

PASMINCO LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
A C N 004 368 674

STATEMENT TO THE 2001 AND 2002 JOINT ANNUAL GENERAL
MEETINGS BY JOHN SPARK, DEED ADMINISTRATOR AND
CHAIRMAN OF THE MEETINGS

The Statement that I am about to make has been lodged with the Australian Stock Exchange before this meeting began as required by ASX Listing Rule 3.13.3. A copy of the Statement will also be available for those shareholders who would like one as you leave the meeting. Attached to that Statement is a Question and Answer document that summarises much of the information I will go through today.

In preparing this Statement we have sought to address the key issues that we consider are relevant to shareholders. To this end, we have considered the correspondence we and Pasminco have received during the course of the Administration and the questions asked on Pasminco's shareholder information line.

A summary of the Statement will be shown on the screen above for your convenience as I proceed.

The main areas I intend to cover are as follows:

- The convening of the joint 2001 and 2002 AGMs.
- The background to the appointment of the Administrators in September 2001.
- What happened to Pasminco.
- The role of the Administrators and our investigations.
- The 2001 and 2002 Annual Reports that have been distributed to shareholders.
- The restructure of Pasminco.
- The position of shareholders.
- What happens next.

Before I go any further, there are certain legal requirements I am obliged to draw to your attention.

I will comment on the restructure of Pasminco and the preferred restructure option which includes a proposed offer of shares in a newly formed company, Pasminco Resources Limited.

Given publicity restrictions under Australian and other law, I am unable to comment in detail about the proposed offer of shares in Pasminco Resources Limited.

Convening of the Joint 2001 and 2002 AGMs.

As many of you would be aware, the AGM for Pasminco is normally held by the end of November each year, about 1 month after the Accounts are finalised and lodged.

When the Administrators were appointed on 19 September 2001, Pasminco's 2001 Accounts were nearly complete. However the appointment of the Administrators crystallised certain losses, including Pasminco's hedge losses. It also meant that the Accounts were no longer able to be prepared on a going concern basis.

It was not therefore possible to finalise the Accounts and there was no point in holding an AGM at that stage. We subsequently applied to the Australian Securities and Investments Commission for consent to delay completing the Accounts and holding the AGM until there was greater certainty about the future of Pasminco. ASIC agreed to our initial request and other subsequent requests by way of issuing no action letters to us.

As the future of Pasminco became clearer during the Administration, work recommenced on completion of the 2001 Accounts and then on the 2002 Accounts. Both sets of Accounts have been completed, lodged with ASIC and the ASX and forwarded to shareholders within the timeframes allowed by ASIC.

Given that the Accounts for the 2001 and 2002 years were completed relatively close together, the AGMs for these years are being held jointly.

Following the appointment of Peter McCluskey and myself as Administrators to Pasminco, we assumed control of the affairs of the Group and the powers of the existing Board of Directors were suspended. This remains the case today under the Deeds of Company Arrangement.

The Directors of Pasminco Limited have not had any involvement in the ongoing operation and restructure of the company since our appointment in September 2001. On this basis, they chose not to attend the AGM today.

Pasminco's Constitution and the ASX Listing Rules require the company to offer for re-election one or more of its Directors at each AGM. We are not considering a re-election or appointment of any Director at today's AGMs. There is no purpose in electing Directors given that their powers are suspended and they have not had any involvement in the ongoing conduct of Pasminco. On this basis, the existing Directors of Pasminco Limited remain in office.

We have requested, and been granted, a waiver from the ASX of the applicable Listing Rules on the basis that while the company remains subject to a Deed of Company Arrangement, the Directors are no more than caretaker Directors.

As a result, there are no resolutions to be put to the meeting today. We were however, required to provide all shareholders with copies of the 2001 and 2002 Accounts, a Notice of Meeting and a proxy form to allow shareholders to appoint someone else to represent them here today.

Background to Appointment of Administrators

As many of you would be aware, Pasminco's businesses are complex. Pasminco operates a diverse group of mining and smelting operations in Australia, The Netherlands and the United States.

Pasminco's financing arrangements are also complex given the nature of its assets and the industry in which it operates.

You will be aware that the performance of Pasminco is strongly linked to the world zinc price and, to a lesser extent, the lead price. Pasminco also has significant exposure to movements in exchange rates.

In the period prior to our appointment, the zinc price deteriorated dramatically to levels that were not forecast and had not been experienced since terminal market trading commenced on the London Metals Exchange in 1986.

As a result, Pasminco's revenue and cashflow declined. Pasminco's share price also declined as investors became more concerned about the company's ability to generate wealth for its shareholders.

