

THE OPPORTUNITY PRESENTED BY BCL AS A GOING CONCERN
 (Updated on March 21, 2007)

1. SUMMARY

It is proposed to convert the present economic crisis in Bougainville to a turning point in the lives of all landowners as well as our brothers in Bougainville. The following Table shows Kina values to compare what the Old BCA delivered to Bougainvilleans with what the proposed New BCA will deliver.

	National Government Dividends	National Government Taxes	National Government Total Income	National Government Value of Shares	Bougainville (NSP in 88 ABG now) Annual Income	ABG Value Of Shares	Landowners
OLD BCA 1988	K 20.6 M	K 93.2 M	K 113.8 M	K275 M	K5.5 M	Nil	K0.2 M
NEW BCA 2006	K92Million p.a. From 2008	K430 M p.a. from 2010	K 522 M p.a. From 2010	K1.4 Billion	K522 M p.a. from 2010	K1.4 Billion	K143 M royalty plus K92 M p.a. div = K235 m p.a. from 2008. Plus Shares valued at K1.4 B

There is a big quantum leap in benefits for Bougainville:

- New BCA provides ABG/Bougainville income from dividends and taxation of about K522 Million p.a.; this is a whopping increase from merely K5.5 Million received per annum in the pre 1988 era; This is a hundred fold increase.
- New BCA provides for Landowners to receive about K235 Million per annum from about 2008 compared with about K0.2 Million p.a. in the pre 1988 era. This is a 1000 fold increase
- New BCA provides equity ownership by ABG and Landowners each of some K1.4 Billion worth of shares in BCL compared with zero shares earlier. This will deliver prosperity and wealth to people who have had no access to good health, education and well being of future generations.

It is obvious that this will be the biggest step forward for Bougainville in their history and all Bougainvilleans need to be united in the pursuit of this goal. The two big hurdles to be overcome are:

- acceptance by the National Government
- acceptance by BCL

Bougainvilleans need to apply good wisdom and do what people would do elsewhere in the world. Say “Yes” to “Good Fortune” and Say “No” to “Misfortune” **Here is a mine worth K 4.4 Billion to us capable of producing K 1.2 Billion per annum (K522 Million each per annum for National Government and ABG/Bougainvilleans and K235 Million per annum for Landowners),** for us per annum without us having to spend money on it. It will create thousand of jobs for us and provide a FREEPASS to every Bougainvillean for free education, free healthcare and good income opportunities.. Every day of inaction on our part costs us K3.5 million of lost revenue; .

II. Root Cause of the Problem

The root cause of the problem was the unfair distribution of income amongst the three main interest groups viz Landowners, North Solomon Provincial Government and the National Government. During its 17 years of life from 1972 to 1989, 58.4% of benefits received from the mine went to the National Government, and only 4.8% to the Provincial Government with merely 0.2% going to Landowners. The remaining 36.6% went to Non Government shareholders for their risk capital, technology and management; that was quite fair.

III. 1987 Production and Prices

In 1987 when there was no Additional Profits Tax, when average **copper price was US 81 cents per pound and gold price was USD 446.7 per troy ounce**, the Earnings per share were 24.83 USc (Earnings of USD 99.55 Million). Total concentrate produced was 585,500 Tonnes grading 30.4% Copper, and 25.1 grams per tonne of gold. This corresponds to 177,992 Tonnes of copper or 392 Million pounds worth USD 318 Million at US 81 c per pound plus $585,500 \times 25.8/31.1 = 485,720$ troy ounces worth USD 217 Million.

IV. Assumptions

- 1) Current price of copper at USD3.02 per pound and gold at USD 654 per troy ounce.
- 2) A capital investment of USD 1,500 Million which will be made wholly via loans by BCL at an interest rate of 6.5% per annum, with loan repayment in about 6 years of over USD 300 Million per annum. In Year 1 the interest cost would be USD 97.5 Million. The loan of USD 1500 Million would be fully repaid in six years from profits.

