

**27 August 2004**

**CHAIRMAN AND MANAGING DIRECTOR'S  
ADDRESSES TO AGM**

The following Chairman and Managing Director's Addresses will be given to the Annual General Meeting today, 27 August 2004.

For further information contact:

Gordon Galt  
**Managing Director**  
Magnesium International Limited

**CHAIRMAN'S ADDRESS**

Ladies and Gentlemen,

I would now like to move on to the presentation on the company's current business and plans. By way of introduction I believe it is worthwhile recapping on last years' Annual General Meeting.

The 2003 AGM was held in November of 2003 after a very difficult and challenging year for our company. The issues that had confronted us during 2003 – poor equity markets, project failures by competitors, low metal prices and a rising Australian dollar – demanded that we take a fresh, holistic look at our business. We announced at the AGM, and then further elaborated in the following January, that our intentions going forward would be to:

- i) Review the site for our smelter project both within Australia and offshore;
- ii) Undertake further engineering work with a view to incorporating technology improvements which Dow had been pursuing in smelter design,
- iii) Minimise our ongoing costs, and
- iv) Secure appropriate cornerstone investors for the smelter.

In many respects it is because of our plans that we are holding this year's AGM much earlier than we have done in previous years as we anticipate a very active year ahead.

I will ask our Managing Director, Gordon Galt, to present the detail of the first three of these matters. I will then deal with the last matter in my summary.

## **MANAGING DIRECTOR'S ADDRESS**

Thank you Mr Chairman,

As usual I would like to set the scene for the coming year with a short review of the current, very healthy state of the magnesium market so that our future plans can be considered in context.

### **The Global Magnesium Market**

Magnesium demand grew strongly in the year to December 2003. Estimated production and consumption was at least 450,000 tonnes, up 7% on the previous year as world economic growth improved. Over the past ten years, consumption has increased by 160,000 tonnes (+ 55%) at an annual rate of 4.5% per year compound.

Diecasting demand for primary magnesium alloys, which is the sector of particular interest to MIL, was 150,000 tonnes in 2003, up 9 % year on year. The vast majority of this usage, some 135,000 tonnes, occurs in the Western World, mainly in the manufacture of auto components. A number of new uses for magnesium alloys in automobiles were announced during the year – by Ford, BMW and Mercedes - which will ensure continuing good future growth in this sector. There are now 300 different magnesium parts used in cars in Europe and an additional 250 magnesium parts are in development for launch within four to eight years.

The most recent forecast from the London based market research organisation CRU International was presented at the Annual Conference of the International Magnesium Association in May 2004. CRU has reaffirmed their prediction from last year that future usage of magnesium metal and magnesium alloys will rise by 6% per year over the next ten years with the fastest growing sector being the diecasting sector. CRU sees primary diecasting growth at 9% per year over this period. In 2008, which would be the first full year of operation of a MIL smelter, CRU estimates that the volume of primary magnesium diecasting alloy required in the Western World will be 220,000 tonnes, up 85,000 tonnes per year on the 2003 usage level.

On the supply side, the Western World now has only 122,000 tonnes of total annual capacity to supply all magnesium metal requirements, and this capacity is down from 135,000 tonnes in 2002. Russia and former CIS countries have around 45,000 tonnes of annual capacity and China supplies the rest.

The increase in annual demand in 2003 compared to 2002, plus the required make up for production lost in the West in 2003, was provided by Chinese producers. China produced 290,000 tonnes to achieve a new annual production record and is on track to better this in 2004, with anticipated production being 320,000 tonnes. China consumed 51,000 tonnes of its own production in 2003 and recent estimates see this figure doubling by 2007.

With no other supply sources until 2007, by which time MIL's smelter project should be able to record some production during commissioning, the Chinese industry will have to continue to grow quickly and reach 430,000 tonnes of production by that year to satisfy demand. The ability of the Chinese producers to achieve this increase is a matter of conjecture. There is little doubt that they could build the required physical "pure" magnesium capacity based on their demonstrated track record of expansion to date. The question mark lies over whether they will have the capability to operate their installed capacity, given the shortages which may occur in key materials and services needed for production, eg ferrosilicon, power, coal and transport, as explained below. The Chinese have been stretched to keep up with demand during 2004 and supply shortages and rapid price increases and price volatility have been evident. News of contract defaults by Chinese producers was regularly received across the industry during the March to May period this year.

