

8 JUNE 2009

ASX release

Recapitalisation proposals inferior to Minmetals proposal



Subsequent to OZ Minerals' announcement on 5 June 2009 that it had not received any recapitalisation proposals that day, the Company subsequently received two unsolicited proposals. After thorough and detailed consideration, the Board of OZ Minerals (excluding Mr Andrew Michelmore, who agreed with the Chairman not to participate in discussions so as to ensure there was no actual or perceived conflict of interest) unanimously concluded that neither proposal offered superior value to existing shareholders compared to the proposed asset sale to China Minmetals Non-ferrous Metals Co., Ltd. ("**Minmetals**") and the implementation of each proposal was less certain than the Minmetals transaction. Further, neither proposal offered a complete solution to the Company's refinancing issues. The Board has rejected both proposals and has advised the proposers of its decision.

"We believe, that in the Minmetals transaction, we have a proposal to resolve OZ Minerals' refinancing issues that is both highly certain and offers value to our shareholders", said Mr. Barry Cusack, Chairman of OZ Minerals.

"As I have said on many occasions", continued Mr. Cusack, "our sole purpose is to act in the best interests of our shareholders and it is the Board's considered view that the proposed Minmetals transaction is the best available option."

"The share price of OZ Minerals has risen 59% since the revised Minmetals transaction was announced on 1 April 2009, compared to an increase in ASX All Resources Index of 18% over the same period. I would not normally refer to the Company's share price, but I think it is reasonable to conclude that the market's assessment of the outlook for OZ Minerals based on completion of the Minmetals transaction is positive."

The Company has benefited from extensive analysis of the proposals by its advisers and we wish to advise shareholders and the market generally of the basis for the Board's decisions in respect of each of the recapitalisation proposals. Because each proposal was presented to the Board on a confidential basis, this announcement will only identify them as Proposal A and Proposal B.

Proposal A

Proposal A, which was widely canvassed in the media before it was presented to the Company, is the issue of two tranches of secured convertible bonds of, in the aggregate, US\$780 million and an equity placement of US\$220 million. It also included an optional Inventory Re-Purchase Facility to provide working capital of up to US\$200 million.

Proposal A also included a non-underwritten follow-on entitlement offer to shareholders of up to A\$300 million. However, the Company's shareholders in general would not have been offered the opportunity to invest in the convertible bonds.

Proposal A was subject to, among other conditions, the completion of full documentation and the provision by the Company of security. Further, neither the bond issue or placement would be underwritten, leaving the Company with any counter party and completion risk.

The two tranches of the convertible bond component of Proposal A were Senior and Junior tranches with following characteristics.

The Senior tranche had a term of 5 years and carried an interest coupon of 8% per annum. The bonds would, subject to shareholder approval, be convertible into shares in the Company at any time during the 5 year term of the bonds at the election of the bond holder at a price of A\$0.90 per share (subject to downward adjustments for future issues of shares by the Company including in the placement, the proposed entitlement offer and the conversion of the junior tranche). Provided that shareholders had approved the conversion of the bonds, any Senior bonds not converted by the bondholders at the maturity date would be required to be redeemed by the Company for cash at 112.5% of the face value of the bonds.

The Junior tranche had a term of 2 years and carried an interest coupon of 2% per annum. The bonds would, subject to shareholder approval, be convertible into shares in the Company at any time during the 2 year term of the bonds at the election of the bond holder at a price of A\$0.65 per share (subject to downward adjustments for future issues of shares by the Company including in the placement and the proposed entitlement offer). Provided that shareholders had approved the conversion of the bonds, any Junior bonds not converted by the maturity date would be converted at that date.

Provided that shareholders had approved the conversion of the bonds, the Company would have an early annual redemption right after 30 June 2010 at a price equal to at least 125% of the face value of the Senior tranche and 150% of the face value of the Junior tranche, payable as to 90% in cash and 10% in options over unissued equity in the Company. No early redemption right would be available to the Company if shareholders had not approved the conversion of the bonds.

A requirement of both tranches of convertible bonds was that the Company was required to submit a resolution to shareholders within 3 months of the issue of the bonds to seek approval for the future conversion of the bonds.

