



P A S M I N C O

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“The Fall and Rise of Pasminco” Greig Gailey – Chief Executive Officer

Has anyone in this room had a near death experience? It isn't something that you would wish to have. But I am told it changes your life.

Well, this is exactly what happened to Pasminco on 19th of September 2001. It certainly changed Pasminco's life.

The last 18 months have been a truly remarkable experience! I have been given the unique opportunity to participate in the resurrection of a company. Not just any company but a great Australian mining company. In the next 20 minutes, I would like to share some of this experience with you.

Prior to joining Pasminco, I knew very little about Administration. Yes I knew of the Adsteams and the Tricontinentals. But not much more about the fate of “failed companies”. I was however to learn quickly. I joined Pasminco on 6th August 2001. The company was placed into Administration on 19th September 2001. I was either a very quick worker or the damage had been done before I arrived. Fortunately for me, it was the latter.

I took on the job of CEO under a two-year contract with a clear mandate to transform Pasminco into a Smelting company. I knew that Administration was possible. Knowing but not really believing. I knew I had a job to do to fix an ailing company. Something I had done before at BP in Europe and at Fletcher Challenge Energy in New Zealand. What I did not know was that I would be doing it with an Administrator.

Administration is usually a one-way street. Companies do not normally come out of Administration. Well at least, not intact.

It is important to differentiate between Administration and Liquidation. Many people confuse the two. Administration is like the intensive attention that you get in the critical care ward. Liquidation is more akin to that warm feeling that you get in the crematorium.

I am sure most of you would think Administration is a bad thing. I'll be honest with you; I did. My first inclination was to bolt. I had visions of padlocks on the door and furniture being auctioned. Well it wasn't like that. The Administrator prevailed on me to stay. I did. And I am glad I did.

Getting to the point where Administration is inevitable is certainly not good news. It is not good for Shareholders. It is generally not good for lenders. But if you get to this point, Administration can open up options. Administration opened up options for Pasminco. Options that would not otherwise have been available.

None of this is to say that it is a bed of roses. Just as roses have thorns, I have learnt that Administrators have armies of accountants.

How does one get into Administration? Well it isn't really all that complex. At some point the Board arrives at a view that "the company cannot meet its debts as and when they fall due". As such they cannot continue to incur debts. Well, not unless the directors are keen for a long holiday at "her majesty's pleasure".

I can tell you it isn't very pleasant wondering on Friday evening whether you will have enough cash to pay your bills on Monday.

In these circumstances the Board appoints an Administrator to run the company. The Administrator takes charge. He has a pre-determined period to re-organise the affairs of the company, usually 28 days. In our case it has taken a smidgen longer!

The Administrator is obliged to act largely in the interest of the company's creditors. Pasminco had quite a few of these. Around 3 Billion dollars worth give or take a few dollars. As Alan Bond once said, when you owe the bank \$50,000 you have a problem.

When you owe them \$500 million, they have a problem. The reality was that we both had quite a large problem.

The decision to place the company into Administration is relatively straightforward. Painful, but relatively straightforward. It must however be preceded by some more substantial actions. Actions that lead the company to fail in the first instance.

When you look at why Pasminco got where it got, it is easy to identify three major decisions.

- It made a hostile acquisition of a company in the USA called Savage Resources. Savage was not worth what Pasminco paid for it. Further there were some "uglies" in the Savage closet that Pasminco either didn't fully know about, or didn't correctly evaluate.
- Secondly, it hedged a large portion of its US\$ revenues forward at A\$/US\$ exchange rate of between 67 and 63 cents. This is a long way from the under 50's we have seen in the last 12 months. However, not so far from where we are today. I am sure that there are others in this room who can relate to this particular predicament.
- Thirdly, it brought on major new production capacity at a time of record low zinc prices. At the same time it had to commence principal and interest payments on the monies borrowed to develop that capacity.

