

17 December 2004

NOTICE TO SHAREHOLDERS

ION Limited (Administrators Appointed)

ION Limited, the listed Australian industrial company, was placed into voluntary administration on Tuesday 7 December by its directors, together with all of its Australian subsidiaries. Colin Nicol and Peter Anderson of McGrathNicol+Partners were appointed as joint and several administrators to the group, and trading in its shares was suspended.

Upon appointment the Administrators took management control of ION Limited and its Australian subsidiaries (the *ION Group*).

The first statutory meeting of creditors of each company in the ION Group was held on Monday 13 December. The Administrators briefed creditors at the meetings on the background to the appointment and the strategy for the administration.

Creditors were advised that the ION Group's cash funding requirements had proved to be significantly more than forecast at the time the ION Group put new bank facilities in place in September 2004.

The ION Group notified its banks in November 2004 of the need for accelerated and increased funding. The banks agreed to increase the funding cap in place at that time by \$20 million to \$305 million but required that an independent review of the ION Group's financial position be undertaken. This review commenced in late November 2004.

The forecasts prepared by the ION Group in November 2004 showed a cash flow deterioration of \$183 million over the period to 30 June 2006. The cashflow profile was such that \$40 million was required in December 2004, a further \$30 million in January 2005 and by 30 June 2005 the cash required amounted to approximately \$170 million.

In the opinion of the Administrators, the forecast increase in cash requirements arose due to the following major reasons:

- cyclical trading downturns at certain business units;
- higher than expected costs and delays in completing greenfield expansion programmes; and
- operational difficulties at a new production facility.

The Administrators will be reviewing the processes by which projects and operations were managed, together with the ION Group's financial reporting and control mechanisms, so as to better understand how the forecast funding requirements changed so significantly and so quickly.

The Administrators consider that significant uncertainties remain with regard to the accuracy of certain key forecasts. These uncertainties mean that anticipated profitability at greenfield sites in particular may be overstated notwithstanding their downward revisions in August and November 2004.

The Administrators have taken control of all of the ION Group's Australian businesses and have the support of key stakeholders. The Administrators are implementing a strategy which involves:

- stabilising and trading on all operational sites;
- completing a sale of the Energy Services division;
- resolving in the short term whether or not the Altona plant's construction can continue;
- implementing profit improvement programmes at all operations; and
- improving management systems and financial control.

In early 2005, the Administrators will be pursuing sales of the business operations as going concerns whilst simultaneously considering options for a financial restructure of the ION Group by such means as a capital infusion combined with Deeds of Company Arrangement.

The second statutory meeting of creditors is due to be held on 10 January 2005. However, due to the size and complexity of the administration, the Administrators will be seeking an extension of time from the Court.

The outcome for shareholders from this administration will depend on the success of the business sales or any financial restructure of the ION Group and the extent of creditor claims. The Administrators anticipate that employee entitlements will be paid in full.

If you require further information please visit www.mcgrathnicol.com.au or phone the Administration Hotline on (03) 9038 3133.

Colin Nicol and Peter Anderson
McGrathNicol+Partners
Administrators