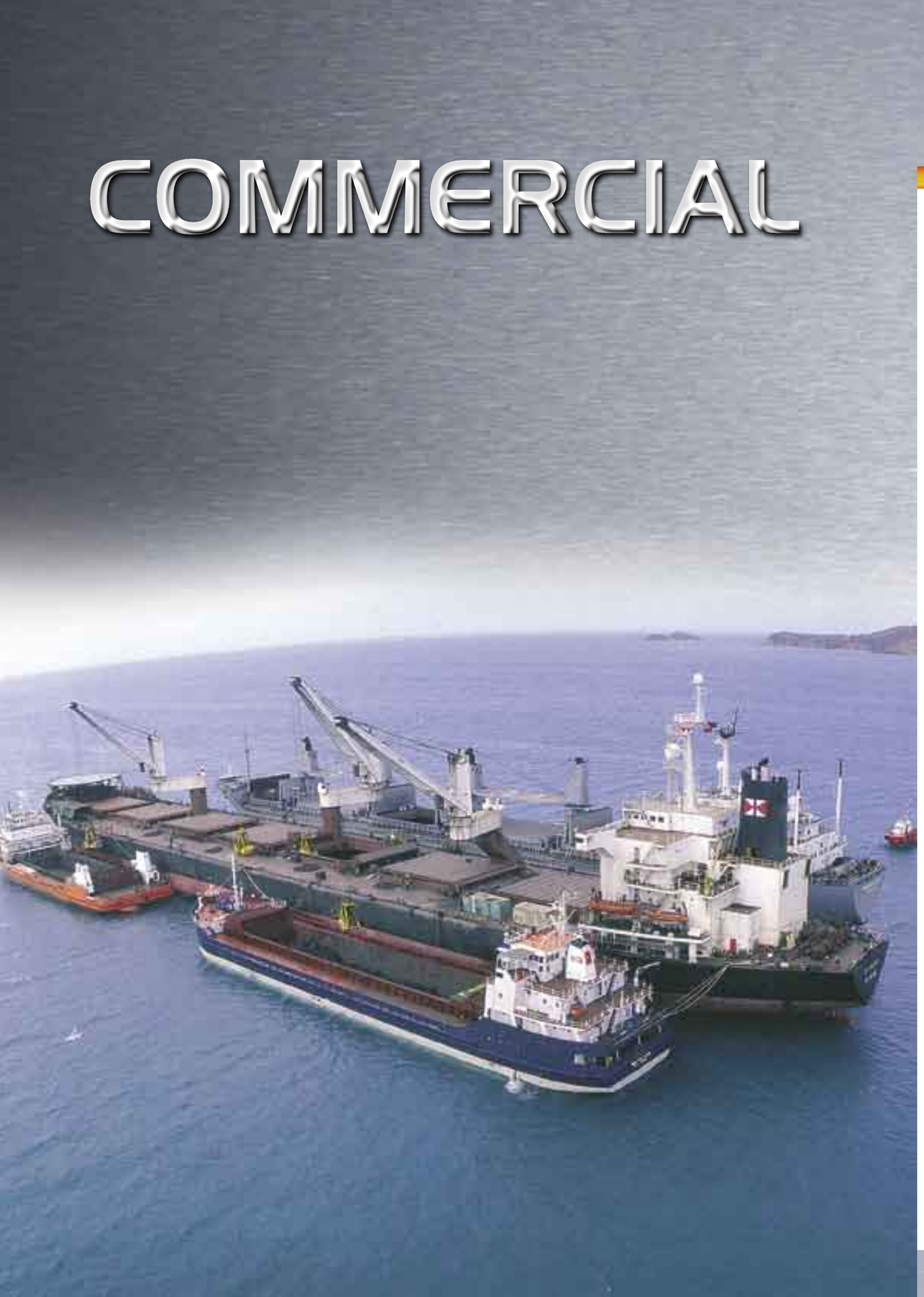
Discussions are underway with Queensland DPI towards the development of indigenous fish species for restocking river systems.

MINE CLOSURE PLAN

During the last decade of operation, OTML is legislatively required to submit an updated mine closure plan (MCP) every two years. Consistent with the State's "Ok Tedi Mine Closure and Decommissioning Code 2001", the 2004 MCP included a mine area rehabilitation plan covering identification of all lease areas impacted by the operation. In this regard, aerial photography and associated ground-truthing were undertaken in 2004 to assist the planning process. A formal presentation of the MCP was made to representatives of the State from Department of Mines, Department of Environment and Conservation and the Department of Provincial Affairs in February 2005.

The MCP includes specific activities and tasks to be addressed before the next submission in 2006.

COMMERCIAL



MARKETING REPORT

2004 was a most remarkable year for metal markets. Producers of copper, gold and silver such as OTML, benefited from the best combination of prices for these metals in many years during 2004. Notwithstanding, the copper price fluctuated dramatically during the year, albeit at high levels, as various influences came into play and the gold price, driven by a weakening US dollar, continued the climb which commenced in early 2001.

OTML's two main sources of revenue, copper and gold, reached 15 year and 16 year highs respectively in 2004 when the copper price soared to US$1.49/lb (US$3285/tonne) on October 11th and the gold price reached US$454.20/oz on December 2nd. The copper price averaged US$1.30/lb (US$2866/tonne) through 2004 compared with US$0.81/lb (US$1786/tonne) in 2003. The gold price averaged US$409/oz in 2004 compared with US$364/oz in 2003.