The Chinese Government has recently imposed severe restrictions on the continued expansion of other industries, such as aluminium smelting, to limit power usage and these measures may have to be adopted for other power intensive industries over the coming years.

The question of whether the Chinese can penetrate the Western auto diecasting market has also not been resolved in the past year. More remelting of Chinese primary production is occurring, however, and this appears to be the only way to balance the market for the next few years. Several companies are currently examining further expansions of remelting capacity both within and outside China.

MIL continues to conclude (in a view also shared by CRU) that there is room for up to 160,000 tonnes of new Western capacity by 2012. Clearly this market opportunity is wide open to MIL.

When we look at prices, the major story affecting the commodities world for 2004 has, of course, been China. Chinese growth has slowed slightly this year but for the first time in a number of years it has been in the context of a good growth rate in the Western World as well. As we predicted last year, Chinese growth has put considerable pressure on the price and availability of some of the raw materials used in their magnesium making process.

The raw materials include ferrosilicon, coal, power and stainless steel for retorts. In some cases the current price level for these items is double what it was a year ago. Many of the raw materials are also in short supply such as power and ferrosilicon.

China is becoming increasingly short of power with a considerable amount of oil being burned to make up for the backlog in the construction of thermal power stations. Power prices are now over US\$35/MWh. Ferrosilicon is a material also used in steel manufacture and its manufacture requires a lot of power. The steel industry is much larger than the magnesium industry and the steel industry's capacity has more than doubled in the past few years.

Transport is also a major issue – it now appears that a very genuine effort to decrease overloading is now underway – and this will maintain the pressure on the Chinese cost structure. The very good news for MIL's shareholders is that the prices for both magnesium metal and alloys are higher today than they were a year ago as a result and these prices are expected to remain at their current, or even higher levels, for well into the future. MIL believes that the cost structure of the Chinese magnesium industry will continue to rise. The increased competition for raw materials, energy and transport will all play a part and the potential for revaluation of the Chinese currency remains on the agenda of many Western countries.

In Europe, the Norsk Hydro list price for magnesium alloy is currently 2750 euros per tonne, equivalent to about US\$1.50/lb. In the USA the price is around \$1.60/lb - with supplies being restricted to some extent by new antidumping duties which look like being applied to Chinese (and some Russian) magnesium alloys.

**In summary, the market for our proposed products is very good and prospects for the market remaining strong are also very good.**

## **Smelter Project Status**

I would now like to move on to the status of our Smelter Project.

The project is MIL's major asset. The project involves the construction and operation of a major magnesium smelter for the production of mainly high quality magnesium alloys for the diecasting industry. MIL has been pursuing this project since the mid 1990's based on a location near Port Pirie in South Australia. We have now decided to relocate the smelter to another site and we are investigating five other sites - two of these are in Central Queensland and three sites are offshore – one in each of Qatar, Egypt and the United Arab Emirates (UAE).

### **Site Selection**

The decision to start a new site search was a direct result of our search for cornerstone investors for the project. These interested investors correctly noted that MIL's project has become the world's leading greenfield magnesium smelting project over the past two years. The proven Dow technology base for MIL's smelter was brought into clear and favourable perspective after the failure of two projects based on "new" technology, ie Magnola in Canada and Stanwell in Queensland.

Given that MIL's project is a global project, investors made it clear that MIL should establish that it has the best overall site in the world - not just in Australia - for the smelter. The criteria for the site search are relatively simple – we firstly need the least expensive combination of operating cost factors (power, gas, labour, ore and consumables) and capital cost factors. Labour cost has a double effect as it is the major differentiating factor between the capital cost of the project at one location versus another. The second major criterion is that the project has to be in a jurisdiction where project finance is available.

As far as the Queensland sites are concerned we have explained to the Queensland Government that we lean towards the Callide site, rather than the Stanwell site, as the smelter project has a higher Net Present Value at the Callide site. We can connect directly to the power station at either site and capital costs are quite similar. Magnesite ore can be provided from the Princhester deposit, which is approximately 80 kilometres north of Rockhampton. We are discussing the site matter with the Queensland Government at present.

