Full year financial results

Solid 2008 operating performance; results impacted by lower commodity prices and substantial write-downs.

Important Note

Oxiana Limited acquired Zinifex Limited to form OZ Minerals on July 1 2008. Results presented here therefore include a 6 month operating period for the former Oxiana businesses and a 6 month period for the combined Oxiana and Zinifex businesses. The 2007 and 2008 periods are therefore not directly comparable.

Key points

- Full year revenue of $1,218.4 million.
- Net loss after tax, before write-downs and other adjustments was $66.4 million.
- Revenues from individual operations were lower due mainly to significant falls in commodity prices.
- Results were impacted by a number of one-off costs associated with the merger of Oxiana and Zinifex, restructuring costs and significant impairment of assets and other asset write-downs.
- After these post tax asset write-downs of $2,309.8 million including post tax one off costs of $265.5 million the net loss after tax was $2,484.9 million.
- 2008 production targets largely achieved at operations.
- Operating cash costs of all operations remain competitive.
- Significant reduction in capital and operating costs for 2009.
- Refinancing solutions advancing with announcement of the recommended offer by China Minmetals.
- OZ Minerals' financiers have provided approval of an interim extension of its debt facilities to 31 March 2009 subject to documentation.
- No final dividend declared as a result of lower earnings in order to conserve cash.

Overview

OZ Minerals Ltd (ASX: OZL) today released its financial results for the 12 months to 31 December 2008.

“OZ Minerals has recorded an adjusted net loss after tax of $66.4 million”, said OZ Minerals Managing Director and CEO Andrew Michelmore. “This result was impacted by falls in prices across our major commodities, significant impairment of assets and other asset write downs, a number of one-off costs associated with the acquisition of Zinifex by Oxiana to form OZ Minerals and restructuring costs. The result does not reflect the sound operating performance of our operations which consistently met production forecasts.”
“During the first half of 2008, the LME copper price rose by 31% to US$8,776 per tonne. Zinc weakened in the first half of the year by 19% to US$1,903 per tonne.

“However, during the second half of the year, the zinc price fell by a further 38%, and closed the year at US$1,180 per tonne – almost 50% below the level at the end of December 2007. The copper price collapsed by 67% in the second half of 2008, and closed the year at US$2,902 per tonne, some 57% lower than 12 months earlier and the lowest monthly closing level since late 2004.

“This decline in commodity prices was the major impact on OZ Minerals earnings performance.

“Write-downs post tax of $2.3 billion were also required as a result of an assessment of the current market value of assets, with lower commodity prices negatively affecting the carrying value of some of our operations.

“OZ Minerals Board and Management responded swiftly to the impact of these price declines with the suspension of multiple capital projects totalling $495 million and by cutting operational expenditure by $185 million.

“Yesterday’s announcement of the production of first saleable concentrates at Prominent Hill was a major achievement for the Company. Development of Prominent Hill has been a major use of the Company’s funds and first revenue from the operation is expected by the end of the quarter.”

Profit and Loss

Revenue from operations was up from $1,126.4 million in 2007 to $1,218.4 million in 2008. This was due largely to the additional contribution of the Zinifex assets for the second half of 2008 following the acquisition of Zinifex by Oxiana.

The largest contributor to revenue was the Sepon copper operation. Revenues of $504.0 million were down slightly on 2007 as a result of lower copper prices.

The Century operation contributed $267.5 million revenue for the six months it was attributed to OZ Minerals. Revenue from Century was adversely impacted by substantial falls in the price of zinc. Century and other Australian operations were positively impacted by foreign exchange movements.

Revenue from Golden Grove was significantly lower at $266.2 million in 2008 due to the lower average zinc price.

Revenue from the Sepon gold operation was higher at $94.8 million due to a higher gold price in 2008.

The Rosebery operation contributed $73 million revenue. The Avebury operation contributed $12.9 million revenue before it was placed on care and maintenance.

Cash costs of production were lower at all of our operations, excluding Rosebery. This was due to decline in energy prices and margin improvement programs.

Costs associated with restructuring including cancellation of various contracts and termination payments totalled $22.3 million post tax.

