



FERRIER HODGSON

21 March 2002

*When replying please quote:
Our Ref: NG:TS:A1/B9
Your Ref:*

TO CREDITORS

Dear Sir/Madam

**RE: PASMINGO LIMITED
(ADMINISTRATORS APPOINTED) ("PASMINGO")
ACN 004 368 674
AND ITS WHOLLY OWNED AUSTRALIAN SUBSIDIARIES**

We refer to our appointment as joint and several Administrators of Pasmingo and its wholly owned Australian subsidiaries on 19 September 2001.

Attached is a detailed report outlining the current status of the administration and the future strategy for Pasmingo.

Creditors will note that we have performed a considerable amount of work to date in considering the future strategy for Pasmingo whilst we have continued to trade the business and sought to sell certain assets.

Creditors will be kept informed as the process for the restructure of Pasmingo evolves. In this regard, creditors will receive a detailed report prior to the second meeting of creditors being held confirming the restructure proposal and our recommendation for the future of Pasmingo.

In the meantime, should you have any queries, please contact Mr Anthony Quach on (03) 9600 4922 or aquach@melb.fh.com.au.

Yours faithfully

J M SPARK
ADMINISTRATOR

P D McCLUSKEY
ADMINISTRATOR



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1. EXECUTIVE SUMMARY

- The affairs of the Pasminco Group (“Pasminco” and “the Group”) are complex and its operating sites are located in various locations both within Australia and overseas.
- The complex nature of the operations is exacerbated by the numerous linkages between the various sites which must be considered in the development of the strategy for Pasminco.
- Profitability of Pasminco is driven by various external factors such as the zinc price, lead price and the Australian Dollar. The zinc price is currently at historical lows and has had a marked impact on profitability, cashflow and the value of Pasminco’s assets. The views expressed by various market analysts however are that zinc prices should improve in the short to medium term.
- The historically low zinc price led to an operating loss for the 2001 financial year of AUD715.7 million, after adjustment for asset write downs, tax losses written off and hedge losses.
- In addition to the low zinc price, Pasminco was carrying significant debt totalling in excess of AUD3 billion (including hedge losses). The vast majority of this debt relates to the various funding facilities held by Pasminco.
- Following extensive discussions and negotiation with the Financiers, it became apparent that a Standstill Agreement suitable to both the Financiers and Pasminco was not going to be achievable within an acceptable timeframe.
- Accordingly, in the absence of such a Standstill Agreement, the directors appointed John Spark and Peter McCluskey of Ferrier Hodgson as Voluntary Administrators (“Administrators”) on 19 September 2001.
- Following the appointment of Administrators, various key trading issues were identified, requiring extensive review and monitoring, including:
 - Reviewing payments;
 - Reviewing and authorising capital expenditure;
 - Reviewing and negotiating contracts;
 - Various site issues;
 - Debtor securitisation;
 - Implementing a purchase order system satisfactory for the purposes of the Administration;
 - Foreign exchange and metals contracts;
 - Employees and Unions.



- In addition, each of the Group's sites have been subject to review. Resource Finance Corporation ("RFC") were engaged to undertake a valuation of each of the Group's sites as well as to assist in the preparation of a strategic model which could be utilised in assessing the most appropriate future strategy.
- Pasminco had placed the Century Mine and Broken Hill Mine on the market for sale prior to the appointment of the Administrators. We continued these sale processes following our appointment.

The current status of the sale processes is as follows:

- After extensive negotiations with bidders for Century Mine, the sale process was terminated on 17 January 2002 as the offers received were considered inadequate and it was apparent that no bidder was prepared to submit an offer that was acceptable to the Administrators. Recently, a revised bid has been received and is being assessed.
- A conditional contract for the sale of Broken Hill Mine has been signed.
- The future strategy for Pasminco was largely driven by the acceptability or otherwise of the offers received for Century. Given that an acceptable offer for Century **was not** received, the Administrators recommended to the Committee of Creditors that any restructured entity should include a mixture of mines and smelters.
- This strategy is based on a retention of the world class assets so as to maximise the upside associated with leverage from improved commodity prices, whilst minimising the exposure to low commodity prices by removing marginal assets from the Group. In addition, this strategy retains the natural hedge through the linkages between the mines and smelters.
- We have been liaising closely with the Committee of Creditors throughout the Administration to date in the formulation of the strategy for the restructure of Pasminco.
- To facilitate such a restructured entity, we are currently looking at the possibilities of utilising either a Scheme of Arrangement ("Scheme") or Deed of Company Arrangement ("Deed") or a combination of both.
- The overarching objective for the restructure of Pasminco is to allow it to trade in order to take advantage of the forecast recovery in the zinc price. A restructured Pasminco that experiences more favourable trading conditions will undoubtedly provide a return to creditors that is in excess of that estimated under a Liquidation scenario.

- There are a number of structures and avenues that the restructure could take. Set out below are the key objectives that we have been cognisant of whilst planning the restructure. We have also made these objectives clear to the external members of the restructure team including Minter Ellison, the Investment Bank (“IB”) Advisors and Pasminco management. Each of the restructure options satisfies some or all of the key objectives to varying degrees. These objectives include:
 - Develop a viable capital structure;
 - Retain/attract high calibre management (including Directors);
 - Keep simple as possible to minimise implementation risk;
 - To the extent possible, preserve and utilise tax losses within the Pasminco Group;
 - Maintain public listing to maximize liquidity of equity;
 - Capture upside for creditors;
 - Create a favourable public perception;
 - Optimise creditor regulatory issues;
 - Assist creditor write-off/allow for flexibility;
 - Maximise saleability/liquidity in terms of debt; and
 - Maximise level of performing debt.
- As Administrators, we are required to investigate the affairs of the Pasminco companies over which we have been appointed and report to creditors with respect to such investigations. The outcome of these investigations will be reported to both the Australian Securities and Investments Commission (“ASIC”) and to creditors prior to the second meeting of creditors.
- We applied to the Court on 13 December 2001 for an Order extending the convening period to hold the second meeting of creditors to 8 April 2002. The Court subsequently granted this Order, therefore requiring the second meeting of creditors to be held by 15 April 2002. It is now clear a further extension will be required. This extension will be sought in the next 10 days.
- A detailed report will be provided to creditors prior to the second meeting being held, detailing:
 - Our investigations of Pasminco;
 - The proposal for the restructure of Pasminco;
 - The Administrators’ recommendation for the future of Pasminco.