Offshore we can achieve a lower cost structure than we can anywhere in Australia. Transport distances to the major markets are considerably shorter compared to Australia and hence logistics costs can be greatly reduced. Low labour costs apply in each jurisdiction and these reduce both the capital and operating cost of the smelter compared to Australia. Corporate tax regimes are either non-existent or are very favourable in the locations we are examining. In each location MIL is considering, MIL has established a good working relationship with a suitable local partner. These organisations have the confidence of Government in their countries and some are wholly or partially Government owned.

In Qatar we have selected a site at Mesaieed, approximately 40 kilometres south of Doha. This is an established port with good bulk handling capability and there are a number of major industrial plants already operating in the vicinity.

The location we have chosen to investigate in Egypt is the port of Sokhna on the Red Sea. The smelter would be constructed at the port itself or the free zone adjacent to the port.

In the UAE, we are investigating a site at Fujirah on the East coast. The site is close to a major new 650MW power station and there are also established port facilities.

Magnesite ore for a smelter in these offshore sites could be supplied from our deposits in South Australia (SA) or the Northern Territory (NT).

- In SA, we have very extensive resources near Leigh Creek which are close to rail transport. These resources have been extensively tested and are proven as being suitable for the Dow process.
- In the NT we know that there is at least 4.3 million tonnes of good quality magnesite close to the surface within the Huandot deposit, with potential for considerably more to be delineated. The deposit is approximately 100 kilometres from Darwin, which has an existing port capable of handling the export of magnesite in 60,000 tonne ships. The main rail line to Darwin is less than one kilometre from the deposit. Both mining conditions and ore quality are well known at Huandot, with a 25,000 tonne bulk sample having previously been supplied from the deposit for testing at another magnesium smelter. The Dow process will easily be able to utilise the ore, which is low in impurities.

Magnesite ore could be supplemented from “local” sources if quality, cost and reliability are competitive with Australian supply. Greece and Turkey have existing magnesite industries and we have already visited some of these. Egypt has deposits but these are as yet unexplored. Other countries in the area, such as India and Iran, also have extensive deposits.

We intend to complete the selection of our preferred smelter site by the end of September 2004 and are on schedule to do so. We have already completed feasibility studies for each site and have run extensive economic analyses to understand the issues that will affect each site’s prospects. We are now in discussions with Governments in each location to finalise some issues requiring further clarification.

### **Achieving Financial Close on the Smelter Project**

The key tasks remaining to achieve Financial Close for the smelter project are:

- Finalise the fixed EPC price for the smelter construction;
- Incorporate this into a new Bankable Feasibility Study (BFS) for the selected site;
- Undertake an Environmental Impact Study and obtain all necessary Government approvals;
- Complete the Debt Information Memorandum and obtain debt commitments from banks, and
- Prepare prospectus and raise equity

In Australia, the EPC part of the first task involves approximately four months work with Thiess and Kvaerner to reset a price. Offshore, we have undertaken an extensive contractor pre-qualification exercise and will be ready to appoint a contractor in October. Approximately six months would be needed to bring a chosen offshore EPC construction contractor to the stage of fixing a price.

We should be able to complete all matters concerned with Bankability of the project in the chosen location within a six month period from October 2004.

The Environmental Impact Study and Government approvals task could be the most time consuming period for the project. In Queensland we believe this could take just over a year from October 2004. Offshore it should be faster and we believe that perhaps as little as six months will be needed. This is because Governments offshore are willing to accept much of what has been done in South Australia, whereas Queensland laws do not allow such an arrangement.

Debt matters can be finalised during and immediately following the BFS as can the prospectus preparation.

Given the above we estimate that we could achieve Financial Close in mid-2005 offshore or in late-2005 in Australia.

MIL is anticipating that a significant amount of the equity to be raised for the smelter will be raised in Europe and is continuing to pursue an offshore listing to ensure that this can be done smoothly. MIL's stock is now tradeable on German exchanges (ticker MIN.DE on Xetra and MIN.F on Frankfurt) and we are planning to list on AIM before the end of 2004.

### **Smelter Capacity Re-rating**

We have now completed the engineering work we planned during the year. This work has been aimed at incorporating modifications to improve the availability of the plant. We are now confident that we can achieve the anticipated results and have re-rated the smelter to have a capacity of 88,000 tonnes per year of "pure" magnesium output from the first and second modules together, with 44,000 tonnes per year of this coming from the first module. These increases improve the project's economics and have also led us to think more about the next set of potential improvements in the Dow technology.