The fall in the zinc price also contributed to negative mark-to-market provisional pricing adjustments of $100 million for the second half of 2008.
**Balance Sheet**

Cash on hand was lower at $118.8 million as at 31 December 2008 but has risen to $149.6 million as at 26th February 2009. Cash in the business was used to fund capital costs incurred with the development of the Prominent Hill operation in South Australia for the full year of $656.3 million, the pre-strip of the Century open-pit of $325.6 million and payment of the interim dividend of $155 million. This was compounded by lower operating cash-flows due to lower prices received for the Company’s products.

Total debt gearing for OZ Minerals was 24% as at 31 December 2008.

**Cash Flow**

The largest impact on cash flow was expenditure on development projects which for the second half accounted for $552.4 million. Developing Prominent Hill was the largest use of capital expenditure in the second half at $282 million with $44 million at Sepon for the same period while Martabe and Avebury also contributed. In addition, payment of the interim dividend represented a cash outflow of $155 million.

Operating capital expenditure of $157 million in the second half associated with the pre-strip of the Century pit also had a significant impact on cash-flow.

Following a review of capital and operating expenditure in November 2008, $495 million of future capital expenditure was deferred with the suspension of development at Martabe, the Sepon copper expansion, capital works at Rosebery and the Golden Grove open pit. Operating expenditure was reduced by $185 million across all operations. Capital expenditure in 2009 will be lower in total with a greater proportion of that expenditure committed in the first half. Major 2009 costs include the continued pre-strip at Century and final development costs at Prominent Hill.

Discretionary spending on exploration and other developments of $79 million in 2008 will be lower in 2009.

The Company has been ensuring all debt service obligations and credit payments have been paid when due.

**Asset Write-Down**

The value of some of the Company’s assets have been impaired in the accounts due to falls in commodity prices resulting in a decline in the carrying value of these assets.

Asset write-downs of $2.3 billion post tax have been recorded and are comprised of:

- Impairment for current mines and development projects including Izok Lake and High Lake in Canada $395 million, the Avebury nickel operation in Tasmania $135 million and the Sepon gold operation $35.0 million.
- De-recognition of deferred tax assets in respect of tax losses of $228 million.
- Negative mark-to-market adjustment of listed equity investments (mainly Toro Energy Limited and Nyrstar based on 31 December 2008 share prices) of $269.1 million.

**Refinancing/Minmetals Offer**

OZ Minerals was in the process of consolidating and refinancing its debt facilities when the international banking crisis developed late in the second quarter of 2008. This was followed by a rapid decline in commodity prices. At the same time, OZ Minerals was funding a significant capital program at Prominent Hill, Sepon, Martabe and Century. The suddenness and depth of the credit crisis saw the Company unable to easily extend
its debt facilities and the decline in commodity prices resulted in short term liquidity issues for OZ Minerals. These circumstances led to the Company being placed in trading halt on 28 November 2008. While extensions to various refinancing deadlines have been achieved during the intervening period the Company was again in the position of having to complete refinancing of certain facilities (Facilities A, B and C) by today, 27 February 2009.

In response to the situation, the Company has been pursuing a number of activities to raise the necessary cash funding, including asset sales, commodity-linked financing, pre-selling expected future production and several equity-raising options.

On 16 February 2009, we announced that China Minmetals Non-Ferrous Metals Company Limited (“Minmetals”) had made an all-cash offer to acquire the Company under a scheme of arrangement for 82.5 cents per share. The Board unanimously recommended the Minmetals offer, which provides for a full repayment of OZ Minerals’ outstanding debt upon successful completion of the scheme. This offer also provides OZ Minerals shareholders with the certainty of all-cash consideration while delivering a 50% premium over the price at which OZ Minerals shares last traded prior to the announcement of Minmetals’ offer.

As per one of the pre-conditions to the scheme, OZ Minerals’ financiers have provided approval of an interim extension of its debt facilities to 31 March 2009 subject to documentation. This extension allows time for the financiers to seek credit approvals for a further extension to two weeks post implementation of the proposed scheme, which remains as a pre-condition to the scheme.

Progress continues to be made on the potential sales of Martabe and Golden Grove.

Dividend

Due to the negative earnings result for 2008 no further dividend has been declared for the second half of 2008.

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