

ASX and Media Release

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Broken Hill Operation - Resizing and Closure of Hedge Book

Perilya (ASX code: PEM) advises it has completed an extensive review of its Broken Hill zinc, lead and silver operation and implemented a plan to resize the operation in light of current low metal prices.

As a result of this review, production at the Broken Hill Operation will be focused on a lower tonnage profile around mining remnant pillars and stopes with low development requirements in the Southern Operation. The North Mine and Potosi exploration decline will be placed on care and maintenance.

These operational changes are aimed at ensuring the Broken Hill Operation maintains a production level that is financially viable and allows the operation to weather the current low metal prices. The Broken Hill Operation will be well positioned to re-establish increased production and profitability in the future when metal prices increase.

Under the revised operating plan, ore production will reduce from 1.8 to 0.95 million tonnes per annum, which is expected to produce approximately 55,000 tonnes of contained zinc and 50,000 tonnes of contained lead. Mining grades will increase to 6.5% and 6.0% for zinc and lead respectively.

In conjunction with the resizing, Perilya has closed-out its hedge book realising \$60.3 million in cash. The hedge book was closed to realise its inherent financial value and to strengthen the company's balance sheet during this period of low metal prices.

Patrick O'Connor, Perilya's Executive Chairman, said, "The resizing at the Broken Hill Operation is prudent, conserves cash and positions the operation for the future. The company is confident that the Broken Hill Operation can be sustained to maintain a level of continuity of production and one that is financially viable at current metal prices for at least the next 2 to 3 years without significant compromise to the longer-term life of mine."

"Should metal prices increase in the future, we will be in a strong position to ramp-up production at the Broken Hill Operation and to utilise the full potential of the Broken Hill concentrator with ore sources from the Southern Operations, Potosi, the North Mine and Flying Doctor," he said.

"Regrettably, the lower production rate necessitates a reduction in our workforce from 760 to 320 employees. The affected employees will be provided with their full entitlements and supported in the transition. The decision to reduce our workforce has not been taken lightly and we are mindful of the impact upon individuals, their families and the community. We firmly believe that this is the best option to ensure continuity of operations and to preserve the mine for the long-term benefit of the community and the shareholders," he added.

"Perilya is in a sound financial position with cash reserves and low debt to weather the current period of low metal prices," he added.

Further details on the resizing at the Broken Hill Operation, the closure of the hedge book and future strategic intent is set out below.

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Broken Hill Operation Resizing

As foreshadowed in the June Quarterly Report the company has completed an extensive review of the Broken Hill Operation in light of the current metal prices environment.

The review has resulted in a resizing of the Broken Hill Operation to focus on a reduced tonnage, lower cost operation at the Southern Operations. The North Mine and Potosi exploration decline will be placed on care and maintenance.

Importantly, an extensive exercise was undertaken to assess multiple production options, which has resulted in the new production plan being based largely around the re-sequencing of mining areas rather than a short-term high grade approach, which can undermine the long-term value of the resources.

The revised production plan, which will take effect from September, is aimed at sustaining a lower cost operation that is expected to remain financially viable at current depressed metal prices for the next 2 to 3 years. The revised production level will also preserve the potential for a mine life of in excess of 7 years and position the operation to rapidly increase production and profitability should future metal prices and economic conditions allow.

Future ore production at the Southern Operations will focus on the utilisation of stopes that are currently available, or require minimal development, and the bringing forward high grade pillars that were originally planned to be mined in the latter years of the Life of Mine Plan for the Southern Operation.

A summary of the production and operational changes include:

- A reduction in milled tonnage from 1.8 to 0.95 million tonne per annum ('mtpa'), with annual production of approximately 55,000 tonnes of contained zinc and 50,000 tonnes of contained lead.
- Higher zinc grades of 6.5% and lead grades of 6.0% on the back of increased remnant pillar production (compared to current grades of 5.8% zinc and 3.5% lead).
- Exposure to spot prices, with hedging restricted to QP hedging and the use of option contracts.
- Reduction in manning levels by approximately 440, at a total cost of \$20 million.
- Lower capital and development expenditure for FY09 forecast at \$25 million reducing to \$15 million in FY10.
- Lower exploration expenditure within the Broken Hill region.
- Further cost reductions at the corporate head office.