### **Cost Containment**

MIL's total expenditure in the past Financial Year was \$4.38 million. This was significantly down on the previous year (2003 was \$9.18m) and reflects the considerable effort made to contain expenditure plus the fact that we have completed the major portion of engineering work needed for the smelter project. If an offshore smelter site is selected our sponsor in each jurisdiction will make a major contribution to the completion of the work listed above, so MIL will be able to maintain this low cost focus in the coming year.

### **Future Plans**

MIL has been focussed firmly on developing its smelter project during the past year and we believe that we have delivered on the tasks we set ourselves last November. Our decision to investigate other sites has been highly beneficial, and at the end of the site selection process we will be able to proceed with certainty, knowing that we have the best site available in the world, and will be able to dedicate all our efforts towards realising one goal. This will maximise the benefits to shareholders.

As our Chairman noted in this year's Annual Report, the coming year will be a critical one for MIL. I expect it will be one which puts us very firmly on the path to Financial Close on our smelter project and the realisation of the hopes of the shareholders who have invested in our Company.

Thank you ladies and gentlemen. I will now hand you back to the Chairman.

CHAIRMAN:

Thank you, Gordon

I would like to deal with the critical matter of cornerstone investors.

We will be presenting our Feasibility Study for the chosen site to cornerstone investors from the end of the third quarter of this year so there will be adequate time for their consideration of the project before we need their equity commitments.

Considerable progress has been made in this area over the past year as follows:

- In each potential jurisdiction we intend that the EPC contractor will offer to be a cornerstone investor for approximately 10% of project equity;
- Our offtake partner, ThyssenKrupp Metallurgie, publicly stated earlier this year that it is interested in becoming a cornerstone investor in the project and that it will make up its mind when the final site is selected. TKM's equity could also be up to the 10% level.
- Offshore, sponsors have indicated that they are interested in funding, and in fact may require, between 30 and 50% of the project's equity.

We expect that commitments will be made from these parties progressively and we will report on progress as it occurs.

Ladies and gentlemen, we started the 2003/04 year amid the disarray of the failures of other potential magnesium industry entrants, a pronounced bear market for equities, poor metal prices and low world growth. It is now a different world, with growth globally expected to be over 4% in 2004 and to continue into 2005 at the same rate despite higher oil prices and continuing unrest in Iraq. Our proposed market is growing strongly and investors are now looking for advanced projects like ours. The careful work of the past years is now ready to bear fruit.

I would like to thank MIL's staff and my fellow Directors for their efforts on behalf of our Company over the past year. I would also like to thank shareholders for their continued support and encouragement.

Thank you ladies and gentlemen. I would now like to ask if there are any questions and we will do our best to answer them.