2. INTRODUCTION

- This report has been prepared for creditors so as to provide an update on the current status of the Administration, to provide an overview of the affairs of Pasminco and the key factors affecting the determination of Pasminco's future.
- On 26 September 2001, at the first meeting of creditors of Pasminco, a Committee of Creditors was formed. The Committee is a representative body of creditors whose role is to consult with the Administrators during the Administration. It comprises representatives from the Commonwealth Bank, Westpac, ANZ, National Australia Bank, Citibank, Deutsche Bank, Societe Generale, Hypovereinsbank, BankWest, UBS, the Silver Loan noteholders, the employees, the Australian Workers Union, the Australian Manufacturing Workers Union, and the CFMEU.
- We have held six meetings with the Committee of Creditors thus far.
- We have liaised closely with the Committee since our appointment and on 30 November 2001 we provided a detailed confidential report to the Committee regarding the affairs of Pasminco and the strategy and options available for the future.
- This report to creditors is an abridged version of that report prepared essentially in bullet point format and updated for events that have occurred since 30 November 2001.



3. BACKGROUND TO APPOINTMENT

3.1 Events Prior to Appointment

- On 3 July 2001, the Financiers of Pasminco engaged National Consulting Group (“NCG”) to, amongst other matters, conduct a review and report on the Group’s financial position and proposed restructure, as well as the asset sale strategies going forward.
- The review was conducted in an environment where Pasminco had been faced with significant adverse publicity, a rapidly declining share price and a zinc price which had fallen from an annual average price in the year ended 30 June 2001 of USD1,051 per tonne to a low, prior to Administration, of approximately USD733 per tonne.
- In view of the Directors’ concerns regarding their position, the need for a Standstill Agreement with the Financiers was paramount.
- After a period of discussion and negotiation with the Financiers, it became apparent that a Standstill Agreement suitable to all Financiers and Pasminco, was not achievable within an acceptable timeframe.
- Accordingly, without the confirmed ongoing support of the Financiers under a Standstill Agreement and in light of the Group’s trading and cashflow difficulties, the Directors appointed John Spark and Peter McCluskey of Ferrier Hodgson as Administrators on 19 September 2001.

3.2 Factors Giving Rise to Administrators’ Appointment

- The zinc price had declined from an annual average of USD1,051 per tonne as at 30 June 2001, to a low of USD733 just prior to the appointment of Administrators. The decline in the zinc price has had a marked impact on both commodity sales values (and hence cashflow) and asset values.
- Pasminco was carrying too much debt for the current position in the commodity cycle. Major factors impacting on current debt levels were the acquisition of Savage, the development of Century Mine and losses on the pre-existing hedge book. Total losses on Pasminco’s hedge book are likely to amount to approximately AUD860 million.
- The Savage assets have performed below the estimates projected when the operations were purchased by Pasminco in a hostile takeover. These estimates were based on overly optimistic assumptions when Savage held a hedge book with large unrealised losses.

3.3 Engagement of Experts

- RFC was commissioned in July 2001 to provide an independent valuation of Pasminco’s mines and smelting assets. RFC has since been retained by the Administrators to advise on strategy issues.



- Australian Mining Consultants (“AMC”) was also commissioned by NCG to provide specialist independent verification of the technical production and processing assumptions made within Pasminco’s previous forecasts, and comment on the reasonableness of forecast revenue streams, operating costs and capital expenditure costs going forward. AMC has also been retained by the Administrators.
- Minter Ellison (“Minters”) has been engaged to advise on Administration legal issues.



4. OPERATING ACTIVITIES OF PASMINCO

4.1 Overview of Operations

- Pasminco's original operations included three primary smelters in Australia - the Cockle Creek ISF zinc and lead smelter, the Hobart electrolytic zinc smelter and the Port Pirie lead and zinc smelter.
- Pasminco's initial mining activities included underground operations at Broken Hill, Elura and Rosebery in Australia.
- On 24 September 1997, Pasminco acquired the Century Mine and Dugald River deposit from Rio Tinto Ltd for AUD340 million. Following two years of construction at a cost of AUD788 million, Century was finally commissioned in March 2000. The commissioning costs exclude financed or leased assets such as the PPT lease.
- Pasminco also purchased a publicly listed Australian company, Savage Resources Limited ("Savage"), in February 1999 for AUD457 million. Savage owned a modern, medium sized zinc smelter in Clarksville, Tennessee (USA), two zinc mines in Gordonsville and Clinch Valley (USA) and, in addition, a 49% interest in Ernest Henry mine, a large copper/gold joint venture in Queensland which was subsequently sold. Savage was also a NSW coal producer.

At the time of acquisition, Savage held a substantial contingent hedge book exposure.

- The ultimate holding company in the Group is Pasminco Limited whose purpose is that of a holding company and listed vehicle on the ASX (now suspended from trading).
- Some of the mining and smelting assets eg. Century, Broken Hill, Cockle Creek and Port Pirie, are held in separate legal entities.
- Certain other assets such as Elura, Rosebery and Hobart are all contained within Pasminco Australia Limited.
- The United States and Dutch operations operate across a number of distinct entities located in those specific countries. These companies are not in Administration.
- Each of Pasminco's operating sites is discussed in more detail at Part 5 below.

4.2 Historical Consolidated Profit and Loss Accounts

- Below is an abridged summary of the last 3 years profit and loss accounts:

	1999 AUD million	2000 AUD million	2001 AUD million
Revenue from Operating Activities	1,596.1	1,878.3	2,128.4
Other Revenue	204.0	135.9	190.9
Total Revenue	1,800.1	2,014.2	2,319.3
Operating Profit/(Loss) before Income Tax	(8.5)	31.0	(631.2)
Income Tax (Charge)/Credit	0.2	(7.6)	(84.5)
Operating Profit/(Loss) after Income Tax attributable to the Members of Pasminco Limited	(8.3)	23.4	(715.7)
Retained Profit/(Accumulated Losses) at the beginning of the Financial Year	(87.2)	(90.9)	(56.0)
Total Available for Appropriation	(95.5)	(67.5)	(771.7)
Transfer from Reserves	4.6	11.5	41.5
Retained Profits/(Accumulated Losses) at the end of the Financial Year	(90.9)	(56.0)	(730.2)

- It should be noted that the operating loss for 2001 is to some extent distorted compared to prior years due to non trading expenses such as foreign exchange losses.
- Consolidated group revenue increased by approximately AUD305 million for the year ended 30 June 2001 and despite declining zinc prices, the mining division revenue increased by approximately AUD215 million.
- The increase in revenue was mainly attributable to the first full year of production from Century Mine. Century zinc concentrate sales for the year ended 30 June 2001 were 747,000 tonnes, an increase of 553,000 tonnes from the previous financial year.
- Pasminco was unable to take advantage of the lower Australian dollar due to its fixed hedge position. The Group incurred revenue hedging losses (in the ordinary course) of AUD130 million compared to revenue hedging losses of AUD21.9 million for the previous financial year.



