Consolidated Minerals Limited

An Independent West Australian Public Company

Implications for Asian ferroalloy market of Chinese practice of conversion deals

Content

- Defining Conversion
- Conversion in 2002 & in 2003
- Customs intervention
- Implications for the future

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Conversion business in China

Basically ..

- Smelter receives ore from and delivers alloy to same party

Background

- Common in China for cash flow advantages and payment certainly
- Favoured by alloy smelters in Provinces

  with competitive power price/access

  but remote from domestic steel industry
- Alloy export also provides surplus forex for ore import

  to facilitate blending of local ore / HG imported ore

  for higher grade alloys required by local mills

Practicalities of conversion business in China

Akin to toll conversion elsewhere but characterised by:

- trader opening L/C to Chinese I/E company
- I/E company opens usance L/C to trader
- ore delivered against usance L/C
- alloy equivalent (often on value, not technical) returned
- I/E company operates “toll book” with Chinese customs to keep track of VAT free ore
- “Conversion” provides basis for exception to Export Tax

Conversion business in China

In 2002 conversion business

- utilised surplus furnace capacity
- provided working capital
- fostered furnace leasing deals
- mainstay of export alloy business
  - limited mainly to Japan/Korea/Taiwan

- Asian trader/ore supplier domain

Conversion business in China

In Q2 2003

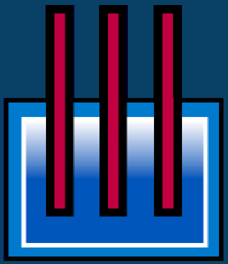
- European tariff barrier now down
- & international traders diverting alloy to Europe
- prices into Japan climbed steeply
- conversion rates chasing alloy price increases
  - challenging alloy producers to honour established contracts
- turmoil because China Customs applying 20% export levy

Export duty economics

100% conversion

Imported HG ore 1.7t (49.5% Mn)

Cost = 1.7 x US$100 + 0% VAT = **US$170/t**



Export 1t 78% HcFeMn

Export duty 0%

TOTAL cost ore + taxes = **US$170/t**

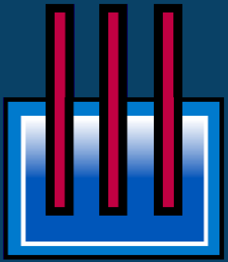
Export duty on local ore input

Imported HG ore 0.8t (49.5% Mn)

Cost = 0.8 x US$100 + 0% VAT = US$80/t

Local ore 1.6t (28% Mn)

Cost = 1.6 x US$40 + 15% VAT = US$75/t **TOTAL US$155/t**



Export duty 20%

20% of US$75/t = US$15/t

TOTAL cost ore + taxes = **US$170/t**

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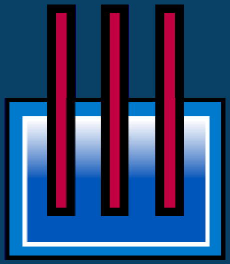
Nb: In both cases, Export duty is paid on proportion of coke, and other raw materials

Export duty economics

100% conversion

Imported HG ore 1.45t (49.5% Mn)

Cost = 1.45 x US$100 + 0% VAT = **US$145/t**



Export 1t 65% SiMn

Export duty 0%

TOTAL cost ore + taxes = **US$145/t**

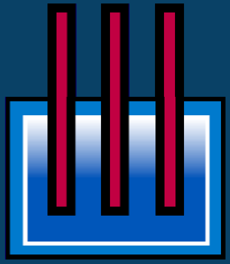
Export duty on local ore input

Imported HG ore 0.5t (49.5% Mn)

Cost = 0.5 x US$100 + 0% VAT = US$50/t

Local ore 1.6t (28% Mn)

Cost = 1.6 x US$40 + 15% VAT = US$75/t **TOTAL US$125/t**



Export duty 20%

20% of US$75/t = US$15/t

TOTAL cost ore + taxes = **US$140/t**

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Mid term Asian alloy market outlook

- Barriers causing market regionalisation now down
- Equilibrium between regional markets establishing
- Alloy producer profit windfall to finance:
  - working capital / environmental improvements / consolidation
- Larger alloy producers may rationalise marketing network & obtain greater control of sales
- SiMn price expected to stabilise @ 10-15% above historic lows
  - Although ore price rise will extract some of this added margin
- Chinese Government may react further to ensure local steel industry not disadvantaged by alloy exports

Implications for and of conversion practices

Against a background of larger market access (Europe) and firmer prices:

Practice will continue to provide liquidity for smelters / restarts

– And therefore not in the wider interest of the industry

Small prospect of domestic market making export less attractive, only in case Chinese steel mills improve payment

Or Government intervenes