On the screen above, is a graph of the world zinc price for the 12 months prior to our appointment. This movement represents a decline of about one third of the zinc price in just 12 months that was not expected by any of the leading zinc forecasters.

In early 2001, Pasminco was aware of its need to reduce debt given falling zinc prices and placed the Broken Hill Mine on the market for sale. As 2001 progressed and zinc prices continued to deteriorate, Pasminco explored other initiatives to improve its financial performance. In addition to implementing various cost reduction measures, Pasminco considered that it needed a more substantial restructure of its operations. The effect on Pasminco's revenue of the falling zinc price and the cost reduction initiatives being implemented were announced to the market during June 2001.

By mid 2001, Pasminco developed a restructure plan focused on its smelting business and the sale of its mines. In order to achieve this restructure, Pasminco required the support of its lenders during this phase.

In order to help the planned restructure proceed, Pasminco requested its lenders to sign what was known as a Standstill Agreement. The Standstill Agreement, once executed, would have provided Pasminco with breathing space on some of its debt commitments through extensions on loan facilities and waivers while the planned restructure was implemented.

Pasminco received continued support from its lenders through various waivers and ongoing financial accommodation while the Standstill Agreement was being negotiated. This support and the proposed restructure were announced to the market during July 2001.

In early September 2001, Pasminco announced its unaudited results for the 2001 year and provided further details of its restructuring plan and the support required of its lenders.

At this time, the Standstill Agreement was not in place. The Directors required the Standstill Agreement to be signed by 28 September so they could be certain of meeting forward financial obligations as and when they fell due. This in turn would enable them to sign Pasminco's Accounts. September 28 was the last business day of the September quarter, at which time Pasminco was required to lodge its Accounts.

However, it became apparent to the Directors that there were a number of issues that may prevent all lenders signing the Standstill Agreement by that date.

Following meetings that took place on 19 September 2001, the Directors determined that they were no longer satisfied that the Standstill Agreement would be signed by 28 September 2001. As a result of the Directors' concern as to the ongoing support of its lenders, the Board resolved to appoint Administrators at that time. This means that the Directors formed the view that, without the Standstill Agreement confirming the lenders' ongoing support, Pasminco was insolvent or likely to become insolvent.

The Directors were not obliged to seek the approval of Pasminco's lenders or shareholders to appoint Administrators under the Corporations Act.

The Directors have a duty not to allow a company to trade if it were to become insolvent and therefore they appointed Administrators. It was simply not possible or consistent with this duty to wait out the current business cycle given the company's financial position and to do so may have been a breach of their duty as Directors.

What Happened to Pasminco

As Administrators, we were obliged to investigate Pasminco's business, property, affairs and financial circumstances and provide a report to the company's creditors. As part of this investigation, we considered the reasons for the company's failure.

We have formed the view that Pasminco's financial position was largely a result of the substantial decline in the zinc price, but also a combination of the following additional factors:

- The size of Pasminco's debt burden.
- The acquisition and subsequent under-performance of the Savage assets.
- Pasminco's hedge book.
- Inadequate management information systems.

Pasminco's large debt levels resulted from funding obtained for the acquisition and development of the Century Mine and the takeover of Savage Resources. While Century is an excellent asset and has a long and viable future, the performance of the Savage assets failed to meet expectations.

Savage also had a substantial hedge book, part of which could not be determined from generally available information when the acquisition occurred. Combined with Pasminco's own hedge book, this led to a substantial contingent exposure for the company as the Australian dollar depreciated against the US dollar in 2001.

Pasminco entered into its hedge contracts in a couple of tranches, broadly at times when the Australian dollar was at then historically low levels against the US dollar. As with many other mining companies, the contracts entered into were designed to protect against an appreciation of the Australian dollar against the US dollar. This strategy was based on consensus Australian dollar forecasts at the time with the result that Pasminco was unable to benefit from a further substantial decline in the value of the Australian dollar.

The US dollar zinc price also fell and these hedges prevented Pasminco from capturing the benefit that the lower Australian dollar would have brought in bolstering Australian dollar revenues.

We also consider that Pasminco's management information systems were not adequate for a company of its size and did not help it deal with the financial crisis created for the company from the other factors that I have referred to. Substantial work has been done to improve these systems since this time.

Some shareholders have queried how Pasminco's financial position could have deteriorated so quickly. In summary, Pasminco lost a material portion of its revenue base following a 33% reduction in the zinc price in a short period of time while the depreciation of the Australian dollar resulted in greater debt, albeit largely on a contingent basis, from Pasminco's hedge book.