# Business Plan 2004/05

Annual General Meeting  
August 2004

**MAGNESIUM**

INTERNATIONAL

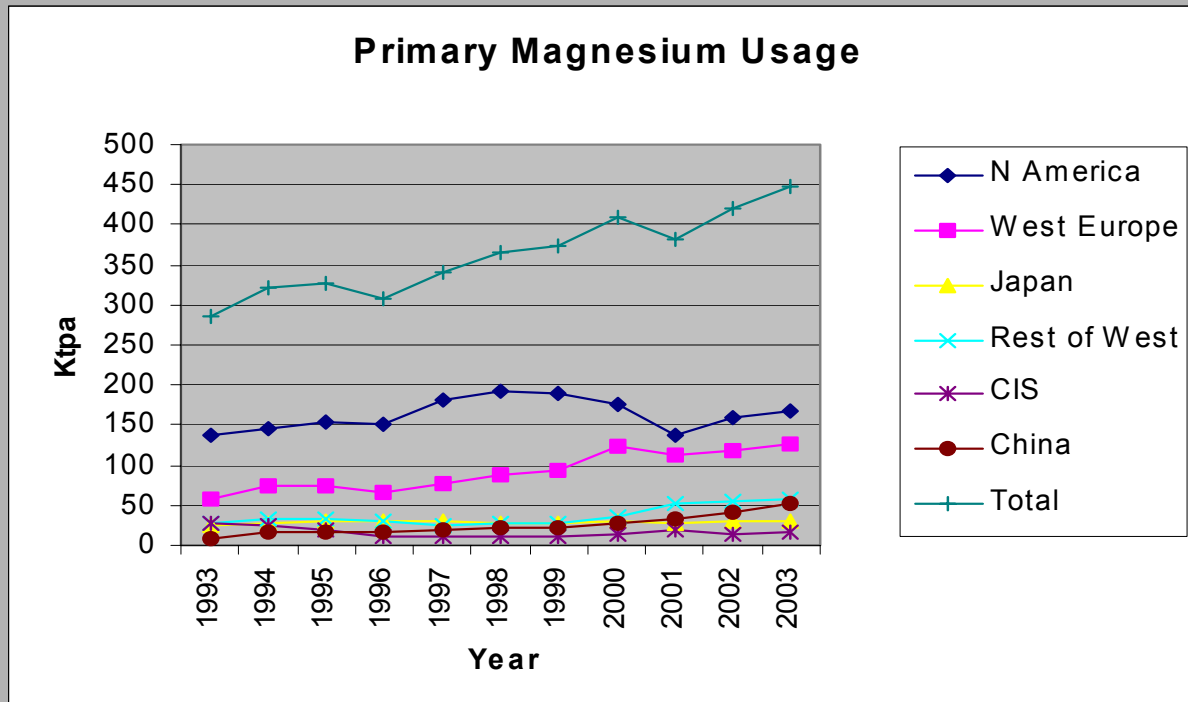
# Agenda

- Status of the global Magnesium Market
- Smelter Project Status
  - Site Selection
  - Achieving Financial Close
  - Smelter Capacity Re-rating
- Cost containment
- Cornerstone Investors

# Global Magnesium Market

## Demand - Overall

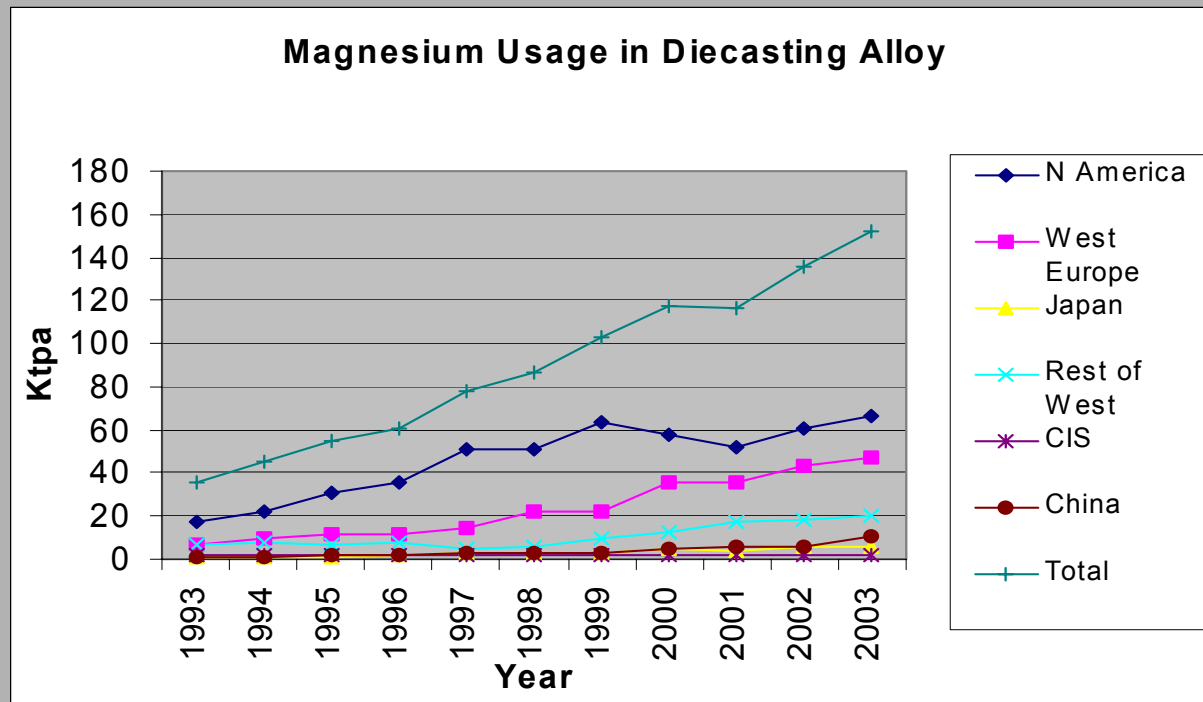
- Overall consumption up 7% over 2002 to new record 450,000 tonnes
- 10 year growth has averaged 4.5% per year