- The Group's expenses from ordinary activities increased by AUD918 million to a total of AUD2.842 billion for the 2001 financial year. The major increases in expenditure included:

	AUD million
Increase in Cost of Sales	297.0
Increase in Borrowing Costs	51.7
Asset Write Down	306.3
Abnormal Loss on Hedge Positions no Longer Effective	217.0
Restructure Cost	34.2

- The operating loss for the 2001 financial year totalled AUD715.7 million compared to an operating profit of AUD23.4 million for the previous financial year.
- The decline in operating performance can be predominantly attributed to the increased expenditure and losses noted above.



5. SITE SUMMARIES

5.1 Australian Operations

Broken Hill Mine

- Broken Hill is an underground zinc-lead-silver mine located in western New South Wales, Australia. Its forecast reserves as at June 2000 were 16.6 million tonnes.
- Broken Hill has approximately 650 employees including contractors.
- A contract for the sale of the Broken Hill Mine to Perilya Limited (“Perilya”) was signed on 8 March 2002. A number of conditions must be satisfied before completion occurs and possession of the mine passes to Perilya. It is expected that completion will occur in about mid 2002.

Century Mine

- Century Mine is an open-cut zinc-lead mine located in north west Queensland, 250km N-NW of Mt Isa and 120km south of the Gulf of Carpentaria. It is the world’s second largest zinc and lead mine. It is modern, low cost and is still in the process of ramping up to its operating design parameters.
- Century was purchased undeveloped from Rio Tinto in 1997 for AUD340 million. The purchase price also included the Dugald River zinc deposit that is yet to be developed.
- Pasminco embarked on a two year construction period that was completed ahead of schedule at a cost of AUD788 million. This cost excludes the cost of financed or leased assets.
- Century has approximately 550 employees, including contractors.
- At full production, the concentrator will process approximately 15,000 tonnes of ore per day and produce 880,000 tonnes of zinc concentrate and 120,000 tonnes of lead concentrate annually.
- Century currently produces 850,000 tonnes per annum of zinc concentrate containing 57.5% zinc.
- Once fully operational, the mine is currently forecast to produce 5.15 million tonnes of ore per annum.
- Century Mine was offered for sale prior to our appointment. We made it clear to the interested purchasers that Century is an excellent world class asset and that the sale process was not a “fire sale”. In this regard, interested purchasers were advised that if an acceptable price for Century was not received, Pasminco would retain it.
- Due diligence was completed in early December 2001 by the interested parties and offers were received. The price and terms of all offers received are confidential and cannot be disclosed by us to creditors.



- After a period of extensive negotiations by our sale advisors, UBS Warburg, and after liaising closely with the Committee of Creditors, we terminated the sale process for Century on 17 January 2002 given that no offers received were acceptable to us. Since then a revised bid has been received and is currently being assessed.

Elura Mine

- The Elura underground zinc, lead, silver mine is located 50 kilometres from the town of Cobar on the western plains of New South Wales, Australia.
- The mine commenced operations in 1983 and is forecast to produce 1.2 million tonnes of ore in 2001/2002.
- Elura has approximately 200 employees including contractors.

Rosebery Mine

- Rosebery is an old, small to medium sized, underground lead, silver, zinc and copper mine currently processing 790,000 tonnes of ore per annum.
- Rosebery has approximately 320 employees, including contractors.
- The current 'Life of Mine' is approximately 10 years with potential for additional near mine discoveries.

Cockle Creek Smelter

- The Cockle Creek lead and zinc smelter is located near Newcastle, New South Wales, Australia.
- The smelter currently employs approximately 360 staff including contractors.
- Cockle Creek runs an Imperial Smelting Furnace ("ISF") smelter and is currently producing between 80,000 tonnes and 88,000 tonnes per annum of zinc (of which 85% is prime western grade), between 32,800 tonnes and 41,000 tonnes per annum of lead and 180,000 tonnes per annum of sulphuric acid.
- There are also critical linkages with the Elura mine, whereby Cockle Creek is dependent upon zinc concentrate from Elura. Furthermore, Elura currently acts as a dump for Cockle Creek slag. These linkages will need to be preserved, particularly if Elura is sold.

Hobart Smelter

- The Hobart Electrolytic zinc smelter is located at Risdon, Tasmania, Australia.
- The smelter was commissioned in 1917 and is forecast to produce between 201,700 tonnes and 244,400 tonnes of zinc for 2001/2002.
- Hobart has approximately 600 employees.



Port Pirie Smelter

- The Port Pirie lead and zinc smelter is located on the eastern shore of Spencer gulf, 200km north west of Adelaide, South Australia.
- As the closest seaport to Broken Hill, Port Pirie became a key smelting and refining centre in 1889, six years after the mining fields of Broken Hill were discovered.
- The workforce on site comprises approximately 700 employees and 150 contractors.
- Port Pirie is an integral part of Hobart's environmental solution for treating paragoethite residues.

5.2 International Operations

Budel Smelter, the Netherlands

- The Budel electrolytic zinc smelter is situated in the south-eastern region of the Netherlands, about 2km from the Belgian border.
- Budel is a relatively old smelting business with a history dating back to 1892. The current hydrometallurgical plant commenced operation in 1973.
- The smelter has approximately 600 employees including contractors.
- Budel is forecast to produce 197,000 tonnes of zinc in FY 2001/2002, plus has re-melted 8,000 tonnes of purchased zinc.
- Budel is now totally reliant on Century concentrate supply. Century currently has an estimated mine life of 20 years. The plant was recently converted to process low iron zinc concentrates from the Pasminco Century Mine, avoiding the production of waste products requiring permanent storage.

Gordonsville Mine, TA, USA

- The Gordonsville mine was commissioned in 1982 and is a medium sized mine with a forecast production of 1.71 million tonnes of ore in 2001/2002 from three mines (Gordonsville, Elmwood and Cumberland).
- Gordonsville employs approximately 265 people.

Clinch Valley Mine, TA, USA

- The Clinch Valley mine is a small underground zinc mine which was acquired as part of the Savage acquisition in February 1999.
- Clinch Valley employs approximately 65 people, including contractors.