Role of the Administrators

We were appointed as Administrators by a resolution of the Board of Directors of Pasminco Limited and 21 other subsidiary companies.

Once we were appointed, we took control of the affairs of Pasminco and those subsidiaries and assumed the powers of the Directors.

An Administrator cannot be appointed to a company indefinitely. An Administrator is obliged to determine options available to a company to restore it to financial health or alternatively seek to provide a greater return to creditors than in a formal winding up.

An Administrator is also obliged to investigate the reasons for the failure of the company and determine whether there are any recoveries that may be made from any parties for the benefit of the company as a result of any breaches of the law.

Accordingly we were obliged to investigate Pasminco's affairs and the conduct of its directors, officers and advisors to determine whether there are any recoveries that may be available to a Liquidator or Deed Administrator.

We have conducted a detailed investigation of Pasminco and the circumstances surrounding the failure of the company.

We have lodged a confidential report with the Australian Securities and Investments Commission regarding the matters investigated by us. We are unable to comment in detail regarding these investigations as some of them have not been concluded.

The particular areas that we have investigated are:

- Whether Pasminco traded while insolvent.
- The conduct of Pasminco's hedge book.
- The acquisition of Savage Resources.
- The accounting records and management information systems maintained by Pasminco.

We formed the view that Pasminco did not trade while insolvent. The key factor in our conclusion was that Pasminco had the support of its lenders prior to our appointment. This is demonstrated by funding that was provided and waivers that were granted.

Following meetings held on 19 September, the Directors formed the view that the Standstill Agreement may not be signed by their deadline of 28 September 2001 and therefore considered they may no longer have the support of their lenders beyond that date. The critical factor is that the Directors considered they had the support of their lenders up until this time.

We also concluded that there were no other transactions that would only be available to a Liquidator as a voidable transaction if Pasminco was wound up.

Other investigations we are undertaking are yet to be concluded. As such I am unable to comment on these matters any further other than to state they are complex and further work is being performed in order for us to finalise a view.

You should be aware, however, that if any proceedings were to be commenced by us, they would be made on behalf of the company. As such, any amounts recovered would be available for creditors in the first instance. In addition, proceedings would only be commenced if we were satisfied that reasonable grounds existed to bring those proceedings and that a material return could be achieved.

We would also like to point out that we are unable to comment on whether shareholders have any grounds to bring an action against any party. Shareholders should obtain their own advice on this matter. Our obligation is to consider avenues of recovery available for the company, not individual shareholders.

In order to explain the restructure of Pasminco that is being implemented and the position of shareholders, I will now discuss the 2001 and 2002 Annual Reports for the company.

The 2001 and 2002 Annual Reports

On the screen above we have provided a summarised position of the results for the 2001 and 2002 financial years.

Summary of Results for the 2001 and 2002 financial years:

	2001	2002
	AUD mil	AUD mil
Revenue	2,319	2,040
Asset Writedowns	(1,185)	(162)
Hedge Losses	(843)	14
Operating Expenses	(2,604)	(2,230)
Other Costs	(105)	(73)
Net Profit/(Loss)*	(\$2,418)	(\$411)

* Excluding movement in Reserves (AUD6m)

These results reflect a number of key factors that have affected the accounts in these periods. These key factors include:

- Asset write downs reflecting the effect of the lower forecast zinc price on Pasminco's earnings.
- The crystallisation of losses on Pasminco's hedge contracts.
- The Accounts not being prepared on a going concern basis.

This has resulted in losses of \$2.4 billion and \$411 million for the 2001 and 2002 financial years respectively. These loss figures are obviously substantial, however, at an operating level, Pasminco's performance was reasonable given increased production and unit cost savings that have been achieved, particularly in the 2002 financial year.

At a balance sheet level, Pasminco's assets, liabilities and equity position in the 2001 and 2002 accounts are shown on the screen above.

Summary of Balance Sheet for the 2001 and 2002 financial years:

	2001	2002
	AUD mil	AUD mil
Property, Plant & Equipment	1,840	1,693
Inventories	360	349
Other Assets	249	341
Total Assets	2,449	2,383
Interest Bearing Liabilities	(1,673)	(2,980)
Provisions	(1,089)	(499)
Other Liabilities	(544)	(166)
Total Liabilities	(3,306)	(3,645)
Total Equity	(\$857)	(\$1,262)

Clearly, Pasminco's liabilities exceed its assets. These liabilities also exceed the assets even if hedging losses were excluded.