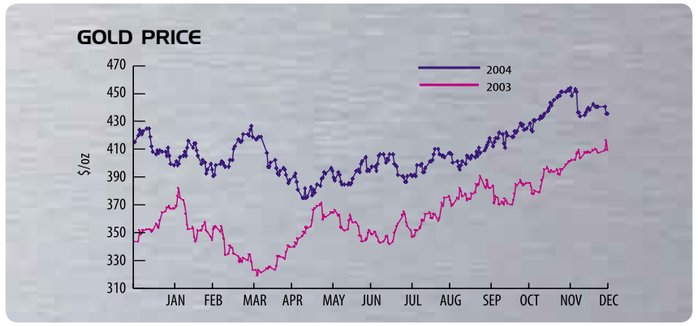
China continued to be the driving force in the copper market on the demand side although the Chinese Government was instrumental in a significant price reduction in April when certain economic measures intended to temper the booming Chinese economy were announced. Nonetheless, China continues to be the largest consumer in the world of copper, steel and cement. Appliance manufacturing, construction and power generation will continue to support copper consumption growth in China. The copper price was similarly supported by strong demand in North America and other parts of Asia.

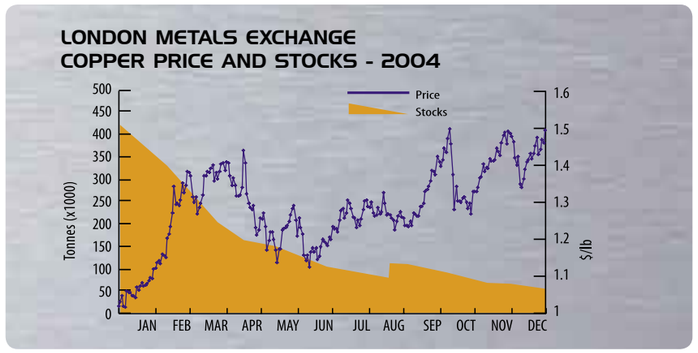
Low prices through 2001, 2002 and most of 2003 contributed to a downturn in mine production. As demand picked up in 2003 and 2004, a massive stock draw down in London Metals Exchange, Shanghai Futures Exchange and Comex warehouses was necessary to make up the production shortfall. This is well illustrated in the chart on the right.

LME warehouses alone contained 980,000 tonnes of refined copper in May 2002. This had reduced to 49,000 tonnes at the end of 2004. Low inventories have resulted in the copper price now being susceptible to sharp swings as investors buy and sell for short term gains. Adverse economic news has similarly affected the copper price in the short term. Fortunately the price fluctuations we are now experiencing are at relatively high levels because they are underpinned by strong market fundamentals as stocks remain low and demand remains strong.

A natural reaction to sustained high prices is an increase in production. As a copper concentrate producer, OTML is bound to pay copper smelters and refineries treatment and refining charges. Increased global mine production in 2004 resulted in a surplus of concentrate availability over smelter demand resulting in sharp increases in both spot and long term charges. Increased demand for most bulk products resulted in increased ocean freight rates in 2004 also. Freight and treatment and refining charges therefore partly offset the increased copper and gold prices.

OTML has a strategy of focusing its sales on Asian smelters while maintaining a geographical spread through contracts in Europe and India. Other markets are accessed through contracts with a number of traders. This ensures security of supply to large reputable consumers, exposure to a range of markets and protection from adverse market extremes. Unfortunately sales in 2004 were interrupted by dry weather in the latter part of the year. Nevertheless 600,000 tonnes of concentrate were sold to customers in Japan, Korea, China, the Philippines, India and Germany. This material contained 166,000 tonnes of copper, 470,000oz of gold and 1.1million oz of silver. OTML also produced 90 tonnes of gravity concentrate in 2004 containing 948 kg of gold. This was up from 66.5 tonnes in 2003 and further increases in production of this valuable material are planned for 2005.





FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2004

Your directors take pleasure in presenting their report on the affairs of the company, and its subsidiaries including the financial statements, for the year ended 31 December 2004.

ACTIVITIES

During the year the company has continued its principal activity of mining and processing copper ore. Shipments for the year totaled 598,622 (18 months 2003: 1,027,819) dry metric tons of copper concentrate.

FINANCIAL RESULTS

The group has performed well during the year partly as a result of increasing average prices for copper and gold. The group made a profit after tax of K506,100,000 as compared to profit after tax in the previous eighteen months reporting period of K363,714,000. Total shipments for the year were affected by the dry spell experienced in the last quarter of the year. In US dollar terms the result was a profit after tax of US$134,763,000 as compared to a profit after tax in the previous eighteen months of US$22,404,000.

DIRECTORS

The directors as at balance date were:
Mr R. Ross
Mr K. Faulkner - Managing Director
Prof. Ross Garnaut
Mr A. Roberts
Mr D. Zandee
Mr S. Tosali (appointed 29 July 2004)
Mr. C. Kote (Alternate to Mr Tosali – appointed 29 July 2004)

Mr K. Tarata passed away on 23 June 2004.

DIVIDENDS

The directors declared and paid interim and final dividends totalling K1.68 (2003: K1.88 toea) or 0.53 US cents (2003: 0.53 cents) per share. Gross dividends paid and provided for during the year amounted to K395,078,000 or US$123,450,000 (2003: K441,172,000 or US$125,970,000).

AUDITORS

Details of amounts paid to the auditors PricewaterhouseCoopers for audit and other services as shown in note 3(a) to the financial statements.

DONATIONS

The total amount of donations made by the company is stated in note 3(a) to the financial statements.

