

21 AUGUST 2008

ASX Release

Financial results

Strong outlook; merger benefits identified; but volatile operating environment



Key points

- Merger synergy benefits of \$27.5 million pa identified; more targeted.
- Industry-competitive operations; cash costs well below current commodity prices.
- Dividend of 5 cents per share (unfranked) declared; DRP maintained at 2.5% discount.
- Sound underlying performance in a volatile environment.
- Pro-forma consolidated revenue of \$1 billion and underlying NPAT of \$70.9 million for the half-year.
- No share buy-back.

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Overview

OZ Minerals Ltd (ASX: OZL) today released its financial results for the 6 months to 30 June 2008.

"Excluding the effect of one-off items, net profit after tax attributable to members of the Company (that is, for the entity that was known as Oxiana before implementation of the merger) was \$72.2 million for the six months to 30 June 2008", said Andrew Michelmore, Managing Director and CEO of OZ Minerals. "This result does not reflect a consolidation of the former Oxiana and Zinifex", he continued, "as the implementation of the merger occurred after the period being reported on today."

"OZ Minerals' operational performance has been very sound and, as reported in our recent Quarterly Report, production volumes at all sites has been strong.

"However, LME prices for copper and zinc (in Australian dollars) have been volatile; in the first half of 2008, copper was 6.2% higher on average than in the previous six months while zinc was 31.7% lower. This outcome, combined with the generally higher operating costs we reported in the Quarterly Report, has been the primary reason that the financial performance we are reporting today is not better". Mr. Michelmore added.

"Notwithstanding the negative impact of commodity price movements on our short-term performance", Andrew Michelmore continued, "the long-term demand strength that we

and many participants in the minerals industry have referred to many times remains intact, and OZ Minerals is exceptionally well-positioned to benefit”.

Directors remain confident about the competitive cost base of the Company and with the medium- and longer-term outlook, and have declared a dividend of 5 cents per share dividend (unfranked) for the period, compared to 4 cents per share (franked) in the first half of 2007. The dividend will result in a transfer to shareholders of approximately \$156 million.

The Record Date for the dividend is 3 September 2008 and the Payment Date is 29 September 2008. The terms of OZ Minerals’ Dividend Re-investment Plan have been maintained, including the 2.5% issue discount.

The Company has also released the full-year financial results for Zinifex and unaudited pro-forma financial information which is based on the assumption that Oxiana and Zinifex had been merged for the whole of the six-month period to 30 June 2008. The pro-forma data is provided solely for the purpose of providing market participants with a profile of the merged Company and should not be seen to be as a definitive statement of actual performance.

Excluding the effect of one-off items and discontinued operations, Zinifex earned net profit after tax for the year ended 30 June 2008 of \$226.7 million.

Financial results

For simplicity, the OZ Minerals (formerly Oxiana) results for periods up to 30 June 2008, which are unconsolidated, will be referred to as “Oxiana”, and the Zinifex results for periods up to 30 June 2008 will be referred to as “Zinifex”. Pro-forma data will be referred to as “OZ Minerals pro-forma”.

1. “OZ Minerals pro-forma”

The pro-forma data summarised below are adjusted to exclude discontinued operations and reflect the volatile trading conditions in the period:

(\$'m)	1H 2008
Revenue from continuing operations	1,003.3
EBITDA from continuing operations	332.5
Underlying NPAT attributable to Members (1)	70.9

(1) excluding asset valuation adjustments, discontinued operations and other non-recurring items

2. “Oxiana”

Oxiana reported a net loss after tax attributable to members for the six months ended 30 June 2008 of \$0.5 million after accounting for Minority Interests of \$11.4 million. The result was impacted by weaker commodity prices, higher costs and a stronger Australian dollar, as well as by impairment write-downs and other non-recurring items as summarised below.

(\$'m)	1H 2008	1H 2007	Change
Revenue	509.6	584.2	(74.6)
EBITDA	215.0	327.8	(112.8)
NPAT (on an enterprise basis)	10.9	172.7	(162.0)
less: minority interests	(11.4)	0.7	
NPAT attributable to Members	(0.5)	173.5	(174.0)
add-back: asset value adjustments and other non-recurring items	72.8	6.4	
Adjusted NPAT (excluding asset value adjustments and other non-recurring items)	72.3	178.9	(106.5)
Dividend declared (cents per share)	5.0	4.0	+1.0
	(unfranked)	(franked)	

3. "Zinifex"

Reported net profit after tax for the year ended 30 June 2008 for Zinifex was \$895.7 million, as summarised below. Principal impacts on the result were lower commodity prices, higher input costs and a stronger Australian dollar. The result was also impacted by a write-down of the value of certain assets as a consequence of the merger with Oxiana, as summarised in the following table:

(\$'m)	2007/8	2006/7	Change
Revenue from continuing operations	1,282.3	1,929.2	(646.9)
EBITDA from continuing operations	511.6	1,382.4	(870.8)
NPAT attributable to Members	895.7	1,344.8	(449.1)
less: discontinued operations	(1,046.4)	(507.3)	
NPAT from continuing operations	(150.7)	827.5	(978.2)
add-back: asset value adjustments and other non-recurring items	377.4	-	
Adjusted NPAT (excluding asset value adjustments, other non-recurring items and minority interests)	226.7	827.5	(600.8)

Industry-competitive operations

Cash costs of production for each of OZ Minerals' operating sites for the six months to June 2008, are as follow:

Century (including pre-strip costs)	US\$0.63 per pound of zinc
Rosebery	US\$0.27 per pound of zinc
Golden Grove	US\$0.39 per pound of zinc
Sepon Copper	US\$0.95 per pound of copper
Sepon Gold	US\$537 per ounce of gold

Costs are calculated on the industry-standard C1 basis except for Sepon Gold, which is calculated according to the North American Gold Industry Standard,

Pre-stripping activities at Century, which will be completed in the first half of 2010, represent approximately US\$0.08 per pound of the number shown above. Costs shown

for Century and Rosebery are calculated in Australian dollars and have been converted at an exchange rate of AS1.00 = US\$0.875.

"Mining companies are faced with considerable volatility in both selling and input prices", said Andrew Michelmore. "We can't control everything, but in one key area we must control is the efficiency of our operations. OZ Minerals has five very efficient operations, which is a wonderful situation to be in, and we will continue to focus on continuous improvement in operational efficiency", he added.

Merger synergy benefits

"In the first 50 days since the merger between Oxiana and Zinifex was implemented, we have identified net synergy benefits of \$27.5 million per annum", said Mr. Michelmore, "and we are all committed to attaining further benefits".

OZ Minerals has also identified one-off merger implementation costs of \$41.4 million.

"Our target is to achieve a pay-back of the one-off costs of the merger within a year", added Andrew Michelmore, "and I am confident we will do that."

Capital management

The Board of OZ Minerals has decided not to undertake a share buyback at the current time. In considering the merits of a buyback, the Board has decided that such a strategy is not the best available for the creation of long-term shareholder value.

"We formed OZ Minerals in order to pursue growth", said Andrew Michelmore, "and we can identify a number of tangible opportunities, including both the development of projects in our pipeline and potential acquisitions."

"Some market participants and commentators have suggested that a share buyback at OZ Minerals' current share price would represent a sound investment", Mr. Michelmore continued. "We agree that OZ Minerals' current share price does not reflect its inherent value, but we nonetheless believe that a better use of our strong balance sheet is to invest shareholders' funds in growing our business in this very prospective environment.

"We have looked at and rejected several acquisition proposals so far, and we will continue to focus on ensuring that any decision we make in this regard is value-adding. I look forward to announcing our next growth initiative at the appropriate date", Andrew Michelmore concluded.

Asset value adjustments

The value of the Oxiana shares transferred to former Zinifex shareholders as merger consideration, at 1 July 2008 (the implementation date of the merger) was \$4.0 billion. OZ Minerals has provisionally allocated the \$4.0 billion consideration to the individual Zinifex assets based on its current best estimate. As part of this process, the value of some assets has been impaired in the Zinifex accounts and this result has been carried over into the accounts of the merged entity.

In aggregate, there is a write-up of \$244 million in the aggregate carrying value of the former Zinifex assets to reflect the merger consideration that was actually provided to former Zinifex shareholders.

In order to provisionally allocate the aggregate amount to individual assets, the Company has used the indicated values of each asset as assessed by the Independent Expert retained to report on the Zinifex Scheme of Arrangement as a reference point. It has then distributed the aggregate adjustment required to be made on a pro-rata basis to the values disclosed in the Independent Expert's Report. The effect of the adjustments, using this methodology, is summarised in the following table:

(\$'m)	Independent Expert Report mid-point	Provisionally assessed fair value	Ratio	Pre-merger book values	Adjustment to book pre-merger book values
Century	2,989	1,523	51.0%	1,230	+292
Rosebery	598	304	50.8%	55	+249
Zinifex	375	191	50.9%	354	(163)
Canada					
Dugald River	598	304	50.8%	0	+304
Avebury	915	466	50.9%	905	(439)
TOTAL	5,474	2,788	50.9%	2,544	+244

"While there is a clear and appropriate requirement to adjust the carrying value of assets in order to adhere to accounting standards, it is of note that the Independent Expert's Report referred to above which was prepared for the Zinifex Scheme of Arrangement valued the Zinifex and Oxiana assets as of 6 May 2008", said Andrew Michelmore. "We remain confident that the value we will generate from all of OZ Minerals' assets over time will be consistent with the indications of value identified by the Independent Expert."

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