# Global Magnesium Market

## Demand – Diecasting Sector

- Overall consumption up 9% over 2002 to new record 150,000 tonnes
- 10 year growth has averaged 15% per year



# Global Magnesium Market

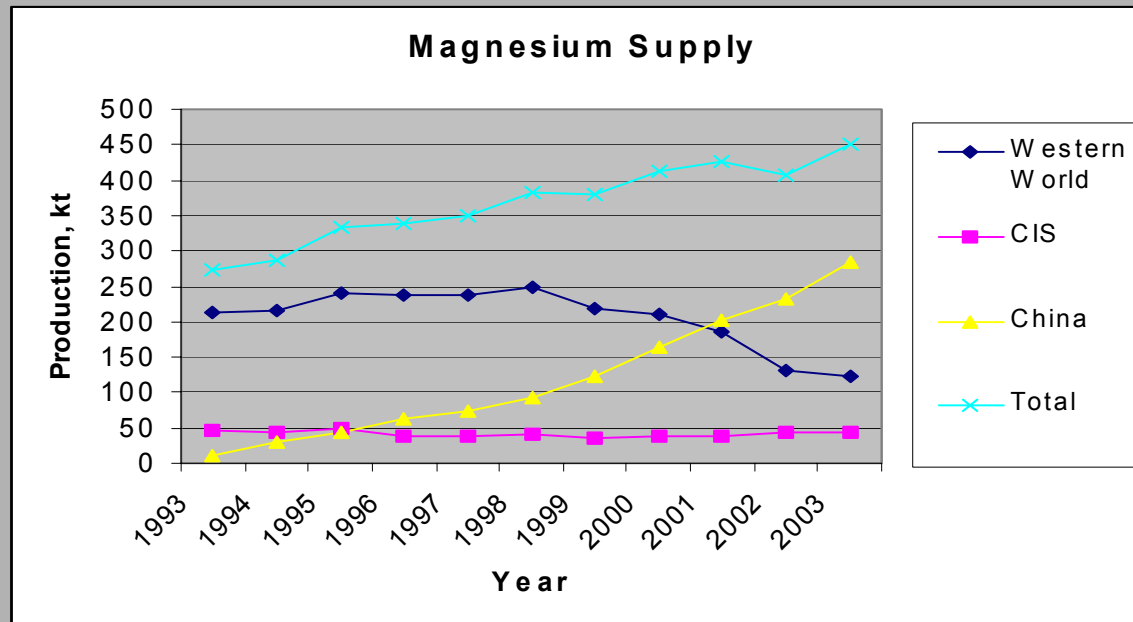
## Demand – Forecast to 2012

- Overall growth of 6% per year (CRU International)
- Diecasting expected to continue at 9% per year
  - New applications announced – Ford, BMW, Mercedes
  - 250 new magnesium parts are currently in development
- Western World diecasting requirement by 2008 forecast to be 220,000 tonnes, and by 2012 to be 310,000 tonnes

# Global Magnesium Market

## Supply – 2003

- Western World supply contracted a further 10,000 tonnes and is now only 122,000 tonnes per year
  - Only three significant Western smelters remain in operation
- China produced 290,000 tonnes (and consumed 51,000 tonnes)



# Global Magnesium Market

## Supply Forecast

- No significant expansions announced in West or CIS
- Chinese will have to get to 430,000 tonnes by 2007 to satisfy demand - but
  - Shortages of power and other raw materials already evident
  - Contract defaults in early 2004
  - Ban on new greenfields smelters
- Plans being formulated for more remelt capacity to meet diecasting demand

