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ASX Release

OZ Minerals to defer projects and cut operating costs



OZ Minerals will defer several capital projects and make substantial cuts to operating cost budgets as a result of the review of capital and operating expenditure it announced to the market recently. The Company has also identified further synergy benefits flowing from the merger of Oxiana and Zinifex. In summary, OZ Minerals:

- will defer capital expenditure of approximately A\$495 million (net);
- has identified total merger synergy benefits of A\$54 million per annum;
- will reduce operating expenditure budgets in 2009 by approximately A\$185 million, in addition to the merger synergy benefits mentioned above;
- will cut annual production of zinc from Century by 20,000 tonnes per annum.

"The formation of OZ Minerals through the merger of Oxiana and Zinifex was designed to - and has - created a company with a rich pipeline of future projects and a strong balance sheet", said Mr. Andrew Michelmore, Managing Director and CEO of OZ Minerals. "We must ensure we protect this position we worked so hard to create so that we can realise maximum value for shareholders when market conditions improve. The decisions we are announcing today will enable us to either eliminate or defer substantial cash outflows at a time when access to capital is more difficult than at any time in the last decade and when we are in the middle of re-financing our debt facilities.

"These are tough times but we understand the position and we have a very experienced team. We are critically looking at every aspect of our operations to enable us to come through this period without cutting into the fabric of the business.

"The review process will be ongoing in order to ensure we do not miss any opportunities to strengthen OZ Minerals - now and for the future", Mr. Michelmore concluded.

In summary, the decisions announced today are as follow. Please note that, where US dollar amounts have been converted to Australian dollars, the conversion has been at the current spot rate of A\$1.00 = US\$0.65.

1. Capital expenditure

- **Martabe** gold-silver project in Indonesia to be suspended and capital expenditure of approximately US\$225 million (A\$345 million) deferred until after 2009.
- **Sepon** copper expansion will be suspended and capital expenditure of approximately US\$50 million (A\$77 million) deferred until after 2009. Commissioning of the second autoclave, which is currently on site, will continue.

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- Surface facility renewal at **Rosebery** has been deferred resulting in the deferral of capital expenditure of A\$125 million. Work on the new tailings storage facility and the underground ventilation upgrade will continue.
- Development of the open pit copper prospect at **Golden Grove** will be delayed; capital expenditure of around A\$20 million deferred.
- The Feasibility Study into the **Izok Lake** and **High Lake** projects in Canada will be deferred. Focus in Canada will be on further exploration.
- **Dugald River** will not be commenced in 2009.

See Attachment 'A' for details of capital expenditure decisions.

Commissioning at **Prominent Hill**, for which a substantial increase in resources was reported in September 2008, continues and the project is currently 93% complete. Some electrical and small-bore piping works are behind schedule, with the result that commissioning is now expected to be completed in January rather than December. The total project cost, previously estimated at \$1.08 billion, has been revised upwards to \$1.15 billion (which includes a \$10 million contingency).

"We currently have approximately 2.5 million tonnes of ore on the ROM pad and 60,000 tonnes of crushed ore ready for the mill", said Andrew Michelmore. "We look forward to making our first sales of Prominent Hill concentrate and receiving our first cashflow in the first quarter of 2009".

OZ Minerals has restructured the cut-back at **Century** which will reduce production from a forecast 515,000 tonnes of contained zinc in concentrate in 2008 to 495,000 tonnes in 2009. The restructuring will also defer approximately A\$20 million of cash outflow while still providing improved access to the ore body and ensuring that future production planning is not constrained.

"I am aware that some analysts and investors believe we should defer the cut-back, but it is not in the best interests of the Company to do so", said Andrew Michelmore. "We closely analysed a number of options for Century, and continuing with the cut-back is the best option for the Company in both the short- and longer-term. We will continue to look at ways of further reducing operating costs", added Mr. Michelmore.

2. Operating costs

A review of budgets for 2009 has reduced planned operating expenditure by approximately A\$185 million to date. The budget review process is ongoing and further reductions will be sought.