With the benefit of hindsight, wonderful thing hindsight, the first two of these were flawed decisions. The last one was just bad luck. Why do I say ‘bad luck’, because the timing of commodity prices is simply impossible to predict.

Pasminco could have survived one or possibly two of these events, but the three together were financially fatal.

However, I would put it to you that these three apparent“ causes” were not really the causes. Rather they were symptoms. Symptoms of more deep-seated fundamental problems inside the company. Problems which were basically about People and culture. I believe Pasminco’s fall was ultimately about its people and its culture.

Knowing this is very important in deciding how to fix Pasminco. How does one go about “fixing” a broken company? As incoming Chief Executive, what was I to do?

Like most things in business, it isn’t rocket science. That said the devil is in the doing.

Let me share with you a simple model that underpins my beliefs about running a company. But first, let me tell you a story.

The story is of the new Chief Executive who had finally made it to the large corner office on the highest floor. All Chief Executives have large corner offices. It must be true because I found one when I got to Pasminco.

Back to my story. This Chief Executive eagerly anticipated that when he got to his large corner office he would find a large desk and beside the desk he would find a set of golden levers. Each of these levers would be appropriately labelled - costs, production, sales etc. By manipulating these levers he would be able to make the company do what he wanted. He would achieve success.

When he arrived at his large corner office, it was indeed impressive. There was indeed a large desk. More importantly right there next to the desk were the golden levers. Each lever was appropriately labelled. However, as he began to operate them he found much to his horror that they were - not connected to anything.

The moral of this story? That as a Chief Executive there is actually very little that you yourself can actually do. Almost everything that you want to achieve requires someone else to do something.

In his book “The 100 Worst Corporate Decisions”, Robert Gottliebsen devotes a chapter to Pasminco’s hedging. He makes mention of dysfunctional relationships within Pasminco. He talks about executives not relating to one another. I do not know whether his assertions were accurate or not. What I do know is that when I arrived at Pasminco I found that it did not have an effective executive forum. No process existed to ensure that the whole of the intellectual resource of the management team was being used to arrive at the best decisions. The company appeared to operate in silos. There was little recognition of what was best for Pasminco.

Further and perhaps more startling for a company in Pasminco's predicament, Pasminco was unable to accurately determine its day-to-day cash position. These weren't the only issues that needed attending to. But they were symbolic of what was going on.

It was clear to me that I needed to tackle all of what I call the 3Ps:

- People
- Processes
- and Property.

All of them were important, but the first was critical. I believe that people are the real key to creating a successful company. As a leader you are only as good as the people who work for you. Good people are absolutely essential.

Fewer better people was my goal. Management layers were stripped out. The separate Smelting, Mining and Group offices were amalgamated into a single one Pasminco.

Administration provided the opportunity for a wholesale renewal of Pasminco's human resource. Some people were damaged by what had happened to Pasminco. Others were simply not up to the jobs they were being asked to do. Changes were essential. Of the top 52 jobs in the company, 55% have new incumbents. A third of these are new to Pasminco.

Just as important as having the right people is having them relate to each other - and to you - in a productive way. Relationships are something of a passion with me. I have generally found that many business relationships are dysfunctional.

As Chief Executive one of the biggest challenges you face is finding out what is really going on in your company. Bad news often moves upwards slowly. Information coming to you is frequently selective and favourable. It became clear to me early on that I was not always getting an accurate and unfiltered view. Open and honest communication is critical. I can't stand people who tell me what they think I want to hear. If I want to know what I think, I can tell myself and cut out the middleman. If I am about to do the dumbest thing that they have ever heard of, I would like to know. I may still choose to do it. That is my prerogative as CEO. That is where the buck stops. But I as sure as hell would like to know they think it is dumb and find out why. Chances are I probably won't do it.

When you read things like the HIH saga, you scratch your head and say, "how could this have happened". Well I don't know what went on in HIH, but I have seen some pretty dysfunctional relationships in my time. I have even had a few myself. Chief Executives can become isolated from reality. You can develop a fairly skewed view of the world.