- 3) No new shares will be issued by BCL. (This will help in maximizing the value of shares as well as Dividends received by the National Government, ABG and Landowners). The 76.4 million shares owned by the National Govt of 76.4 million shares will be divided in three tranches of 25.48 million each for National Govt, People of Bougainville/ABG and Landowners
- 4) There shall be no dividend withholding tax.
- 5) A tax rate of 30% will apply from 2010. This tax will be split equally and paid directly by BCL to the ABG and the National Government
- 6) Current exchange rate of K1 equals US 35 c and Aus 44 cents.
- 7) Landowners will get royalty at 3.5% of sales per annum. This is higher than the rate of 2% provided in the Mining Act. As a quid pro quo there shall be no dividend withholding tax paid on shares of Bougainville Copper, which will also be beneficial to landowners as shareholders of BOC. The dividend withholding tax rate is currently 10%

The mine life based on proven reserves is 14 years. But if the moratorium on exploration is lifted, the mine life will extend to about 30 years. Also, that will provide greater benefits of royalty to the new landowners in whose leases those areas exist.

V. Valuation of Shares, Taxation & Royalty as a going concern

If we assume the same level of production as in 1987 and the current price of copper at USD 3.02 per pound and gold at USD 654 per troy ounce, the extra sales will be
 392 Million pounds x [3.02-0.81] = USD 866 Million
 485,720 x [654 – 446.7] = USD 101 Million
 Incremental Sales = USD 866 + 101 = USD 967 Million
 Total Sales per annum = 457 + 967 = USD 1424 Million

Royalty

It is proposed to pay a royalty of 3.5% of sales to landowners

This will be USD 50 Million or **K 143 Million per annum**

If we assume there are 4000 adult descendents of the original 510 titleholders, this corresponds to K 35,714 per annum or about K2, 976 per adult landowner per month. Royalties must be 3.5% Special Mining Lease Title landowners only; no sharing with ABG who are separately getting generous revenue from taxation (not available to Landowners).

These shall be split 70% to individual title holders and 30% to a Future Generation Fund or Non Renewable Resources Fund.

Income Tax

Income Tax in 1987 = USD 55.7 Million

Interest Cost per annum = USD 97.5 Million (6.5% interest rate on US\$1.5 Billion)

Incremental Tax = 0.3 x [967 – 97.5- 50] = USD 245.9 Million

Tax per annum = 55.7 + 245.9 = USD 301.6 Million = **K861 Million**

Earnings per share

Incremental Profit after Tax = $0.7 \times [967 - 97.5 - 50] = \text{USD } 574 \text{ Million}$

Total Profit after Tax = $100 + 574 = \text{USD } 674 \text{ Million}$

Total Earnings per share = USD 1.685 per share

Dividends per share

The loan of US\$1.5 Billion will be fully repaid in 6 years. Let us assume a dividend payout ratio of 75%

Dividends per share in first 6 years while loan is being repaid = USD 1.26 or \$A 1.91 or K 3.61

Dividends on 76.43 Million shares = **K 276 Million per annum**

Valuation of shares

Copper prices have increased from 81 US cents a pound in 1988 to about US 3.02 a pound and if the mine were running at the pre-89 capacity, earnings per share of 1.685USc would be about 6.7 times the then eps of 25 US cents a share.

In the late eighties the shares hit a high of \$A7.20; on a similar valuation basis the shares could hit a high of \$7.20 times 6.7 or \$A48.24.

On a more conservative P/E multiple of 12, the shares should be valued at $12 \times 1.685 = \text{USD } 20.22$ or AUD 24.96 provided no new shares are issued. This corresponds to K 57.77 per share

The 76.43 Million shares would be valued at **K4, 415 Million**. Hard facts requiring negotiation and distribution predominantly for Bougainvilleans:

Shares worth K4.4 billion plus Annual Income available to PNG/Bougainvilleans of K 1,280 Million per annum comprising:

- Annual Tax of some K861 Million
- Annual Dividends worth K276 Million
- Annual Royalty to landowners worth K143 Million