Clarksville Smelter, TA, USA

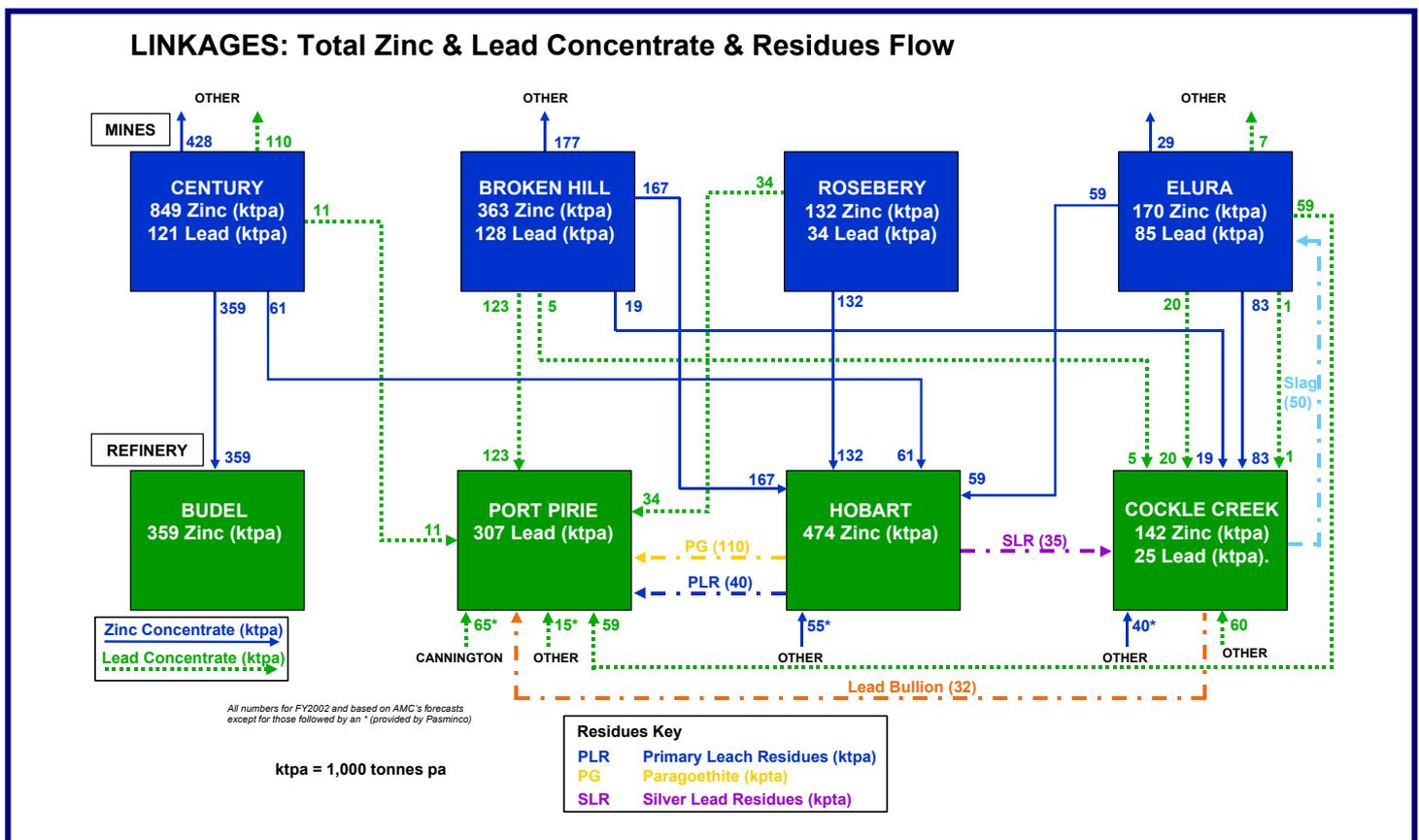
- The Clarksville electrolytic zinc plant was acquired as part of the Savage acquisition in February 1999.
- Clarksville is a relatively modern, efficient, electrolytic zinc refinery, although small by international standards.
- Clarksville employs approximately 230 staff including contractors.
- The mine is forecast to produce 123,000 tonnes of zinc metal in 2001/2002.

Sale of US Assets

- The US Operations have no linkages with the Australian operations.
- Rothschild has been engaged to conduct the sale of the US assets. In this regard, Rothschild has previously acted as advisor for the sale of these assets and is familiar with them. We consider that this will assist with a prompt sale of the US assets.

5.3 Linkages

- When considering strategies for the business, the linkages between the mines and smelters are fundamental.
- Detailed below is a diagram prepared by RFC detailing flows of zinc, lead and residues between each of the group sites. This clearly demonstrates the strong linkages between the various sites:





6. CREDITORS

6.1 Financiers

- Pasminco's funding arrangements at the date of the appointment of Administrators are summarised as follows (at an exchange rate of USD/AUD 0.4905):

Funding Exposures	Indebtedness Total AUD million
Syndicated Loan Facility	902* ¹
Transferable Loan Certificate Facility	201* ²
Bilateral Facilities	419* ¹
Other	38* ¹
Standstill	49
PPT Lease	226
Silver Loan Notes (including swap)	293* ¹
Securitisation Facility	106* ²
Foreign Exchange	857* ³
	3,091

*¹ Interest has been applied up to 19 September 2001

*² Based on estimate as at September 2001

*³ Current estimate

6.2 Operating Trade Creditors

- At the date of appointment, Pasminco had operating trade creditors totalling approximately \$250 million.
- A decision was made at the commencement of the Administration that operating creditors required for the continuation of production at sites, which were outstanding at the date of appointment would be paid in the ordinary course. In this regard, it was agreed with the Committee of Creditors that to avoid considerable disruption to the operations, which would have given rise to a substantial deterioration in asset values, these operating creditors had to be paid.

6.3 Employee Claims

- Pasminco's total estimated employee liabilities are summarised as follows:

Division/Site	Annual Leave & Long Service Leave	Redundancy and Other	Workers Comp	Gross Total Employee Liabilities
	AUD million	AUD million	AUD million	AUD million
Australian Operations	51.2	144.8	64.1	260.1
International Operations	37.0	54.0	10.0	101.0
Total	88.2	198.8	74.1	361.1

- Our review of the financial position of each company in the Group indicated that, subject to the assumptions adopted regarding the estimated realisable value of net assets, there may be two or three companies with insufficient assets to meet their employee entitlements in full.
- It is considered crucial to the ongoing viability of the operations that the employees are given sufficient comfort that their entitlements are covered. To do otherwise could have significant adverse ramifications for the operations and potentially give rise to a substantial reduction in asset value.
- The restructure proposal put forward to creditors will provide the necessary comfort to employees that their entitlements will be met from Pasminco's assets.