We note the following key issues regarding the Accounts based on queries made of us to date:

- The Accounts have not been prepared on a going concern basis given that under the restructure plan that has been selected, Pasminco Limited will cease to operate.
- The Accounts incorporate borrowings made by the Administrators to fund the ongoing operations of Pasminco following our appointment.
- The PPT assets at Century and liabilities relating to those assets have been brought on balance sheet with effect from 1 July 2000.
- In the 2002 Accounts, assets and liabilities of Pasminco have been classified from non current to current given the restructure process being implemented.
- Pasminco's revenue has declined despite increased production given the decline in the world zinc price.

The Restructure of Pasminco

The restructure of Pasminco has been a complicated process. Many of you would be aware that Pasminco's business is complicated given the interdependencies of those assets, Pasminco's corporate structure and its financing arrangements.

Following our appointment as Administrators, there were two broad options available to us:

- Firstly, seek a sale of all of Pasminco's assets. This would have resulted in the assets being sold, or possibly closed in some instances, and proceeds distributed in the order of priority set out by the Corporations Act.
- The second option available was to continue to trade with a view to restructuring Pasminco.

What was unclear to us in the early days of the Administration was the best way to achieve this restructure. Our obligation was to generate as much value as possible from Pasminco's assets for the benefit of stakeholders.

At the time of our appointment, Pasminco's Century and Broken Hill mines were on the market for sale. We continued these sale processes while other strategic options were developed and assessed. While we were able to achieve a sale of the Broken Hill mine, we did not believe that offers made for Century reflected that mine's longer term value. We considered that we could generate a greater return for creditors by restructuring Pasminco than by an immediate sale of all its assets at a time of low zinc prices.

During late 2001 and early 2002, we continued to assess different restructuring and strategic options for Pasminco, again with the aim of generating as much value as possible for Pasminco's assets.

It became apparent however, that no matter which restructure option was selected, it would not be possible to generate sufficient value to repay all Pasminco's existing liabilities and provide a surplus for shareholders. Having arrived at this view, we advised shareholders on 15 November 2001 that there was no practical value left in their shares. That is; that their equity had no value.

It is important for shareholders to note that in an insolvency, the Corporations Act dictates that all creditors must be paid in full before shareholders are entitled to receive any return.

We did not consider that a sale of Pasminco's assets could generate the maximum value from the Group's assets. We therefore considered the option of restructuring Pasminco's debt by issuing new shares in Pasminco to creditors in exchange for their debt – a transaction that is referred to as a debt for equity swap.

In order to issue new shares in Pasminco Limited we either required exemptions from ASIC from the takeovers provisions or we would have had to use a Scheme of Arrangement under the Corporations Act, which automatically contains the relevant exemptions for the type of restructure proposed.

Schemes of Arrangement are an older legislative procedure that are sometimes used by large companies to reorganise their affairs. Schemes are however, cumbersome, time consuming and relatively inflexible to implement. We therefore applied to ASIC for exemptions from the relevant takeovers provisions. When ASIC refused our application we applied to the Takeovers Panel to review ASIC's decision.

Unfortunately some of the reporting of this process suggested that our application was to deprive shareholders of their rights. This is not the case. Our application was made to enable us to proceed with the restructure in as simple a form as possible.

By law, we were also not permitted to comment publicly while our application was being considered by the Panel, even where we considered the position was not being accurately conveyed.

The Panel granted our application. The majority of Panel members acknowledged that the “Administrators are primarily responsible to the company’s creditors, not the shareholders” and that they “consider that it is inappropriate to require the issue of the shares ... to be subject to the approval of existing Pasminco shareholders...”

Ultimately, despite the Panel deciding in our favour that the relevant exemptions should be provided, the work we and our advisors had performed in the meantime led to an alternative method of restructure becoming the preferred method of implementation.

The restructure option that has been selected for Pasminco will result in the current operating assets of the Group being transferred to the control of a new holding company, known as Pasminco Resources Limited. Equity in the new company will be transferred to creditors with a percentage yet to be determined that is proposed to be sold to investors prior to an ASX listing of Pasminco Resources Limited.

The Deeds of Company Arrangement that implement the restructure also contain fallback restructure options if the proposed float is unable to proceed. These options include a sale of all of Pasminco’s assets, a formal winding up of Pasminco and the issue of shares to creditors in Pasminco Limited, which was the subject of the Takeovers Panel application.

In summary, based on the work performed by us and our advisors, the restructure method that has been adopted provides the greatest opportunity to maximise the value of Pasminco for stakeholders. It is not possible, however, to provide a return to shareholders. I will talk about the position of shareholders further in a moment.