Original signed by:

Alan Roberts
CHAIRMAN

Keith Faulkner
MANAGING DIRECTOR

March 2005

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF OK TEDI MINING LIMITED

AUDIT OPINION

In our opinion,

a) the financial report of Ok Tedi Mining Limited:

(1) gives a true and fair view of the financial position of the Ok Tedi Mining Limited and the Ok Tedi Mining Group at 31 December 2004 and of their performance for the year ended on that date, and

(2) is presented in accordance with the Companies Act 1997, International Accounting Standards and other generally accepted accounting practice in Papua New Guinea

b) proper accounting records have been kept by the company 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

The financial report and directors' responsibility

The 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 both Ok Tedi Mining Limited (the company) and the Ok Tedi Mining Group (the group) for the year ended 31 December 2004. 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 financial report in accordance with the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

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

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

Independence

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

By: Stephen C Beach
Registered under the Accountants Act 1996
Lae

…….. 2005

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTE	Company 2004 K'000	Company 18 months 2003 K'000	Consolidated 2004 K'000	Consolidated 18 months 2003 K'000
Operating Revenue:					
Sales Revenue	2(a)	2,088,363	2,774,413	2,088,363	2,774,413
Other Operating Income	2(b)	2,972	2,486	2,972	2,486
		2,091,335	2,776,899	2,091,335	2,776,899
Deduct:					
Operating Costs	3(a)	1,380,409	2,242,508	1,368,065	2,254,903
Profit from Operating Activities		**710,926**	**534,391**	**723,270**	**521,996**
Net Finance Costs	3(b)	10,705	19,663	6,271	18,834
Profit From Ordinary Activities before Tax		**700,221**	**514,728**	**716,999**	**503,162**
Income Tax Expense	4	207,196	143,167	210,899	139,448
Net Profit After Income Tax		**493,025**	**371,561**	**506,100**	**363,714**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Share Capital K'000	Hedge Reserve K'000	Retained Earnings K'000	Company Total K'000	Retained Earnings K'000	Consolidated Total K'000
Balance at 30 June 2002		237,929	-	509,401	747,330	509,401	747,330
Net profit for 18 months period		-	-	371,561	371,561	363,714	363,714
Dividends	20	-	-	(441,172)	(441,172)	(441,172)	(441,172)
Change in fair value of derivative financial instruments	26	-	(54,954)	-	(54,954)	-	(54,954)
Movement in deferred tax asset	16	-	16,486	-	16,486	-	16,486
Balance at 31 December 2003		**237,929**	**(38,468)**	**439,790**	**639,251**	**431,943**	**631,404**
Net profit for the year		-	-	493,025	493,025	506,100	506,100
Dividends	20	-	-	(395,078)	(395,078)	(395,078)	(395,078)
Change in fair value of derivative financial instruments	26	-	(6,556)	-	(6,556)	-	(6,556)
Movement in deferred tax asset	16	-	1,967	-	1,967	-	1,967
Balance at 31 December 2004		**237,929**	**(43,057)**	**537,737**	**732,609**	**542,965**	**737,837**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTE	Company 2004 K'000	Company 2003 K'000	Consolidated 2004 K'000	Consolidated 2003 K'000
CURRENT ASSETS:					
Cash and Short Term Investments	5	267,089	289,061	271,530	289,061
Receivables	6	150,828	120,778	150,828	120,778
Inventories	7	308,037	220,096	308,037	220,096
Other	8	31,250	34,912	31,250	34,912
Derivative Financial Instruments	26	2,462	512	2,462	512
TOTAL CURRENT ASSETS		**759,666**	**665,359**	**764,107**	**665,359**
NON-CURRENT ASSETS:					
Inventories	9	-	-	-	-
Property, Plant and Equipment	10	353,042	325,917	353,042	325,917
Pre-production Expenditure	11	75,020	85,401	75,020	85,401
Restoration and Rehabilitation	12	50,608	171,538	50,608	171,538
Other	13	38,894	50,567	38,894	50,567
Financial Assurance Fund Receivable	25	98,055	86,615	103,268	75,049
Derivative Financial Instruments	26	1,300	365	1,300	365
TOTAL NON-CURRENT ASSETS		**616,919**	**720,403**	**622,132**	**708,837**
TOTAL ASSETS		**1,376,585**	**1,385,762**	**1,386,239**	**1,374,196**
CURRENT LIABILITIES:					
Creditors	14	98,807	93,463	98,807	93,463
Dividends Payable	20	81,642	56,912	81,642	56,912
Income Tax Payable		20,723	39,944	20,723	39,944
Provisions	15	59,526	52,917	55,655	48,359
Derivative Financial Instruments	26	17,704	8,125	17,704	8,125
TOTAL CURRENT LIABILITIES		**278,402**	**251,361**	**274,531**	**246,803**
NON-CURRENT LIABILITIES:					
Derivative Financial Instruments	26	58,887	65,625	58,887	65,625
Deferred Income Tax Liability	16	34,451	19,757	34,436	16,039
Provisions	17	29,548	28,449	37,860	33,006
Restoration and Rehabilitation	18	242,688	381,319	242,688	381,319
TOTAL NON-CURRENT LIABILITIES		**365,574**	**495,150**	**373,871**	**495,989**
TOTAL LIABILITIES		**643,976**	**746,511**	**648,402**	**742,792**
NET ASSETS		**732,609**	**639,251**	**737,837**	**631,404**
SHAREHOLDERS' EQUITY:					
Issued Capital	19	237,929	237,929	237,929	237,929
Hedge Reserve		(43,057)	(38,468)	(43,057)	(38,468)
Retained Earnings		537,737	439,790	542,965	431,943
TOTAL SHAREHOLDERS' EQUITY		**732,609**	**639,251**	**737,837**	**631,404**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
CASH FLOW FROM OPERATING ACTIVITIES:				
Receipts from customers	2,057,678	2,306,649	2,057,678	2,306,649
Payments to suppliers and employees	(1,261,054)	(1,427,198)	(1,265,785)	(1,427,198)
Interest received	1,784	3,483	6,238	4,312
Finance charges paid	(3,969)	(6,399)	(3,969)	(6,399)
Realised Hedge Settlement with MBL	(4,893)	-	(4,893)	-
Royalty payments	(35,945)	(46,307)	(35,945)	(46,307)
Mining levy paid	(40,621)	(68,739)	(40,621)	(68,739)
Amounts paid to compensation trust fund	(12,692)	(12,315)	(12,692)	(12,315)
Amounts paid to Financial Assurance Fund	(28,496)	(86,615)	-	-
Amounts paid under Mine Continuation Agreements	(12,544)	(30,220)	(12,544)	(30,220)
Amounts paid to Share in Success Scheme	(19,099)	-	(15,280)	-
Income tax paid	(203,307)	(154,815)	(203,307)	(154,815)
Net Cash Flows From Operating Activities	**436,842**	**477,524**	**468,880**	**564,968**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(80,085)	(50,674)	(80,085)	(50,674)
Proceeds from sale of property, plant and equipment	163	429	163	429
Financial Assurance Fund Investment	-	-	(28,219)	(75,049)
Net Cash Flows From Investing Activities	**(79,922)**	**(50,245)**	**(108,141)**	**(125,294)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid	(365,284)	(414,822)	(365,284)	(414,822)
Net Cash Flows From Financing Activities	**(365,284)**	**(414,822)**	**(365,284)**	**(414,822)**
Net (decrease)/increase in cash held	(8,364)	12,457	(4,545)	24,852
Cash at the beginning of the period	289,061	282,725	289,061	282,725
Foreign exchange effect on foreign currency balances	(13,608)	(6,121)	(12,986)	(18,516)
CASH AT THE END OF THE PERIOD	**267,089**	**289,061**	**271,530**	**289,061**
CASH COMPRISES:				
Cash and bank balances	**267,089**	**289,061**	**271,530**	**289,061**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
Net profit after taxation	493,025	371,561	506,100	363,714
Add back non cash items and reclassified amounts:				
Depreciation and amortisation	63,201	129,378	63,201	129,378
Amortisation - Restoration and Rehabilitation	8,435	39,586	8,435	39,586
Amortisation – Lower Ok Tedi Compensation	1,853	3,023	1,853	3,023
Non cash finance charges	9,812	16,721	9,812	16,721
Net (profit)/loss on sale of Property, Plant & Equipment	(23)	9,097	(23)	9,098
Net exchange (gain)/loss	(9,960)	32,970	(10,582)	45,364
Unrealised hedging losses (net)	(6,599)	17,562	(6,599)	17,562
Amounts credited to provisions against assets	10,184	8,143	10,184	8,143
Changes in assets and liabilities:				
(Increase)/Decrease in trade and other debtors	(28,983)	(24,427)	(28,983)	(24,427)
(Increase)/Decrease in other receivables	12,208	13,719	12,208	13,719
(Increase)/Decrease in inventories	(97,920)	(31,011)	(97,920)	(31,011)
Increase/(Decrease) in trade and other creditors	5,344	1,606	5,346	1,606
Increase/(Decrease) in provisions	(21,175)	(99,202)	(5,295)	(12,587)
Increase/(Decrease) in income tax provision	(19,221)	(7,027)	(19,221)	(7,027)
Increase/(Decrease) in deferred tax provision	16,661	(4,175)	20,364	(7,894)
Net Cash Inflows from Operating Activities	**436,842**	**477,524**	**468,880**	**564,968**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2004