6.4 Other Creditors

- Pasminco's other creditors include:
 - Environmental liabilities and other contingent claims, including amounts claimed with respect to various legal actions to which Pasminco is a party; and
 - Various other creditors that have not been paid including those providers of goods and services that are not critical to the ongoing trading of the business.
- With respect to Pasminco's environmental liabilities, we have approached the NSW, Tasmanian and South Australian Governments to negotiate a basis on which the environmental costs in the future can be limited.
- This approach was intended to:
 - Identify a likely financial impost on Pasminco if it goes forward;
 - Limit the cost of restoration of the sites to a minimum from Pasminco's perspective; and
 - Ultimately give value to the assets, as clarity in respect of the rehabilitation requirements allows the restoration costs to be more accurately quantified.



6.5 ASIC Class Order

- Fifteen of the twenty two Pasminco Group companies to which we have been appointed are subject to ASIC Class Order 98/1418 (“the Closed Group”). The Class Order was conditional upon each of the Closed Group companies entering into the Cross Deed, whereby these companies have guaranteed the liabilities of each company in the Closed Group in the event of a winding up.
- The effect of the Cross Deed is that each primary creditor of a Closed Group company is also a contingent creditor of each of the other Closed Group companies.
- The only company that is not part of the Closed Group that has any significant assets is Pasminco International (Holdings) Pty Ltd (“PIH”), which owns the shareholding in Budel. Practically, if Budel was sold, the funds would be distributed either through repayment of intercompany loan accounts, or as a distribution to the holding company of PIH, Pasminco Limited, and would therefore be available to the Cross Deed creditors.

7. CONDUCT OF ADMINISTRATION TO DATE

- We have summarised below some of the key issues that we have dealt with during the Administration to date.

7.1 Extension of Convening Period

- The first meeting of creditors was held on 26 September 2001, at which time our appointment was ratified and a Committee of Creditors was formed.
- A second meeting of creditors to determine the future of the company is normally held within four weeks of the appointment of an Administrator.
- We applied to the Court to extend the period to convene the second creditors meeting on the basis that the affairs of Pasminco were complex and we therefore required a greater period of time than that prescribed by the Corporations Act to investigate the affairs of Pasminco and prepare a proposal for the restructure of the Group.
- The Court made an initial order extending the convening period until 7 January 2002 and requiring that the meeting to be held by 14 January 2002.
- Following that order, as our review of the affairs of Pasminco progressed and the likely form of the possible restructure developed, it became clear to us that we would need further time to put forward a proposal to creditors, particularly given that:
 - It was necessary to finalise an outcome with respect to the sale of Century Mine to determine how the restructure should proceed.
 - We are seeking input from the Committee of Creditors to determine the final form of the restructure proposal.
 - We would need sufficient time to prepare the necessary documentation to give effect to the restructure, including applications to Court.
- As a result, we applied to the Court on 13 December 2001 for an order extending the convening period to 8 April 2002. The Court made that order. Therefore, the second meeting of creditors must be held by 15 April 2002.
- An application for a further extension of up to two months will be made in the next ten (10) days.

7.2 Priority of Administration Funding

- Following our appointment, we sought funding from three Financiers to provide facilities (“the VA funding facility”) totalling AUD300 million to assist us with the cashflow requirements of Pasminco.
- From advice given to us, it appeared that there was doubt that the use of the VA funding facility to advance funds to other Pasminco Group companies, may not have satisfied the relevant sections of the Corporations Act to constitute a personal liability of the Administrators and therefore have priority of repayment.
- As a result, we applied to the Court for an order that the funds borrowed by the Administrators and on leant was a liability under Section 443A of the Corporations Act and can be repaid as a priority debt in the Administration. This order was granted.

7.3 Priority of Employee Entitlements

7.3.1 Background

- We indicated at the commencement of the Administration that we may apply to the Court for a “Pooling Order”, whereby all or the majority of the assets and liabilities of the Pasminco companies would be pooled together.
- In this regard, the affairs of Pasminco are complex and the activities of many companies in the Group are intertwined as evidenced by:
 - Pasminco Finance Limited (“PFL”) has historically acted as “banker” to the Group.
 - The physical assets of the Group are owned by various other associated companies.
 - There are a number of “special purpose” companies used with respect to activities including marketing, securitisation of receivables and as holding companies.
 - There are instances within the Group where liabilities relating to particular assets are not recorded against the Pasminco company that holds those assets. This is particularly relevant for Pasminco Cockle Creek Smelter Pty Ltd.
 - Fifteen of the Pasminco Group companies are subject to ASIC Class Order 98/1418. The Class Order is conditional upon each of the relevant Group companies entering into a Deed of Cross Guarantee, whereby those companies have guaranteed the liabilities of each company in the Closed Group in the event of a winding up.

7.3.2 Legal Advice Obtained

- We subsequently obtained legal advice from Minters regarding the options available to us to pool assets, particularly in relation to the need to protect employee entitlements. We have also liaised closely with the Committee of Creditors on this issue.
- The advice we received was that whilst it is possible to seek an Order from the Court to pool the Group's assets and liabilities, a Court may be unlikely to grant a Pooling Order too far in advance of a restructure proposal being put to all creditors.
- Accordingly, it was agreed with the Committee of Creditors that a Deed or a Scheme would be used to provide a mechanism to protect employee entitlements of all companies as a priority.
- The Deed or Scheme proposed to creditors will provide for suitable protection for all employee entitlements out of all of Pasmenco's assets.

7.4 Financing Arrangements with International Operations

- Approximately USD18.5 million has been advanced to Pasmenco's US operations since 19 September 2001.
- Security has been taken for post-Administration loans.
- The current forecasts to 31 March 2002, prepared by Pasmenco, indicate that the US operations will require further funding of about AUD2 million from Pasmenco during this period.
- A total of €5 million has been forwarded to Budel Zink BV by Pasmenco Finance Limited ("PFL") to assist it with its cashflow requirements. These funds have now been repaid.
- The Budel Directors expressed a strong preference for arranging external funding with their existing bank, ABN AMRO, to which we have agreed.
- We have recently been advised that ABN AMRO has approved the provision of facilities.

7.5 Investigations of Administrators

- As Administrators, we are required to investigate the affairs of the Pasmenco companies to which we have been appointed and report to creditors with respect to the matters investigated by us.
- We are also required to provide a report to ASIC in circumstances where we are aware of any offences that may have been committed by directors or officers of Pasmenco.
- At this stage, our investigations are ongoing, however, the following key areas, inter alia, are being reviewed:
 - Whether any Pasmenco Group company over which we have been appointed traded whilst insolvent.
 - The reasons for the failure of Pasmenco.