# Global Magnesium Market

## Prices are strong

- Western cost structures remain high
- China cost structure rising – up 30% in one year!
  - Power now + US\$35/MWh
  - Ferrosilicon, transport, coal, water all rising in price
  - Likelihood of continuing rises in future
  - VAT refund cancellation, currency revaluation still to come
- Current Magnesium Alloy Prices
  - USA around \$1.60/lb
  - Europe around \$1.50/lb

# Smelter Project Status

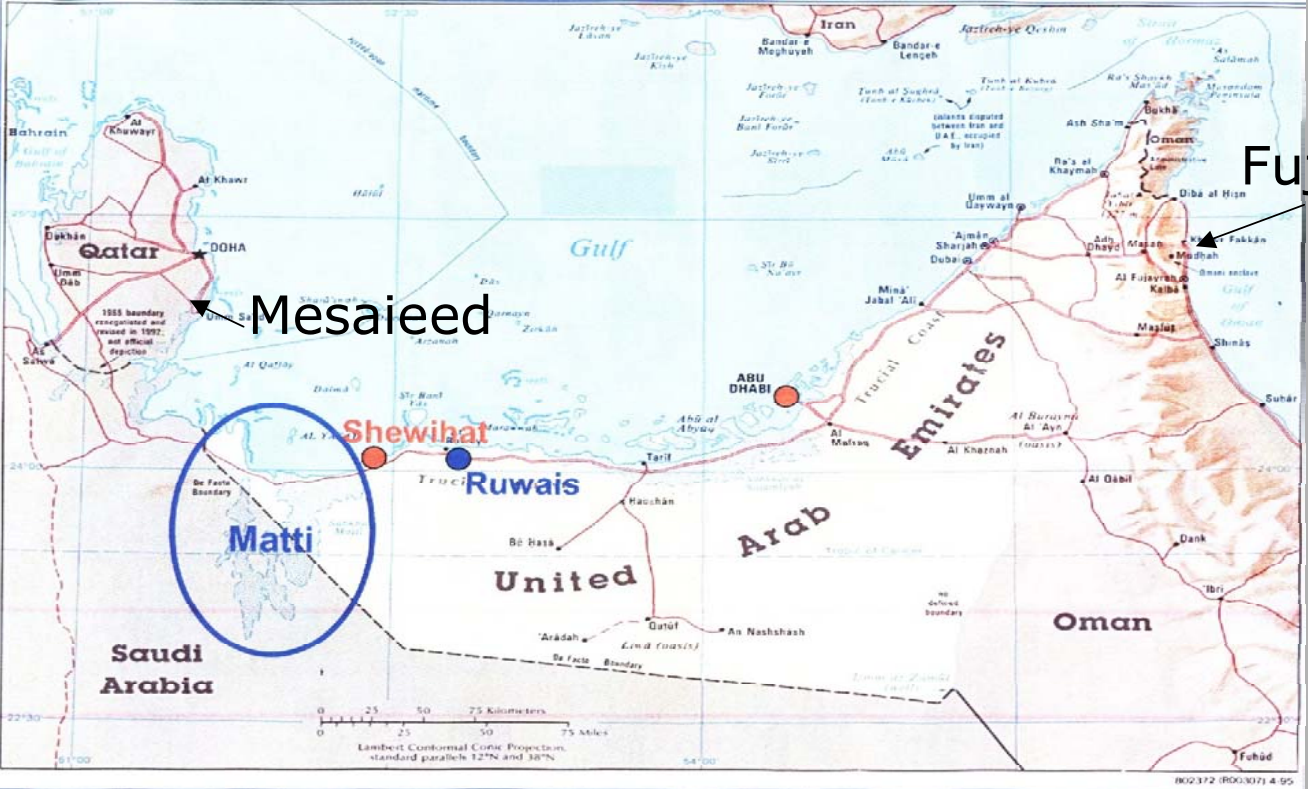
- Decision taken in 2004 to initiate search for a new site
  - Driven by investors
  - MIL's technology is global and it works
- Search criteria
  - Least expensive combination of operating cost factors – power, gas, labour, ore consumables – and capital cost
  - Jurisdiction has to be finance-able
- Evaluating sites in Queensland, Egypt, Qatar, United Arab Emirates
  - Selection to be made by end September

# Smelter Project Status

- Queensland
  - Lower power price available than SA
  - Callide and Stanwell but leaning to Callide
- Offshore
  - Lower Cost Structure than Australia
  - Transport logistics/ costs are superior
  - Corporate Tax regimes favourable
  - MIL has established relationships with capable partners