1. PRINCIPAL ACCOUNTING POLICIES

These financial statements are prepared in accordance with the Papua New Guinea Companies Act 1997 and comply with International Accounting Standards and other generally accepted accounting practices in Papua New Guinea. All amounts are stated in Papua New Guinea Kina, the functional currency of the Company, rounded to the nearest thousand kina.

(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 for 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 the significant risks and rewards of ownership have been transferred to the buyer, the Company no longer has control over the goods and the amount of revenue can be reliably estimated. 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 three month forward price for copper and spot prices at year end for gold and silver.

The prices used at 31 December 2004 were US$1.4085 per pound for copper, US$437.35 per ounce for gold and US$6.79 per ounce for Silver.

(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.

(c) Mineral Hedging (Continued)

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.

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 2012. (2003: 2010). The impact of a change in life of mine estimate is applied prospectively from the beginning of the current accounting period.

(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 risk adjusted interest rate of 4.0%. 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.

(f) Restoration and Rehabilitation (Continued)

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.

(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.

Where payments are contingent upon mine continuation, the anticipated amounts payable annually are accrued on a pro-rata basis. 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 inventories 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 2004 for United States dollars and Australian dollars were 0.3249 and 0.4167 equal to one Kina respectively (2003 – 0.3045 and 0.4054 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.

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2004

(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 on behalf pf its employees and contributions are charged direct to the profit and loss account when payable. Once the contributions have been paid, the Company has no further payment obligations.

(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:

	Company		Consolidated	
	2004 K'000	**2003 K'000**	**2004 K'000**	**2003 K'000**
Property, plant and equipment	353,042	325,917	353,042	325,917
Pre-production costs	75,020	85,401	75,020	85,401
Restoration and rehabilitation	50,608	171,538	50,608	171,538
Lower Ok Tedi (LOTL) Compensation	11,113	13,100	11,113	13,100
Roadco prepayment	29,233	32,886	29,233	32,886
Total unexpected costs	**519,016**	**628,842**	**519,016**	**628,842**

(r) Impairment of Assets

Impairment of assets is 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.