A\$98 million has been cut from current operating budgets in Australian operations. The major components of the reduction are:

- Golden Grove: A\$36 million;
- Century: A\$28 million;
- Prominent Hill: A\$19 million;
- Rosebery: A\$10 million;
- Avebury: A\$4 million.

Further costs reductions in Australian operations are expected to be identified through a continuing review of operating costs, and a reduction in contractor numbers is likely as a result.

Operating costs in Asian operations will be reduced by approximately A\$50 million, and budgeted corporate office costs have been cut by A\$17 million.

A further significant part of the reduction has been in the Exploration budget. In addition to the identification of A\$20 million of savings resulting from merger synergies in exploration, OZ Minerals will

reduce its exploration budget by a further A\$18 million in 2009 and tighten the focus of its activities. The exploration budget for 2009 will be A\$63 million.

"To be able to grow into the future, mining companies must explore and they must make discoveries", said Andrew Michelmore. "A successful exploration program requires a great team, which we have, great leadership, which we have in Tony Manini, and corporate commitment to the importance of exploration, which we are emphasising today", Mr. Michelmore added.

"But, we must have focus and, in the current situation, we must also be careful in how we invest our cash. For 2009 and beyond, our focus will be on expanding discoveries around our current operations where we believe prospectivity is high and in selected other areas which are considered to be highly prospective and where OZ Minerals has established a competitive advantage". Mr Michelmore concluded.

As a result of this review, OZ Minerals will be focussed on expanding copper, zinc and nickel inventories around Sepon, Prominent Hill, Century and Avebury, and drill-testing large, high-quality copper, nickel and zinc opportunities in Australia, Asia and Canada.

3. Integration

Integration has progressed faster than planned, and the final meeting of the OZ Minerals' Board Integration Committee was held last week.

"We have now identified cost savings attributable to the merger of approximately A\$54 million per annum, providing a better than one-year payback of identified one-off integration costs of A\$47 million", said Andrew Michelmore.

Significant identified annual savings include:

- the rationalisation of two exploration teams: A\$20 million;
- strategic sourcing initiatives: A\$11 million;
- labour savings: A\$8 million;
- IT rationalisation: A\$6 million.

Debt re-financing

OZ Minerals is in negotiations to refinance its debt facilities. A key feature of the refinancing will be a restructuring from project finance facilities to a corporate facility structure.

The negotiations are not yet complete and the Company is required to seek an extension of certain of its current facilities, which is envisaged in the facility documentation, to enable the negotiations to be completed in a timely manner. The current facilities for which extensions are required comprise one facility of US\$420 million and one of US\$140 million. Lenders in the smaller facility have agreed to the extension, and negotiations to achieve the extension of the larger facility are well-advanced. OZ Minerals has a further debt facility currently drawn to A\$86 million for which there is no current need to seek an extension.

Board re-structure

Separately, the Company will reduce the size of its Board from 11 to 8, in line with the indication provided at the Oxiana Extraordinary General Meeting in July 2008. Messrs. Peter Cassidy, Owen Hegarty and Richard Knight will retire from the OZ Minerals Board before the Company's next Annual General Meeting.

OZ Minerals' Chairman, Mr Barry Cusack said "I stated at the Company's Extraordinary General Meeting in July this year that I felt that 11 directors was too large a Board for the Company going forward, but that we needed the expertise and experience of all our directors until the process of integrating Oxiana and Zinifex to form OZ Minerals had been completed".

“The formal part of the integration was signed off by the Board yesterday, making it appropriate for us to proceed to the next step of bringing the number of directors on the OZ Minerals Board into line with the ongoing needs of the Company”, noted Mr. Cusack.

“Each of the three retiring directors have given excellent service to OZ Minerals since its formation and to either Oxiana or Zinifex (or, in the case of Peter Cassidy, to both Oxiana and Zinifex) prior to the merger, and I thank them, both on behalf of shareholders and their fellow directors for their contribution”, Mr. Cusack concluded.

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Attachment 'A'

Details of capital expenditure decisionsMartabe

OZ Minerals will complete a number of engineering aspects of the Martabe gold-silver project in Indonesia and will also take delivery of a number of long lead-time items of capital equipment. It is estimated that the current phase of the project will be completed during the second quarter of 2009. From that point, the project will be deferred, as will capital expenditure of US\$225 million.