- Whether any directors or officers of Pasmenco may have breached their duties.
- Whether any advisors to Pasmenco may have breached duties that they owe, including auditors, legal and other advisors.
- Whether Pasmenco maintained proper books and records (this will include consideration as to whether the computer systems used by Pasmenco were sufficient to properly record financial transactions).
- Whether Pasmenco entered into any uncommercial transactions.
- As indicated above, our investigations are ongoing and we will liaise with Minters regarding the matters being investigated by us in order to report to creditors prior to the second meeting of creditors.
- To date, our preliminary investigations have not identified any significant issues in relation to the above matters.

7.6 Key Trading Issues

- Our role as Administrators has required our involvement in a number of the trading and operational issues of the Group. Some of the key issues have been as follows:

Purchase Order System

- Pasmenco has payment runs on most business days, although the major payment runs are processed on the 15th and 30th of each month.
- Following our appointment, we instigated various changes to the purchase order system, with the objective of placing further control over the incurring of expenses and ensuring that incurring of any ongoing liability is authorised through Pasmenco's approval system.
- We are continuing to work on enhanced measures to better control the incurring of expenditure. This will also provide improved information for cashflow forecasting purposes.

Capital Expenditure

- We are reviewing all material capital expenditure projects to ensure that such expenditure is justified on either economic, environmental or health and safety grounds.
- Some proposed capital expenditure programs have been withheld pending the resolution of a long term strategy for the business.

Contracts

- Procedures have been put in place to ensure that all new contracts entered into by Pasmenco incorporate sufficient provisions to take account of the interests of the Administrators (and hence creditors).
- Furthermore, we are reviewing all proposed contracts with a minimum value of AUD100,000 or greater.

- In conjunction with Management, we have reviewed pre-existing contracts to determine their suitability.

Site Issues

- Our staff attended all sites immediately following our appointment.
- Whilst we do not continue to have staff present on a full time basis at each of the sites, there are various site issues that are dealt with on a day to day basis by our staff located at Head Office.

Debtor Securitisation

- During the Voluntary Administration, we have worked closely with Pasminco and ANZ Beach Capital (“ABC”) and authorised the analysis of receipts between Pasminco and ABC.
- The liability owing to ABC of approximately AUD100 million has now been extinguished and we are in the process of negotiating a termination of the facility.
- Accordingly, all debtors are now effectively free of encumbrances ie. owned by the Group.

FX and Metals Contracts

- We have had an ongoing role in reviewing the close out of the foreign exchange and various metals contracts.
- In addition, we have negotiated facilities to allow ongoing cover in relation to metals prices.

Employees/Unions

- Our main focus for all employees has been to maintain a “business as usual” environment in what has obviously been a difficult and uncertain trading period. Such an approach was critical to preserving Pasminco’s business operations until a restructure proposal is formulated and put to creditors.
- We have met on numerous occasions with Union representatives of Pasminco’s unionised workforce to discuss the progress of the administration and issues affecting Union members.
- We have been pleased with the support and effort of the employees and Unions during the Administration to date and thank them for their ongoing commitment to Pasminco.

Management

- We have established an effective and co-operative working environment with management and in particular the new CEO, Mr Greig Gailey.

7.7 AGM and Annual Report

- Pasminco’s Annual Report was due to be signed and distributed to shareholders by 30 September 2001 and the AGM was due to be held by 31 October 2001.

- Subsequent to our appointment, we determined that it was not appropriate to complete the Annual Report or hold the AGM given:
 - Our appointment meant that figures that had been prepared for the Annual Report were no longer relevant and could be misleading given that they were prepared on a going concern basis.
 - Following our appointment, a significant proportion of Pasminco's foreign exchange liabilities were crystallised, thereby adding significant debt and resulting in shareholders not having any apparent economic interest in Pasminco.
 - The costs and resources required were considered as prohibitive given the two points referred to above.
- We applied to ASIC for its consent to indefinitely defer the requirement to provide the Annual Report and hold the AGM.
- ASIC has provided letters to us confirming that no action would be taken with respect to Pasminco not distributing the Annual Report or holding the AGM until 28 February 2002. A further extension has been requested.
- We are likely to seek further deferral from ASIC given that the second creditors meeting is due to be held in April 2002.

7.8 Pasminco Shareholders

- Pasminco Limited is a publicly listed company on the ASX.
- Upon the appointment of the Administrators on 19 September 2001 at about 6.00pm, a statement was issued to the ASX and trading in Pasminco Ltd shares ceased on the morning of 20 September 2001.
- At the date of our appointment, Pasminco Ltd had issued in excess of 1.1 billion ordinary shares and Pasminco Ltd's last share trading price was AUD0.05. At this share price, Pasminco Ltd's market capitalisation was approximately AUD56 million.
- Shareholders were advised on 15 November 2001 that a consequence of Pasminco's current financial position was the erosion of the capital of shareholders in Pasminco. Shareholders were told that even if all of the available Pasminco assets were sold, the proceeds are unlikely to be sufficient to repay the Group's total debt.
- Shareholders were also advised that there was no realistic prospect of any funds becoming available for shareholders and that it would be unlikely that Pasminco, in its current form (ie. prior to a restructure), would trade on the ASX again.

8. OPTIONS AND RECOMMENDED STRATEGY

8.1 Introduction

- A key focus of the Administration was a review of the options available to Pasminco and its stakeholders. Essentially, it is considered the options fall into three broad categories:
 - Liquidation, ie. a short term cash or asset realisation option.
 - Operate an Australian smelting company, ie. all the mines and overseas assets are sold.
 - Operate a combination of world class mines and smelters.
- In order to assess the various options, a strategy model was commissioned from RFC with input from the Administrators and Pasminco.
- The model caters for various scenarios comprising varying mixes of smelters and mines.
- The model is seen as a tool to assist “proving up” the Group’s and our views on an appropriate strategy going forward. Importantly, the model is flexible in that variables, such as zinc price and exchange rate, can be changed.
- For each particular scenario chosen, the model estimates:
 - The level of debt that may be serviced and repaid over a period;
 - The percentage of debt recoverable;
 - The funding required (where applicable);
 - A comparison of the Financiers’ security levels (asset to debt coverage); and
 - The Net Present Value of equity cashflows.
- Key drivers which are also considered critical to the assessment process are:
 - The price that was offered for Century;
 - The zinc price outlook;
 - The cashflow forecast to 30 June 2002;
 - Linkages, ie. integration between mines and smelters;
 - Identification of the “world class” quality assets; and
 - The ability to carry forward tax losses.
- A further key determinant was whether Pasminco’s creditors wished to take a long term view and therefore maximise the possible equity upside, or whether they wish to effectively liquidate the assets in the short to medium term and therefore potentially minimise their risk.