We have also been conscious throughout the Administration of the importance of Pasminco to various stakeholders. Many people have focused on what the restructure means for creditors compared to shareholders but it is also important to remember the importance of Pasminco to its approximately 3,500 employees who have substantial accrued entitlements, the local communities where Pasminco operates and its employees live and thousands of customers and suppliers around the world.

We believe the restructure proposal that has been adopted provides the best opportunity to ensure the various Pasminco assets continue to operate, which benefits employees, local communities, suppliers and customers.

We have tried to keep shareholders informed of the development of the restructure of Pasminco. It is difficult, however, to provide Pasminco's approximately 57,000 shareholders with regular and detailed reports. Many shareholders are aware that Pasminco's website is kept up to date with all media releases and reports to creditors. These documents have also been lodged with the ASX as required. For those shareholders that would like further information on the restructure of Pasminco, we encourage you to visit Pasminco's website where you can download copies of the Administrators' Reports and other information available.

The Position of Shareholders

Shareholders have asked why they have not been consulted in the restructure process and why they will not receive any interest in the restructured entity.

We have tried to show you today the financial position that Pasminco was in when we were appointed as Administrators. Pasminco could no longer meet its financial commitments without the support of its lenders and the company's liabilities exceeded its assets. On this basis, Pasminco was insolvent or likely to become insolvent shortly thereafter.

Under the law, creditors are entitled to repayment of all amounts due to them before shareholders are entitled to any return of their capital. This is the risk that any shareholder takes on by investing in shares. In our assessment, under whatever restructure scenario was adopted for Pasminco, it is not possible to generate sufficient value to repay all liabilities that existed at the date of our appointment and provide a surplus for shareholders.

We and Pasminco regret that it is not possible to provide shareholders with any return or interest in the new entity and we understand that shareholders have lost money; in many cases a lot of money. We would also prefer it if no employees had been made redundant, if creditors could be paid in full and other parties were not affected by the Administration.

The restructure that is being implemented for Pasminco is about securing the future of Pasminco's operations. We have tried to focus on ensuring the best future for Pasminco and its stakeholders in the circumstances and we consider that the restructure is the best possible outcome in the circumstances.

Shareholders have not been consulted in the restructure process as the Corporations Act, which governs the operation of Voluntary Administrations, requires that creditors alone determine the future of a company in administration. Again this is predicated on the basis that shareholders have no economic interest in the company given its insolvency.

Some shareholders have also asked us about their tax position. We are unable to advise any shareholder of their individual tax position, however we have been seeking to clarify the position as best we can for shareholders generally.

In particular, shareholders have queried whether they can claim a tax loss given their shares are of no value. The Income Tax Assessment Act allows capital losses to be claimed in certain circumstances. One of those circumstances is where a liquidator declares the shares are of no value. Pasminco is in administration, not liquidation, and the legislation does not give similar powers to Administrators or Deed Administrators as it does to a liquidator.

In order to clarify the position, we requested a class ruling from the Commissioner of Taxation. The ruling has recently been received and confirms that a tax loss cannot be claimed for a company in administration or subject to a Deed of Company Arrangement.

We consider this position to be unfair for Pasminco shareholders. The position may have arisen due to the fact that Voluntary Administrations did not exist when the relevant provisions of the tax legislation were originally written. As a result, we have recently approached the Federal Government with a request for a change in the legislation so that statements by an Administrator or Deed Administrator regarding the value of shares in an insolvent company will have the same effect as a statement by a Liquidator.

We do not know if the Government will agree to seek to amend the legislation or if any changes that are made will be made retrospectively.

It is also not currently possible for shareholders to transfer their shares for a nominal amount to crystallise a tax loss in that way. This is because the Corporations Act prohibits such transfers during Administration except with a Court Order. This position is also reflected in the Deeds of Company Arrangement and applies to off-market share transfers.

We have indicated previously that it is our intention to provide shareholders of Pasminco Limited with a priority allocation in any public offering of shares in Pasminco Resources if it proceeds.

I am unable to comment any further on this matter in this forum given publicity restrictions that exist in relation to public offerings, however further details are expected to be made available early next year.

What Happens Next

We will continue to prepare Pasminco for the proposed public offering.

We will write to shareholders when details of any priority offer are available.

We will continue to liaise with the Federal Government to seek to change the legislation regarding the tax position of shareholders of companies in Administration.

We will continue to update Pasminco's website regarding future developments and we invite shareholders to access the site for information that may affect them or contact the Pasminco shareholder help line with any queries.