"We continue to regard Martabe as a valuable project, and we remain committed to building a diversified mining business in Indonesia", said Andrew Michelmore, Managing Director and CEO of OZ Minerals. "However, lower commodity prices combined with the conditions in the financial markets means we must take this decision", added Mr. Michelmore.

Sepon copper expansion

In December 2007, OZ Minerals (then know as Oxiana Limited) announced plans to expand its Sepon copper plant and increase nameplate annual capacity from 60,000 tonnes of copper cathode production to 80,000 tonnes. The estimated cost of the project was US\$178 million (A\$274 million).

Since commencing this project, OZ Minerals has focussed on increasing the operating efficiency of the plant. Copper cathode production from Sepon is currently forecast to be 63,500 tonnes for 2008, notwithstanding that a fire at Sepon earlier this year disrupted cathode production to the extent of 2,000 tonnes.

The installation of a second autoclave, to increase reliability and reduce production downtime, is well-advanced and will be commissioned in the second quarter of 2009.

"We have achieved a substantial part of the incremental output that was targeted by the expansion project through pursuing operational excellence and by achieving early completion of some elements of the expansion project", said Andrew Michelmore, Managing Director and CEO of OZ Minerals. "This is the hallmark of how we seek to manage our assets, and represents an outstanding achievement by the team at Sepon."

Mr. Michelmore continued, "Commissioning of the second autoclave will further increase the reliability of the plant and should lead to further production improvements. I believe we can extract even more out of the existing assets and, combined with the benefits of the second autoclave, I am confident we can increase annual cathode production towards 70,000 tonnes without completing all elements of the original expansion project."

Because of the productivity improvements it has achieved at Sepon and in light of its recently-stated review of all capital and operational expenditure, OZ Minerals has decided to complete the commissioning of the second autoclave at Sepon but defer completion of the remainder of the Sepon copper expansion project until conditions in both the financial and metal markets improve.

This decision will defer the expenditure of US\$50 million (A\$77 million).

"Had we not achieved such a strong operating performance at Sepon over 2008, our ability to achieve this outcome would have been severely constrained", said Andrew Michelmore. "Because we have been able to achieve a substantial part of the additional copper production targeted by the expansion project through a focus on operating efficiency, plant reliability and early completion of some elements of the expansion project, we have been able to conserve capital while expanding our revenue base."

Rosebery renewal

Following the previous extensions to mine life at Rosebery, a pre-feasibility study was carried out in 2007/08 to review the economic merits of renewing the surface facilities at Rosebery. While benefits from replacement of the grinding and flotation circuits at a cost of \$125 million were identified, these are not essential in the short-term. The feasibility study, which has already commenced, will be completed and then the final design and construction phase will be deferred.

Dugald River

"Although the Dugald River feasibility study has not yet been presented to the Board, we will not be seeking approval to commence this project in 2009, as previously planned", said Andrew Michelmore.

"There is no economic benefit for OZ Minerals or its shareholders in planning to bring new zinc concentrate into the market in the current environment", he continued.

"As I have previously reported, a number of smelters had tested Dugald River concentrate and, on the basis of those tests, had indicatively bid for all planned production. We will continue to maintain close contact with prospective customers and we look forward to commencing this project when the commercial environment is better", said Mr. Michelmore.

Golden Grove open pit

Expenditure of approximately A\$20 million on development of the Golden Grove copper oxide pit will be deferred until 2010.

Izok Lake and High Lake

Initial indications from the preliminary feasibility study indicates that, at current prices, the current resource base is not large enough to support the volume of capital expenditure necessary to build a producing mine.

"Building a production facility above the Arctic Circle in Northern Canada is a very substantial venture and, while we are delighted with what we have as a resource base so far, we simply don't yet have an adequate base to justify further investment in a feasibility study", said Andrew Michelmore. "Izok Lake is a very attractive deposit and the area is highly prospective. We are undertaking detailed geophysical studies and we will continue to explore in the region. We remain optimistic of expanding our resources in the future".

As part of its revised exploration program, OZ Minerals will undertake a focussed drilling program in Northern Canada.