It sounds trite to speak about the power of good relationships. So trite in fact that it is easy to dismiss the subject with the usual..."oh yes we have those"...that is exactly how we behave around here". Well if my experience is anything to go by that isn't "how they behave around here" in most work places. Companies with good relationships are more the exception than the rule.

The other general misconception that arises when you start talking about these softer issues, people think that everything is going to be "nice", all "sunshine and lollipops". Well that isn't what it means. Good relationships are hard work. They are confronting, challenging and difficult.

I can't begin to recount all the meetings I have been to in my long career (and this is my 40th year in gainful employment) where the real agenda was not being discussed. And I have worked for some pretty successful companies. What was being discussed in these meetings was not being discussed honestly. And, at least half the participants had absolutely no intention of implementing whatever would be portrayed as being agreed. Matter of fact they would probably expend a great deal of energy and effort finding ways not to do what had been agreed. Just stop for a minute and think about the amount of valuable human energy that is wasted in such situations. Energy that could be used to further the company's real goals.

There was much to be done in Pasminco in how people related to each other.

In my first few months, I just knew that I was not getting a clear picture of what was going on in the company.

I use a very wise woman to help me in this process. I have been associated with her for many years now. She has followed me through three companies. In each she has helped me transform relationships. To build valuable and productive relationships that have made a fundamental difference to business performance in each of those companies.

She teaches a number of simple techniques. Again they sound trite. But, used properly they are incredibly powerful. Let me give you an example. One of these is what she calls "your 50%". In every relationship, we each own 50%. If they relationship isn't working, guess which 50% we try to change? Right, you have got it in one. The other person's 50%. After all changing someone else is always easier than changing oneself. Why? Because change is difficult, unpleasant sometimes even frightening. How effective do you think this attempt to change the other 50% is likely to be? Right again. Big fat zero.

However, if we modify our 50% chances are we might just get a different outcome. If you don't believe me, try it tonight with a loved one. Rather than criticising that irritating habit he or she has with the usual "would you please stop doing....", take a positive stance like "this is really important to me, and I just want to make things between us work better, and it would mean a lot to me if you could...". It may not resolve it in one but you might be surprised at the outcome. Relationships in the workplace are not any different. As a Chief Executive taking ownership of your 50% is absolutely critical to achieving real change in behaviours.

Conflict is another thing that is often badly handled in companies. And I don't mean the yelling and abusive type of conflict. There is no place for that sort of behaviour and no one should have to put up with it. What I mean is the willingness to confront difficult situations...head on...in a constructive and adult way. It is amazing how often confrontations are avoided in business. Why? Because it is too threatening. Too difficult. Conflict is avoided at all costs. Conflict is not bad. To the contrary it is good, it is just difficult and time consuming.

Again let me share a story with you.

I can remember a situation early in the Administration process when I was called into Ferrier's offices in William Street. I knew this wasn't going to be good. Whenever I was summoned to William Street, I knew I had a problem. On this particular occasion the purpose was to enlighten me as to the recalcitrant behaviour of one of my team. My take on this conversation was that I was expected to listen to this list of his transgressions, return to St Kilda Road and, not to put to fine a point on it, "kick butt". I refused. What I did do was to insist that all of the parties come together face to face. That like mature adults we deal with the issues one at a time in a constructive way. It was not comfortable but it was productive. Behaviours changed – on both sides. Performance improved.

Providing a feedback loop which provides a learning opportunity is an important part of improving performance. Assessing performance is not all that hard. In my experience it is the feed back loop that is the difficult part. By the feedback loop I mean the quality of the conversations that take place at the start and end of a performance period. That is, what do I want from you and how did you go at delivering it? Securing a consistently high standard throughout the organisation for these conversations is a challenge.

I see getting relationships right as a key part of my work at Pasminco. Have I done it? No. It takes a long time. Are we getting there? Absolutely, but it is a long hard grind. And, it has to start with you as the Chief Executive. You can't make people behave in a certain way. But you can set the standards. You can encourage, cajole and coerce.