		Company		Consolidated	
		2004 K'000	**2003 K'000**	**2004 K'000**	**2003 K'000**
2.(a)	**SALES REVENUE**				
	Copper	1,463,576	1,814,422	1,463,576	1,814,422
	Gold	605,944	936,959	605,944	936,959
	Silver	18,843	23,032	18,843	23,032
		2,088,363	**2,774,413**	**2,088,363**	**2,774,413**
2.(b)	**OTHER OPERATING INCOME**				
	Commitment fees reimbursed:				
	PNG Sustainable Development Program Company Ltd	-	1,735	-	1,735
	Other	2,972	751	2,972	751
		2,972	**2,486**	**2,972**	**2,486**

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
3. (a) OPERATING COSTS				
Changes in inventories of product on hand and in process (increase)/decrease	(63,591)	(1,249)	(63,591)	(1,249)
Operating costs, external charges and materials	387,478	711,666	375,134	724,061
Contractors and consultants	270,232	393,337	270,232	393,337
Consumables	331,023	435,300	331,023	435,300
Services and others	202,507	249,668	202,507	249,668
Salaries, wages and associated staff costs (note 31)	178,113	253,375	178,113	253,375
(Profit)/Loss on sale of non-current assets	(23)	9,097	(23)	9,097
Losses on derivative financial instrument (note 26)	1,181	19,326	1,181	19,326
Depreciation of property, plant and equipment	52,820	106,986	52,820	106,986
Amortisation of restoration and rehabilitation asset	8,435	39,586	8,435	39,586
Amortisation of LOTL – Compensation asset	1,853	3,023	1,853	3,023
Amortisation of pre-production expenditure	10,381	22,393	10,381	22,393
	1,380,409	**2,242,508**	**1,368,065**	**2,254,903**
Included in operating profit before tax are the following items::				
Auditor's remuneration				
- auditing	362	433	362	433
- other services	160	150	160	150
Charge to provision for employee benefits	27,303	18,865	27,303	18,865
Charge to provision for obsolete stock	9,979	7,843	9,979	7,843
Roadco user charge amortisation	3,654	7,589	3,654	7,589
Charge to provision for compensation	10,153	14,005	10,153	14,005
Charge to provision for doubtful debts	205	300	205	300
Donations	205	245	205	245
Charge to provision for Community Mine Continuation Agreements (CMCA)	14,520	22,713	14,520	22,713
Royalties paid/payable	22,665	29,327	22,665	29,327
Mining levy paid/payable	40,671	65,322	40,671	65,322
Legal fees paid	2,007	4,440	2,007	4,440
Net foreign exchange (gains)/loss	19,236	4,684	6,892	4,684
Operating lease expense	107,250	195,090	107,250	195,090
3. (b) FINANCE COSTS				
Interest income	(1,784)	(3,483)	(6,238)	(4,312)
Realisation of discount on long term provisions:				
Compensation	388	664	388	664
Restoration and rehabilitation	9,424	16,057	9,424	16,057
Finance charges	2,677	6,425	2,697	6,425
	10,705	**19,663**	**6,271**	**18,834**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2004

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
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 for the period	700,221	514,728	716,999	503,162
Income tax on the profit for the period at 30%	210,066	154,418	215,100	150,949
Tax effect of permanent differences:				
Non-deductible items	-	539	-	538
Non-taxable income (809)	(7)	(2,140)	(256)	
Under / (Over) provision in prior years	(1,112)	(11,315)	(1,112)	(11,315)
Double deduction - staff training	(949)	(468)	(949)	(468)
	207,196	143,167	210,899	139,448
Tax expense comprises:				
Income Tax - current year	199,397	157,946	199,397	158,004
- prior year adjustments	(1,112)	(11,315)	(1,112)	(11,315)
Deferred Tax - current year	8,911	(3,464)	12,614	(7,241)
- prior year adjustments	-	-	-	-
	207,196	**143,167**	**210,899**	**139,448**
5. CASH AND SHORT TERM INVESTMENTS				
Cash at bank and on hand	267,089	289,061	267,089	289,061
Share in Success Scheme Ltd	-	-	4,441	-
	267,089	**289,061**	**271,530**	**289,061**
6. RECEIVABLES (CURRENT)				
Accounts receivable - trade	140,862	107,204	140,862	107,204
Accounts receivable - sundry	10,694	14,097	10,694	14,097
	151,556	121,301	151,556	121,301
Less: Provision for doubtful debts (refer note below)	728	523	728	523
Total Current Receivables	**150,828**	**120,778**	**150,828**	**120,778**
Provision for doubtful debts				
Opening balance 523	223	523	223	
Additional provision 205	300	205	300	
Write-offs applied to provision	-	-	-	-
	728	**523**	**728**	**523**

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
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	Company		Consolidated	
	2004	18 months 2003	2004	18 months 2003
	K'000	K'000	K'000	K'000
7. INVENTORIES (CURRENT)				
Consumables:				
Spare parts and consumables	115,748	97,738	115,748	97,738
Goods in transit	33,384	27,044	33,384	27,044
	149,132	124,782	149,132	124,782
Concentrate:				
Product in process	34,010	26,499	34,010	26,499
Product on hand	124,895	68,815	124,895	68,815
	158,905	95,314	158,905	95,314
	308,037	**220,096**	**308,037**	**220,096**
8. OTHER ASSETS (CURRENT)				
Prepayments	29,344	33,006	29,344	33,006
Home Ownership Scheme loans receivable	1,906	1,906	1,906	1,906
	31,250	**34,912**	**31,250**	**34,912**
9. INVENTORIES (NON-CURRENT)				
Spare parts and consumables	25.500	15,521	25.500	15,521
Less: Provision for obsolete stock	25,500	15,521	25,500	15,521
Total Non-Current Inventories	-	-	-	-
Provision for obsolete stock				
Opening balance	15,521	7,678	15,521	7,678
Provisions created	9,979	7,843	9,979	7,843
Less: Inventory write-offs applied to provision	-	-	-	-
Closing balance	**25,500**	**15,521**	**25,500**	**15,521**

