

20 June 2006

AUSTRALIAN STOCK EXCHANGE RELEASE

2005 Remuneration Report

At the Company's Annual General Meeting in Melbourne on 20 April 2006, all 7 resolutions were passed by shareholders. The 2005 Remuneration Report (included in the 2005 Annual Report) was overwhelmingly supported by some 300 shareholders who attended the meeting. The proxy voting on the Remuneration Report resolution (number 2) was however, 279 million votes for and 246 million votes against. These votes against represented only 18% of the outstanding shares and were mainly cast by Australian institutional shareholders. As Chairman, I noted at the time that this was an above average negative response and that the Company was continuing to investigate the reasons and would report back.

In discussions and correspondence with those institutions who have responded to the Company, it appears that most referred the resolution to external governance consultants and then voted in accordance with their recommendation. These consultants advised the institutions that in respect of the 2005 Remuneration Report some general guidelines did not appear to have been met and therefore the Resolution should not be supported. There was no single issue, and the responses varied, but in summary the reasons for the negative vote seemed to be:

- *The \$356,000 non-executive Directors' retirement benefits accrued in the now discontinued scheme were not allocated to individual Directors. This was seen as insufficient disclosure.*

The Company took the view that it was neither necessary nor material to spell out the amount due to each Director – Oxiana's five Directors have a total of over 18 cumulative years service. At the time of reporting the Company had already discontinued retirement benefits for Directors – following best corporate governance practices.

- *The granting of options to non-executive Directors. Some institutions and their advisers feel this practice to be inappropriate.*

In the past Oxiana has granted options to non-executive Directors on joining the Board. The options are subject to shareholder approval and always granted with an exercise price well "out of the money" at the time of grant. Shareholders have overwhelmingly voted in favour of options granted to non-executive Directors on every occasion.

Having a stake in the Company's share price performance aligns the interests of non-executive Directors with the interests of shareholders.

- *The Managing Director's options vest subject to performance hurdles being met over a two year period. Some institutions and their advisers believe a three year performance measurement*

period is more appropriate for the Managing Director; and consider in the case of the 2004 options grant the performance hurdles were insufficiently disclosed.

In recent past issues of options to the Managing Director, the vesting performance period of 2 years was chosen because of the significant commitments Oxiana was making during that rolling 2 year period - commitments that were so important to establishing Oxiana as a long term sustainable, successful and growing business.

Oxiana believes disclosure in respect of performance hurdles, comparator company benchmarks, total shareholder return and other details, has been adequate and meets reasonable guidelines. In the case of the 2004 grant, details of comparator companies were disclosed at the Annual General Meeting but not in the Notice of Meeting.

- *There was some confusion over the performance period for the Managing Director's options approved by shareholders at the 2004 Annual General Meeting.*

Four million options were approved for the Managing Director at the 2004 Annual General Meeting. Vesting of the options depended on Oxiana's Total Shareholder Return outperforming a list of 12 industry comparator companies over the two calendar year period 2004 and 2005. Shareholders at the 2004 AGM overwhelmingly passed the resolution on that basis. An error was made in the 2004 Oxiana Annual Report in detailing the options – it incorrectly stated the period 1 July 2004 to 30th June 2005, and not the two years ended 31st December 2005. The 2005 Remuneration Report had the correct period. Option grants to the Managing Director in 2005 and 2006 were similarly approved using a two calendar year period.

Two of the external governance consultants contacted Oxiana prior to the 2006 Annual General Meeting to clarify that the 2004 Annual Report showed an incorrect period.

- *Valuation of Options - some institutions and their advisers thought there was unsatisfactory disclosure about the valuation of options to Directors and Senior Executives as outlined in the 2005 Annual Report. This issue was also followed up by the Australian Securities and Investments Commission after the 2006 AGM.*

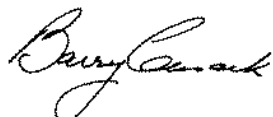
In valuing options for accounting purposes Oxiana employs generally accepted accounting and options valuation practices. The options are valued at the time of grant using the Black and Scholes methodology which takes into account the share price at the time of grant, the exercise or strike price, the time to maturity of the option and the volatility in the share price, among other things. Where there are performance hurdles before the options can vest, then a probability factor is assigned to meeting these hurdles and this will reduce the option value.

The option values are outlined in the Annual Report and charged to the Income Statement by amortising that value on a straight line basis to the end of the vesting period.

In reviewing the values ascribed in the 2005 Annual Report the Company found errors in both the valuation methodology and disclosure. The methodology used to calculate the volatility factor in the Black and Scholes valuation was wrong. Using the correct volatility factor the value of the options to be expensed increases from \$846,803 to \$1,846,932. Accordingly amortisation charged should have been \$1,000,129 higher. This would have reduced the 2005 Net Profit After Tax by \$700,090 or less than 1%. The relevant adjustment resulting from the above will be made

in the 2006 Half Year Accounts due to be released at the end of August. Attached is a revised table of options showing the figures in the original remuneration report and the revised figures.

2005 was the first year for a shareholder (non-binding) vote on the Remuneration Report and the Company recognises there are areas for improvement. Oxiana is committed to following best corporate governance practices.



Barry Cusack
Chairman

Attachments: Revised table of option values to be expensed

Attachment 1: Revised table of option values to be expensed

	2004		2005	
	Financial Year		Financial Year	
	Original Report	Revised	Original Report	Revised
	\$	\$	\$	\$
Directors				
Owen Hegarty	332,000	205,344	77,252	348,173
Brian Jamieson	-	-	17,833	140,000
	<u>332,000</u>	<u>205,344</u>	<u>95,085</u>	<u>488,173</u>
Executives				
Jeff Sells	210,000	390,000	-	-
John Nitschke	-	-	45,243	180,000
Mick Wilkes	-	-	7,382	60,683
Anthony Manini	-	-	7,382	60,683
Peter Lester	-	-	7,382	60,683
Peter Albert	-	-	7,382	60,683
David Forsyth	-	-	7,382	60,683
Stephen Mullen	-	-	127,565	280,000
	<u>210,000</u>	<u>390,000</u>	<u>209,718</u>	<u>763,415</u>
Total for Year	<u>542,000</u>	<u>595,344</u>	<u>304,803</u>	<u>1,251,588</u>
Combined Totals for 2004 and 2005			<u>846,803</u>	<u>1,846,932</u>