8.2 Key Issues from the Strategy Model

8.2.1 Net Present Values (“NPV’s”)

- The strategy model calculates NPV’s for each of the sites. The calculated NPV’s for each site are dependant upon the assumptions utilised for such parameters as zinc price, lead price and exchange rate.
- Whilst the calculated NPV’s cannot be disclosed at this stage, the strategy model highlights the significant impact that differing assumptions, in particular the zinc price, can have on the calculated NPV’s.
- The model highlights that there is considerable upside that is likely to be gained from improvements in the current zinc and lead prices.
- An improved zinc price provides considerable potential upside in respect of Century. This reinforced the importance of assessing the acceptability or otherwise of the offers that were received for Century and was a major factor in terminating the sale process for it.
- In support of the strategy model’s calculated NPV’s, RFC prepared a valuation of the various sites in a report dated 10 September 2001. This report also highlighted the significant impact on NPV’s of improved zinc and lead prices. Please note that we are unable to provide creditors with details of the valuations at this stage.

8.2.2 Scenario Options

- Our analysis of the various restructuring options available reveals that there are broadly two main scenarios to consider. The first scenario involves a shorter term liquidation type scenario and the second involves a longer term restructure scenario, whereby the majority of assets are retained. Our rationale for concentrating on these two scenarios is discussed below at 8.4.1.

Liquidation Scenario

- In this scenario, all assets would be realised with there being no remaining residual Pasminco business.
- This scenario would require no further additional funding over and above the facilities already in place.
- We consider that the main factors that would impact on the return available in this scenario would be:
 - The level of employee entitlements (eg. redundancy).
 - The level of EPA exposures.
 - The ability to extract reasonable value for the smelters and mines given the currently depressed zinc price.

Australian Smelting Assets (“Smeltco”) Plus Century, Rosebery and Budel

- This scenario attempts to keep the majority of Pasminco’s assets together, therefore eliminating the need to accept asset sale prices that are based on today’s historically low zinc price.

- The basis for the potential upside in returns in this scenario is the higher NPV's resulting from any sustained increase in the zinc price.

8.2.3 Funding Requirements

- In a Liquidation scenario, there would be no further funding requirements over and above the existing facilities. However, if a restructure is to occur, then a further working capital facility may be required in the event that existing forecasts vary.
- The extent of further funding requirements however, could vary significantly and will depend upon:
 - Movements in commodity prices and the AUD/USD exchange rate.
 - The achievement of operational forecasts.
 - The format of the restructure adopted.
 - The level of existing debt to be carried and serviced.
 - The extent of any redundancies.
 - Whether any stock is forward sold to cater for the payments.
 - The net position of outstanding debtors versus the Administration creditors.
- The funding to help facilitate such a restructure could come from:
 - Sale of non core assets;
 - Realisation or financing of debtors;
 - Conversion or financing of stock.
 - Third party equity injection;
 - Further funding from Financiers.
- Pasminco (in conjunction with the Administrators) are preparing a Business plan which may be utilised to support funding applications for the Group should a longer term restructure scenario be accepted by creditors.

8.2.4 Cents in the Dollar Return

- The strategy model provides a calculation of the estimated level of debt that may be serviced under the various scenarios. This therefore allows an estimated cents in the dollar return to be calculated (expressed as a cents in the dollar return on the original debt figure).
- In addition, the strategy model calculates, on a purely theoretical basis, the further return that debt holders could receive from the restructured entity on any debt that is converted into equity. This again is expressed within the model as a cents in the dollar return on the original debt figure.
- The calculated cents in the dollar return to debt holders is reliant on the assumptions and inputs used, as well as the capital structure that is chosen.
- We are unable to provide details to creditors of the potential returns in different scenarios at this stage, however we will outline the forecast returns in our report to creditors prior to the second meeting of creditors.

8.3 Other Key Drivers

- The other factors that will impact on the strategy to be recommended include:
 - The level of cashburn from current operations. We note that the cashflow thus far is in line with forecasts and we are now marginally cashflow positive, with improved cashflows projected. The cashflow can however be negatively affected by external forces such as movements in zinc and lead prices and the exchange rate.
 - The lower business risk that results from holding both mines and smelters.
 - The outlook in respect of both zinc and lead prices and the exchange rate.
 - The ability of Pasminco to carry forward tax losses which currently total approximately AUD1.8 billion.
 - The ability to attract and retain directors, key management and employees.

8.4 Recommendation

8.4.1 Overview

- In considering all of the factors outlined above, we have arrived at the following conclusions:
 - The potential return in a Liquidation, in our view, is unacceptable if you subscribe to the view that:
 - The zinc price is at historically low levels and there is potential for upside in the future;
 - The existing cashflows are acceptable.

- In respect of the zinc price outlook, we have set out below the general views expressed by various analysts:
 - Recent price levels were the lowest recorded on the London Metals Exchange since terminal market trading commenced in 1986.
 - Overall there has been a 12% decline in US zinc consumption in 2001, with only a minimal rebound expected in 2002.
 - The market will remain in surplus with prices unlikely to rise on a sustained basis until at least the second half of 2002.
 - In the current extremely weak demand environment, a supply side response is seen as the only available option to stabilise the market.
 - Several mine closures have been triggered by the low zinc prices. In this regard, global zinc mine production has been cut by more than 600,000 tonnes and more are considered possible.
- We consider that a restructured entity going forward should include a mixture of both mines and smelters. Accordingly, it is considered that a restructured entity retaining only the smelters is not desirable, because:
 - A smelting operation solely does not provide for an integrated business with lower volatility and risk;
 - Sale prices achieved for the mines are more than likely to reflect today's zinc prices which are at historically low levels ie. lower than NPV's;
 - Smelting is a very volatile business;
 - Lenders are unlikely to provide funding to a solely smelting business because a world class asset is not available to secure the funding;
 - Forecasts indicate that there will be a tightening of treatment charges thereby reducing available cashflow, leading to an inability to service remaining debt (retaining mines provides a hedge against this occurrence).
- The rationale for our recommendation, which was supported by Pasminco and the Committee, was as follows:
 - The strategy is built around world class assets with the opportunity they provide to maximise the upside associated with leverage to higher commodity prices. Steps would be taken to minimise the exposure to low commodity prices by removing certain assets from the entity if acceptable prices can be obtained for them. **This strategy also retains the natural hedge within the Group through the linkages between the mines and smelters.**
 - There is sufficient margin between likely sale value today versus the present value of anticipated future cashflows (or alternatively, the likely sale values in the future).
 - The cashflow would appear acceptable unless there is a significant decline in zinc prices.