Taken together these changes have re-invigorated the workforce, brought an infusion of new ideas and focused the whole company on a what had to be done at Pasminco.

The second P – Process – also needed attention at Pasminco.

Processes are the practical steps taken to go from A to B in a company. That is, how specific things get done. They need to be good quality processes. More than that they have to be consistently applied. Discipline is an important part of getting it right. Let me give you a very simple example. This is not a problem restricted to Pasminco.

Nothing is truer than the old adage “what gets measured gets done”. If you are going to measure it, measuring it accurately is critical. For example, counting the number of employees that you have. You would think that was fairly simple? Right? Well you would be wrong. After all, what is an employee? How is a contractor treated who fills a permanent position? How is a contractor treated who fills a supernumerary position? How are two people treated who job share? I don't think I need to go on. You can see how quickly information becomes a muddle and how decisions based on information that is plain wrong can themselves go badly wrong.

The last of the Ps is Property. Or, to use the more common descriptor - Assets. This has been the area where Administration has probably been most beneficial

Administration gave Pasminco options that it would never have otherwise had. Prior to going into Administration the Board of Pasminco had set the company on course to convert itself from an integrated mining and smelting business to a smelting business through the sale of its mining assets. Amongst these assets to be sold was the Century mine in North Queensland. Century is the jewel in Pasminco's crown. This was clearly not the best strategy. That is not a criticism of the Board that made that decision. They really had no other choices. They needed to raise cash quickly. They had to sell the most saleable assets.

Administration however opened up other choices. Relieved, at least temporarily, of its crushing debt burden, better options became available. Century was kept. But we were able to go further than this. Rather than selling the company's best assets we were able to deal with those that should not be kept. Assets like the Broken Hill and Elura mines, which were better operated by others. Assets like the Cackle Creek smelter, and US mines which were better closed. Given their financial position, these were decisions which the previous Board could not have even contemplated let alone taken. Administration gave Pasminco the opportunity to effect a remarkable improvement in its asset portfolio. I admire the foresight and willingness of both the Administrators and Creditors to take some pretty tough and necessary decisions in the last 18 months.

Given the position it found itself in by late 2001, Pasminco could not have done what it has done without having gone into Administration. Both Peter McCluskey and John Spark of Ferrier Hodgson have done much for Pasminco.

In summary, the last 18 months have provided me with a wonderful opportunity to bring together what I have learnt in 40 years in business. And to go on learning. The 3Ps – People, Processes and Property - have been at the heart of the resurrection of a great Australian company. Each of them is important but people and their relationships are what make companies great. I believe this passionately and everything that I have learnt in the last 18 months had re-enforced this belief.

As I said earlier, none of this is rocket science. It isn't. Most companies fail for fairly mundane reasons. What has to be done is pretty generic. Doing rather than knowing what to do, is the hard part and is what separates the success from the failures. Doing requires a rare combination of integrity, trust, respect for people, perseverance and sheer determination.

My goal has been to:

- create a climate where mature relationships allow people to be open and honest in dealing with each other.
- to address the real issues and not to shy away from conflict.
- to provide an opportunity to improve performance. And to deal with under performers.
- to put world class processes in place and ensure that they are universally adhered to.
- to improve the asset base by disposing of those assets better operated by others and closing those that should be closed.

The task is not yet over. Regrettably the fates have not been kind to us. The Tech Wreck, War and now disease would seem to be conspiring against us. Pasminco will not be out of the woods until it is again in private hands. I do not know when this will be. There have been too many twists and turns in the last 18 months to risk my predicting specific timing. But it will happen.

What is clear is that Pasminco is a great company comprised of great people. I have talked a lot about my role in its resurrection. This is only a very small part of what has been achieved. Behind me are a lot of very talented Pasminco people. They have done the real work. What has been achieved is largely their achievement.

Thank you.

Greig Gailey
Chief Executive Officer