# Smelter Project Status

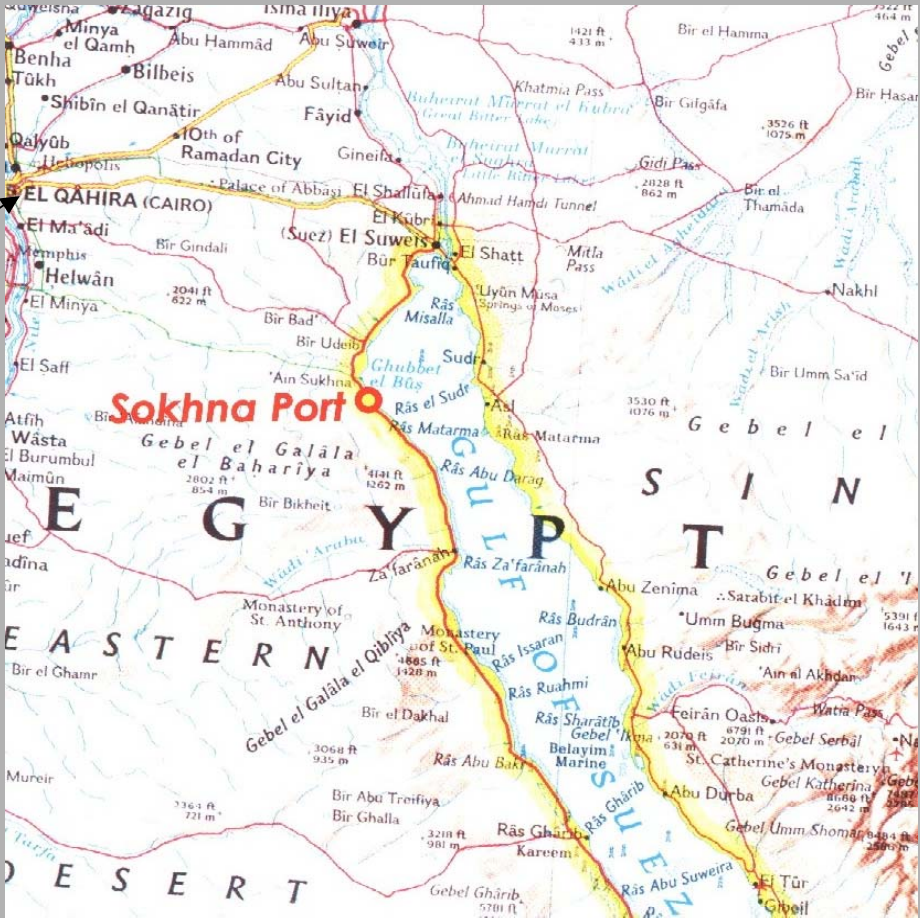
## Qatar and UAE



# Smelter Project Status

Egypt

Cairo



# Smelter Project Status

- Australian Ore Sources
  - South Australian Leases - >100Mt
  - NT lease Application – at least 5Mt
- Middle Eastern Ore Sources
  - Greece
  - Turkey
  - Egypt
  - Iran
  - India

# Smelter Project Status

## Near Term Schedule

- Finalise Site selection around the end of September
- Feasibility Studies for each site complete
- Economic Analyses complete
- Discussion ongoing with Government

# Smelter Project Status

## Schedule to Financial Close

- Finalise EPC Price (4-6 months)
- Bankable Feasibility Study (in parallel with EPC)
- EIS (in parallel with EPC/ BFS)
- Debt Information Memorandum (in parallel)
- Prepare Prospectus and raise Equity (3–6 months)
  
- Financial close projections
  - Offshore mid 2005
  - Australia late 2005

# Cost Containment

- MIL is containing costs during the site search phase
- 2003/04 costs \$4.38m versus 2002/03 of \$9.18m
- Cash now \$3.3m
- Offshore partners will contribute to the costs of work needed to achieve Financial Close

# Cornerstone Investors

- A critical part of our Equity Financing Strategy
- EPC contractor ~ 10%
- TKM is interested in equity ~10%
- Offshore partners require at least 30%
- Remainder will be raised on market, most likely primarily in Europe