If shareholders failed to approve the resolution to make the bonds convertible, the interest coupon on the Senior tranche would step up from 8% pa to 15% pa and the interest coupon on the Junior tranche would step up from 2% pa to 15% pa in both cases back dated to the date the bonds were issued. The Company would be precluded from paying dividends on its ordinary shares until the bonds became convertible through the approval of shareholders. In these circumstances, bond holders may require the redemption of the bonds for cash in the period starting 12 months after the failure to obtain shareholder approval for at least 125% of the face value of the Senior tranche and 150% of the face value of the Junior tranche. At their maturity date, the Junior bonds would need to be redeemed for cash of at least 150% of their face value and the senior bonds would need to be redeemed for cash of at least 125% of their face value.

The Board concluded that the structure of Proposal A was not in the interests of shareholders, that new investors in the proposed convertible bonds would be the principal beneficiaries of the proposal and that the certainty of the proposal being able to be completed was lacking.

Proposal A was assessed to be value-dilutive to the Company's existing shareholders relative to the Minmetals transaction. In assessing the proposal, the Company considered (amongst other things) the additional corporate costs that would need to be incurred if these assets were retained, the additional fees payable under the proposals (approximately US\$42-52 million under Proposal A), the dilutionary impact of the convertible bonds and equity placement for existing shareholders, the coupon payments and the break fee that would have been payable to Minmetals. It is important to note that, given the nature and scope of its report, the Independent Expert's valuation of US\$1,385-1,600 million for assets being sold to Minmetals did not include any of the above factors (except some site corporate costs).

Proposal A was assessed by the Board as being inferior to the Minmetals transaction, both in relation to value and certainty, and not in the best interests of shareholders.

Proposal B

Proposal B was an equity recapitalisation that, unlike Proposal A, had not been widely canvassed in the media and was first provided to the Company on the evening of Friday, 5 June.

Proposal B was assessed as not being sufficiently compelling either with respect to value or certainty of execution. Like Proposal A, it did not take into account a number of additional costs and fees that would be incurred if the recapitalisation was to go ahead, including the substantial fees (approximately A\$87 million) that the Company would be required to pay to the proposer if it was to proceed with the proposal.

Both proposals make the assumption that the value of assets proposed to be sold to Minmetals is in excess of not only the proposed sale price but also the top end of the range of the Independent Expert's valuation range. It is of note that, notwithstanding recent increases, the current zinc price is at the bottom of the range of long-run real zinc prices used by the Independent Expert in determining that valuation range, while the current copper price is only marginally above the top end of the range used by the Independent Expert. Recent and expected future movements in commodity prices have been taken into consideration.

The Board considered that, while Proposal B was superior to Proposal A, neither was superior to the proposed Minmetals transaction.

Unanimous recommendation of the Minmetals transaction

Accordingly, OZ Minerals' Board continues to unanimously recommend that shareholders vote in favour of the Minmetals transaction in the absence of a superior proposal. The Board believes the Minmetals transaction is the best available option for the Company.

In particular, the Minmetals transaction is the only proposal received by OZ Minerals:

- where there is a binding agreement with all regulatory conditions satisfied;
- which provides a complete solution to OZ Minerals' refinancing issues within the timeframe required by OZ Minerals' financiers; and
- where existing OZ Minerals' shareholders will retain full ownership of Prominent Hill and the Company will have a significant cash balance following the transaction.

The Independent Expert, Grant Samuel, has concluded that the Minmetals transaction is in the best interests of OZ Minerals shareholders.

"We believe the proposed Minmetals transaction is the best available outcome for shareholders and the only option that provides a complete solution to OZ Minerals refinancing issues." said Mr Barry Cusack. "We have been scrupulous in our assessment of the alternatives that have been presented to us, and the Minmetals proposal remains the best solution".

"I believe, and I think the investment markets also believe, that OZ Minerals, with a focussed exposure to copper through Prominent Hill and a healthy balance sheet, has an exciting future ahead of it. I urge shareholders to support the resolution authorising the sale of assets to Minmetals, in the absence of a superior proposal, as the exciting future I believe OZ Minerals has will not be able to be realised if this resolution is not passed.", Mr. Cusack concluded.

OZ Minerals' Annual General Meeting is at 10:30am on Thursday 11 June. For shareholders who are unable to attend the Annual General Meeting in person, proxy forms are due by **no later than 10:30am (Melbourne time) on Tuesday 9 June 2009.**

For further information please contact:

Natalie Worley
Group Manager – External Affairs

T +61 3 9288 0345
M +61 409 210 462

Richard Hedstrom
Group Manager – Investor Relations

T +61 3 9288 0333