The revised production plan has demonstrated that the Broken Hill Operation can continue to operate in this mode for 2 to 3 years at current prices, whilst preserving optionality to ramp-up production, should metal prices increase. In conjunction with the review, the company has substantially completed a review of its Life of Mine Plan, which is expected to show that subject to an improvement in metal prices and based on known mining inventories, the Southern Operation can run for at least a further 7 years. In addition, there are significant additional mineral inventories also available at Potosi, North Mine, Flying Doctor, Pinnacles and other regional deposits. The Life of Mine Plan is based on a longer-term view of metal prices.

The lower production rate will result in manning levels reducing from 760 to 320 employees. The company will work closely with its employees and contractors, union officials and the Broken Hill community to assist in finding alternative employment for those affected. These redundancies are expected to commence from 1 September 2008.

The company is committed to Broken Hill and will work with the Broken Hill Council to mitigate any short term effects and build a sustainable future for the operation and the community. Perilya is also working closely with the State Government of New South Wales in a positive way to ensure the continuity of operations in Broken Hill.

The restructure will also provide for the management of all exploration activities in Broken Hill and for the Flinders, Zinc Oxide project to be transferred to the responsibility of the Broken Hill Operation to provide the most cost effective retention of expertise and asset management.

Furthermore, capital and operating costs are planned to be significantly lower following the resizing. Under the revised production plan the operation is expected to maintain financial viability at current prices (net of mine development and capital).

The strong focus on cost control has continued to see further improvement in reducing direct cash operating costs and this revised operating plan should deliver further significant improvements.

Permitting of the Flying Doctor open pit resource will continue, together with mine planning work to assess the potential of the North Mine and North Mine deeps mineral inventories.

There will also be further reduction in staff at the Perth head office so as to reduce the corporate overheads.

Hedge Book Closure and Future Hedging Policy

The company has closed all hedging contracts with a maturity date beyond 1 September 2008 resulting in a net cash inflow to Perilya of A\$60.3 million.

The closure was facilitated in two stages; firstly the pre-delivery of a number of zinc contracts that were due to mature between September and December 2008 and secondly the financial settlement of the remaining forward contracts in both zinc and lead and the outright sale of all option contracts relating to lead and to the Australian Dollar (AUD).

The cash gain has been received in full and is net of all deferred premiums that were due on the lead and AUD option contracts.

At 30 June 2008, the mark to market of the hedge book was approximately A\$80 million. During July the mark to market fell significantly as a result of the increase in the lead price. On the date that the decision was made to close the hedge book, the mark to market of the book had fallen to approximately A\$48 million.

Given the very high volatility seen recently in the currency and commodity markets, the Board considers the net gain of A\$60.3 million to be an excellent outcome for Perilya. Proceeds from the hedge book closure will be used to fund the resizing of the Broken Hill Operation (including redundancy costs and working capital requirements) and to repay \$10 million in borrowings.

As a consequence of the closure of the company's hedge book, the future hedging policy will be restricted to Quotation Period "QP" hedging (i.e. hedging of product sales as they occur) and the use of options contracts to manage the company's revenue protection. The company has retained sufficient hedging contracts to meet its anticipated production until 31 August 2008, at which time it will become exposed to spot lead and zinc prices and the USD/AUD exchange rate (subject to any future QP hedging or option contracts).

Financial Impacts

Perilya further advises that as a result of the decisions on Broken Hill and as part of the preparation of 30 June 2008 Financial Statements and the year end audit, the Board will assess the carrying value of the company's assets for impairment in accordance with relevant accounting standards. The carrying values for Broken Hill will be influenced by the lower production profile and the prevailing spot metal prices. Furthermore, in light of the current liquidity issues facing global financial markets and the weak equity markets, the Board will also be reviewing the realisable value of the company's financial assets including commercial paper and listed investments. Full details will be available on 29 August 2008 when the company expects to release its full year's results.

Future Strategic Intent

As part of the Board's strategic review of the Broken Hill Operation, its remaining assets and capital management, it is evaluating expressions of interest for the Mount Oxide copper and cobalt project and other opportunities to increase shareholder value from the remaining underlying assets of the company, including its non-core exploration assets.

The Board expects to be in a position to report on the review of the expression of interest for its Mount Oxide copper project in September 2008. An ultimate decision on the Mount Oxide project will be made on the basis of maximising value for Perilya shareholders.

Following the outcome of the Mount Oxide process, a review will be undertaken on any surplus capital, after assessing the capital needs of the resized Broken Hill Operation, and a prudent capital management program will be initiated. It is expected that an announcement regarding future capital management strategies will be made by 31 October 2008, with any required shareholder approvals to be obtained at, or prior to, the company's Annual General Meeting, which will be held during November.