- The general view is that zinc prices in recent months have been at historically low levels. These levels are considered unsustainable for some producers at the higher end of the cost curve. In this regard, mine closures have commenced, which will reduce supply and which is anticipated to eventually lead to price increases.
 - Key linkages are maintained, this mitigates the need to source concentrates from external parties.
 - It allows the time necessary to achieve production efficiencies at Century, which will ultimately add to its value.
- Accordingly, the format of the restructured Pasminco, recommended and subsequently approved by the Committee of Creditors, was one based primarily on the retention of the world class assets, which includes a combination of mines and smelters.

8.5 Restructure Issues

8.5.1 Methodology

- A review team comprising representatives of the Administrators, Minters, Pasminco and Investment Bankers has been established to work through all implementation issues to enable an appropriate mechanism to effect the restructure as soon as possible. Their work is well advanced and it is intended that a detailed paper will be provided to the Committee of Creditors in late March.
- From our work to date, our preliminary view is that the restructure could take the form of either a combination of, or individually, the following:
 - A Scheme of Arrangement (“Scheme”) under Part 5.1 of the Corporations Act;
 - A Deed of Company Arrangement (“Deed”) under Part 5.3A of the Corporations Act.
- The Scheme or a Deed will provide for:
 - A mechanism for statutory compromise of claims against the company;
 - Creditors voting against the Scheme or Deed to be bound provided requisite majority votes are achieved.
 - A mechanism for the restructure that provides a fresh start;
 - Different processes to achieve similar outcomes; and
 - An identical result for employees and creditors.
- There are numerous advantages and disadvantages of both Schemes and Deeds. These advantages and disadvantages, as well as other relevant issues, are currently being considered so that the most appropriate strategy can be adopted. They will be fully reported on in our detailed report.

- Detailed work is also being undertaken regarding other key issues including:
 - A level of serviceable debt;
 - The nature of debt instrument/s;
 - The extent of equity; and
 - The impact of various structures on tax losses.

Meetings have been held with various authorities, including ASIC and the Australian Stock Exchange seeking their views as to the acceptability of the possible restructure. Support of the various authorities is critical to a successful outcome being achieved in the restructure process.

Some creditors may recently have seen a press release issued by the Takeovers Panel which correctly states that we have made an application regarding the possible restructure of the Pasmenco Group of companies for exemption from Section 606 of the Corporations Act.

However, the release does not put the application in context.

Essentially, as Administrators, we approached the ASIC to request an exemption from the requirements of the takeover provisions of the Corporations Act to allow the Administrators to potentially issue shares to creditors in exchange for debt without the need to seek shareholder approval. The ASIC declined to grant that exemption primarily as they held the view that shareholders retained an interest in the company and further that there were other mechanisms available to the Administrators to achieve that outcome eg. via a shareholders' meeting, via a prospectus or via a Section 411 Scheme of Arrangement. As a consequence, an application was made to the Takeover Panel for a review of that decision. The outcome of the application is likely to be known within the next two weeks.

It is important to appreciate that the implementation of a restructure is not contingent on a successful outcome before the Panel. However, a benefit to the restructure, if the application is successful, is that the restructure could be implemented via a Deed of Company Arrangement or a Section 411 Scheme. The benefits of a Deed versus a Scheme are set out above.

8.5.2 Estimated Timeline - Scheme/Deed

- It is envisaged that a Scheme could be finalised by July 2002 with key dates as follows:

Settle documents and informally serve ASIC	March/ April 2002
Formally lodge application with Court and ASIC	March/ April 2002
Court hearing of application	April 2002
Court ordered meetings are held	Late May/ June 2002
Court hearing approving the Scheme	June/ July 2002

- Under the Deed option, the Deed would have to be completed and be ready for creditors to vote on at the second meeting of creditors. This meeting must be held by 15 April 2002 subject to any further extension, which as previously mentioned, will be sought. It is expected the above timing would be compressed under the Deed option.

8.6 Other Implementation Factors

- Pasminco has stated, and we agree, that there are several other issues that need to be addressed as part of a restructure, in particular:
 - Management (some present and past) should take responsibility for bad decisions that have been made.
 - Internal processes and discipline have been poor and, in particular, certain systems are antiquated and inadequate. For example, Pasminco initially had difficulty producing reliable cashflows in a timely fashion.
 - Morale at present is low primarily due to the uncertainty surrounding the outcome of the current Voluntary Administration process.
- We are at present working with Pasminco in preparing a Business Plan which in the first instance will be prepared on a high level basis. The plan will focus on what the structure could look like in the future, including:
 - Appropriate corporate structure;
 - Organisational structure;
 - Staffing numbers and skill sets;
 - Systems and processes;
 - Senior management structure; and
 - Outline the basis upon which non world class assets will be dealt with.
- The Business Plan will be in a form which can be utilised by the Group for any working capital funding requirements following the conclusion of the Voluntary Administration.

8.7 Key Tasks for Immediate Future

Sale Issues

- Negotiate/finalise sale of Broken Hill and US operations.

Restructure Issues

- Continue ongoing dialogue with Government and EPA authorities with a view to clarifying and mitigating the extent of potential EPA exposure, as far as possible.

- Complete work to determine the best restructure mechanism ie. a Scheme, a Deed or possibly the interaction of both. Particular focus will be on:
 - Identification of classes of creditors;
 - The capital structure;
 - The position of shareholders;
 - Taxation considerations; and
 - Complexity and timing issues.
- The restructure paper will be further progressed and finalized for distribution, initially, to the Committee of Creditors.

Management Issues

- Continue the review of systems to determine the extent of inadequacies and possible solutions for the future.
- Identify and secure the appointment of a suitably qualified Board of Directors for the business post Administration.
- Determine the appropriate management/organisational structure going forward.
- Determine the extent of further redundancies and the financial impact and the timing thereof.

Legal Issues

- Implement a mechanism to protect employee entitlements in the restructured entity.

Summary

- Timing will be of the essence in respect of all the above tasks, which will be conducted by the Administrators, Minters and Pasminco's personnel. Creditors will be kept informed of developments in respect of the above.
- A detailed report of the proposal recommended by the Administrators will be provided to creditors prior to the second creditors meeting being held.



J M SPARK
ADMINISTRATOR



P D McCLUSKEY
ADMINISTRATOR