	Land and Buildings K'000	Plant Machinery and Equipment K'000	Capital Works in Progress K'000	Total K'000
10. PROPERTY, PLANT AND EQUIPMENT				
31 December 2003				
Opening cost	304,151	893,670	9,533	1,207,354
Opening accumulated depreciation	(222,243)	(659,194)	-	(881,437)
Opening net book amount	81,908	234,476	9,533	325,917
Additions	-	-	80,085	80,085
Transfer from Capital Works in Progress	540	45,748	(46,288)	-
Disposals and adjustments	-	(140)		(140)
Depreciation charge	(9,197)	(43,623)	-	(52,820)
Net book value at 31 December 2004	**73,251**	**236,461**	**43,330**	**353,042**
Cost	304,691	935,216	43,330	1,283,237
Accumulated depreciation	(231,440)	(698,755)	-	(930,195)
Net book value at 31 December 2004	**73,251**	**236,461**	**43,330**	**353,042**

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 K90,459,743 (31 Dec 2003: K101,767,211). 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.

	Company		Consolidated	
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
11. PRE-PRODUCTION EXPENDITURE				
Opening net book amount	85,401	116,538	85,401	116,538
Disposals and adjustments	-	(8,744)	-	(8,744)
Reclassifications	-	-	-	-
Amortisation	(10,381)	(22,393)	(10,381)	(22,393)
	75,020	**85,401**	**75,020**	**85,401**
Cost	384,940	384,940	384,940	384,940
Accumulated amortisation	(309,920)	(299,539)	(309,920)	(299,539)
Net book value 31 December 2004	**75,020**	**85,401**	**75,020**	**85,401**

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
12. RESTORATION AND REHABILITATION ASSET				
Opening net book amount	171,538	211,124	171,538	211,124
Re-assessment of expected restoration and rehabilitation costs	(112,495)	-	(112,495)	-
Amortisation	(8,435)	(39,586)	(8,435)	(39,586)
	50,608	**171,538**	**50,608**	**171,538**
Cost	141,998	254,493	141,998	254,493
Accumulated amortisation	(91,390)	(82,955)	(91,390)	(82,955)
Closing balance	**50,608**	**171,538**	**50,608**	**171,538**
13 OTHER ASSETS (NON-CURRENT)				
Roadco prepayment {refer note 1(m)	24,173	27,827	24,173	27,827
Home Ownership Scheme loans	2,671	3,242	2,671	3,242
Advance to Starwest (A)	-	4,926	-	4,926
Prepaid lease costs	937	1,472	937	1,472
LOTL - Compensation asset (B)	11,113	13,100	11,113	13,100
Total Other Assets Non-Current	**38,894**	**50,567**	**38,894**	**50,567**

A. This advance is secured under an operating lease for Hydraulic Excavators and is repayable in equal instalments of US$166,667 with the final instalment payable in 2005. The current portion of the advance is K6.3million 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	94,244	82,580	94,244	82,580
Accounts payable - other	4,563	10,883	4,563	10,883
	98,807	**93,463**	**98,807**	**93,463**
15. PROVISIONS (CURRENT)				
Employee entitlements (refer note 17)	22,379	16,589	22,379	16,589
Compensation provision - 8th Supplemental (note 17)	9,448	8,998	9,448	8,998
- Lower Ok Tedi (note 17)	2,097	2,041	2,097	2,041
Mine Continuation Agreement Provision (note 15a)	4,477	2,501	4,477	2,501
Share in Success Scheme (SISS) Provision (note 24)	21,125	22,788	17,254	18,230
Total Current Provisions	**59,526**	**52,917**	**55,655**	**48,359**
15a. Mine Continuation Agreement (Current)				
Opening balance	2,501	10,008	2,501	10,008
Provisions created	14,520	22,713	14,520	22,713
Less: Payments made against the provision	(12,544)	(30,220)	(12,544)	(30,220)
Closing balance	**4,477**	**2,501**	**4,477**	**2,501**

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	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
16. DEFERRED TAX (NON CURRENT)				
Deferred Income Tax :				
- Provisions	(59,246)	(67,731)	(59,246)	(67,731)
- Prepayments / Consumable stock	63,401	54,745	63,401	54,745
- Fixed assets	48,833	48,415	48,833	48,415
- Trading stock tax valuation	6,176	3,178	6,176	3,178
- Hedging	(18,453)	(16,486)	(18,453)	(16,486)
- Others	(6,260)	(2,364)	(6,275)	(6,082)
	34,451	**19,757**	**34,436**	**16,039**
17. OTHER PROVISIONS (NON CURRENT)				
Employee entitlements	21,946	17,803	21,946	17,803
Lower Ok Tedi Compensation (refer note below)	7,602	10,646	7,602	10,646
Employee incentives (SISS) provision (note 24)	-	-	8,312	4,557
Total Other Provisions (Non Current)	**29,548**	**28,449**	**37,860**	**33,006**
Employee entitlment (Current and Non current)				
Opening balance	34,392	25,892	34,392	25,892
Provisions created	27,303	16,149	27,303	16,149
Less: Payments made against the provision	(17,370)	(7,649)	(17,370)	(7,649)
Closing balance	**44,325**	**34,392**	**44,325**	**34,392**
Current (refer note 15)	22,379	16,589	22,379	16,589
Non Current	21,946	17,803	21,946	17,803
Cosing balance	**44,325**	**34,392**	**44,325**	**34,392**
Compensation provision (Current and Non current)				
Opening balance	21,686	19,995	21,686	19,995
Provisions created	10,153	14,005	10,153	14,005
Less: Payments made against the provision	(12,692)	(12,314)	(12,692)	(12,314)
Closing balance	**19,147**	**21,686**	**19,147**	**21,686**
Current (refer note 15)	11,545	11,040	11,545	11,040
Non Current	7,602	10,646	7,602	10,646
Closing balance	**19,147**	**21,686**	**19,147**	**21,686**

		Company 18 months		Consolidated 18 months
	2004 K'000	2003 K'000	2004 K'000	2003 K'000
18. RESTORATION AND REHABILITATION (NON CURRENT)				
Restoration and Rehabilitation	**242,688**	**381,319**	**242,688**	**381,319**
Restoration and Rehabilitation provision (Current and Non Current)				
Opening balance	381,319	428,738	381,319	428,738
Re-assessment of provision	(112,495)	-	(112,495)	-
Impact of change in foreign exchange on provision	(35,560)	(63,476)	(35,560)	(63,476)
Interest charged	9,424	16,057	9,424	16,057
Closing balance	**242,688**	**381,319**	**242,688**	**381,319**

19. PAID UP CAPITAL

Issued and paid up capital:				
235,000,000 ordinary shares with no par value	**237,929**	**237,929**	**237,929**	**237,929**

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 year ended 31 December 2004 totaled K348,390,000. An amount of K438,259,000 was carried forward from the prior year.

		Company 18 months		Consolidated 18 months
	2004 K'000	2003 K'000	2004 K'000	2003 K'000
Prior financial year:				
First interim dividend	-	118,438	-	118,438
Second interim dividend	-	-	-	-
Third interim dividend	131,352	-	131,352	-
Final dividend	107,215	122,491	107,215	122,491
Current financial year:				
First interim dividend	156,511	68,143	156,511	68,143
Second interim dividend	-	132,100	-	132,100
Total	**395,078**	**441,172**	**395,078**	**441,172**

Dividend declared of K81,642,000 (2003: K56,912,000) on shares held by Mineral Resources Ok Tedi No.2 Ltd, remain payable by the company pending their instructions as to payment.

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
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	Company 18 months		Consolidated 18 months	
	2004 K'000	2003 K'000	2004 K'000	2003 K'000
21. CONTINGENT LIABILITIES				
Bank South Pacific	93	93	93	93
Total Guarantees	93	93	93	93

Credit Facility Covenants

OTML has an unutilised credit facility with WestLB for $75 million. If funds are withdrawn then 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

Litigation

No litigation of a significant nature currently underway.

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:

Due within 1 year	97,886	90,222	97,886	90,222
Due within 1-2 years	89,599	75,331	89,599	75,331
Due within 2-5 years	157,715	169,085	157,715	169,085
Due after 5 years	9,777	33,120	9,777	33,120

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

	Basis	*Expiry dates*	*Renewal options*	*Restrictiions*
Sea Transport	Daily rates	December 2009	Yes	No
Air Transport	Monthly rates	August 2008	Yes	No
Hydraulic Excavators	Monthly rates	July 2005	Yes	No
Other property and equipment	Daily rates	October 2006	Yes	No

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22. COMMITMENTS

(b) Capital Expenditure

At 31 December 2004 the company had contracted for capital commitments totaling K3,594,772 which are not provided for in the accounts (31 Dec 2003: K5,275,403).

(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 K175.3 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 2012.

23. INSURANCE

The company self insures the first K7,694,675 (2003: K8,210,181) and 50% of any loss incurred on the first K76,946,753 in excess of K7,694,675 of its insurable property risks. The company self insures the first K61,557,402 (2003: K65,681,445) and 50% of any loss incurred on the first K76,946,753 in excess of K65,681,445 of its insurable business interruption risks under its Industrial Special Risks Policy.

Previously the Liability program ran from 30 November to 30 November. It now runs November to 30 June 2005, to coincide with the Property and BI renewal so that all insurances renew on 30 June 2005.

24. INVESTMENT IN SUBSIDIARIES

The holding company's investment in subsidiaries comprises shares at cost.

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

Ok Tedi Development Foundation Limited

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

24. INVESTMENT IN SUBSIDIARIES (Cont.)

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 and translated based on the month-end exchange rate). As at 31 December 2004, the company had the following liability:

	Company		Consolidated	
	18 months		18 months	
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
Opening balance	22,788	-	22,788	-
Provisions created	18,058	22,788	18,058	22,788
Less: Payments made against the provision	(19,099)	-	(15,280)	-
Less: Exchange variance	(622)	-	-	-
Total	**21,125**	**22,788**	**25,566**	**22,788**

25. 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. Contributions to the Fund are recorded at cost and the Company does not recognize any income or exchange gains and losses on Fund assets.

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 2004 comprised cash on Deposit of K103.3 million with Standard Bank Offshore Trust Company (Jersey) Ltd.

Total contributions by the Company to the Fund and the consolidated Fund equity are summarised as follows:

	Company		Consolidated	
	18 months		18 months	
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
Opening balance	86,615	-	75,049	-
Payment	28,496	86,615	28,496	86,615
Interest earned	-	-	4,436	631
Exchange variance	(17,056)	-	(4,713)	(12,197)
Total Contributions	**98,055**	**86,615**	**103,268**	**75,049**

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	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
26. FINANCIAL INSTRUMENTS				
(a) Derivative Financial Instruments				
Current Assets				
Lease rate swap	2,462	512	2,462	512
Non-current Assets				
Lease rate swap	1,300	365	1,300	365
Current Liability				
Forward contracts	(17,704)	(7,294)	(17,704)	(7,294)
Put options	-	(831)	-	(831)
	(17,704)	(8,125)	(17,704)	(8,125)
Non-current Liability				
Forward contracts	(58,849)	(62,006)	(58,849)	(62,006)
Lease rate swaps	(38)	(3,619)	(38)	(3,619)
	(58,887)	(65,625)	(58,887)	(65,625)
Net Derivative Financial Instruments	**(72,829)**	**(72,873)**	**(72,829)**	**(72,873)**

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

No additional contracts were entered into in 2004.

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$*
Oct 2004 – June 2005	Quarterly	18,750	56,250	366.00
Sept 2005 – June 2006	Quarterly	18,750	75,000	368.00
Sept 2006 – June 2007	Quarterly	18,750	75,000	370.00
Sept 2007 – June 2008	Quarterly	18,750	75,000	372.00
			281,250	

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.

FINANCIAL INSTRUMENTS (Continued)

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 K319.6 million, based on the month-end exchange rate (31 Dec 2003: K411.8million). Gross income based on the same number of ounces at the prevailing spot price at 31 December 2004 of US$438.40 (31 Dec.2003: US$415.75) would be K379.5 million (31 Dec.2003: K464.2 million).

At balance date, the estimated fair value of the total hedge portfolio was determined by an independent financial institution to be K72.83 million (based on the month-end exchange rate) out of the money (31 Dec.2003: K72.87 million). This represents the amount the company would be required to pay if it terminated all derivative financial instruments at 31 December 2004.

K61.51 million (31 Dec. 2003: K54.9 million) of this liability has been recognized as effectively hedged and accordingly has been deferred and transferred to equity as hedge reserve.

Included in operating profit for the period is derivative financial instrument income of:

	Company		Consolidated	
		18 months		18 months
	2004	2003	2004	2003
	K'000	K'000	K'000	K'000
Gold - Realized gain/(loss)	(4,893)	(3,496)	(4,893)	(3,496)
- Unrealised gain/(loss)	3,712	(15,830)	3,712	(15,830)
Total hedging gain/(loss)	(1,181)	(19,326)	(1,181)	(19,326)

(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.

OK TEDI MINING LIMITED AND ITS SUBSIDIARIES
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27. 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 PNGSDP with any control over the company independent from other shareholders.

The following related party transactions were between the Company and PNGSDP.

Amount receivable from related party
Total amounts receivable at 31 December 2004 totaled K589,000 (2003: KNil).

Transactions during the period
Commitment fees reimbursed totaled K1,217,000 (2003: K1,735,000).

28. RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

		Company 18 months		**Consolidated 18 months**
	2004 K'000	**2003 K'000**	**2004 K'000**	**2003 K'000**
Assets:				
Cash - US Dollars	255,891	86,440	255,891	86,440
- Australian Dollars	7,351	1,884	7,351	1,884
Receivables – US Dollars	140,862	112,130	140,862	112,130
Advances to Starwest – US Dollars	4,617	9,859	4,617	9,859
Financial Assurance Fund Receivable	98,055	86,615	103,268	75,049
Liabilities				
Payables - US Dollars	14,830	10,859	14,077	10,859
- Australian Dollars	26,214	19,918	26,214	19,918
Dividend Provision - US Dollars	81,642	56,912	81,642	56,912
Provision for Share in Success Scheme - US Dollars	21,125	22,788	21,125	22,788
Restoration and Rehabilitation Provision - US Dollar	242,688	381,319	242,688	381,319

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

29. 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.

30. POST BALANCE DATE EVENTS
There were no significant events requiring additional disclosure from 31 December 2004 to the date of this report.

31. EMPLOYEE BENEFITS
The average number of people employed by the company during the year was 1,993 (31 Dec 2003: 1,974).

Staff costs comprise of the following:

	Company 18 months		**Consolidated 18 months**	
	2004 K'000	**2003 K'000**	**2004 K'000**	**2003 K'000**
Salaries and wages	141,153	201,953	141,153	201,953
Contribution to retirement benefit funds	6,374	8,977	6,374	8,977
Fringe benefits	12,528	19,657	12,528	19,657
Share in Success Scheme (SISS)	18,058	22,788	18,058	22,788
	178,113	**253,375**	**178,113**	**253,375**

32. SEGMENT REPORTING
The company produces copper and gold in Papua New Guinea.

OTML MANAGEMENT STRUCTURE

OTML BOARD

Mr Alan Roberts
CHAIRMAN

Mr Dick Zandee
INDEPENDENT DIRECTOR

Mr Jochen Tilk
DIRECTOR
President and Chief Operation Officer Inmet Mining Corporation

Mr Simon Tosali
DIRECTOR
Acting Secretary for Treasury GoPNG

Prof Ross Garnaut
DIRECTOR
Chairman PNG Sustainable Development Program Limited

Mr Keith Faulkner
MANAGING DIRECTOR

OTML EXECUTIVE MANAGEMENT

Mr Collin Williams
GENERAL MANAGER
Operations

Mr Peter Logvyn
GENERAL MANAGER
Commercial

Mr David Masani
GENERAL MANAGER
Community and Business Support

Mr Robin Moaina
GENERAL MANAGER
Corporate Relations

Kiunga


WESTERN TRIUMPH
PORT MORESBY

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