China's influence on the seaborne iron ore market

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China's influence on the seaborne iron ore market

- Show the growing influence China is having on the seaborne iron ore market
- Highlight some of the impacts this has had on iron ore producers and customers
- Highlight some potential issues this may have created for customers in other countries/regions

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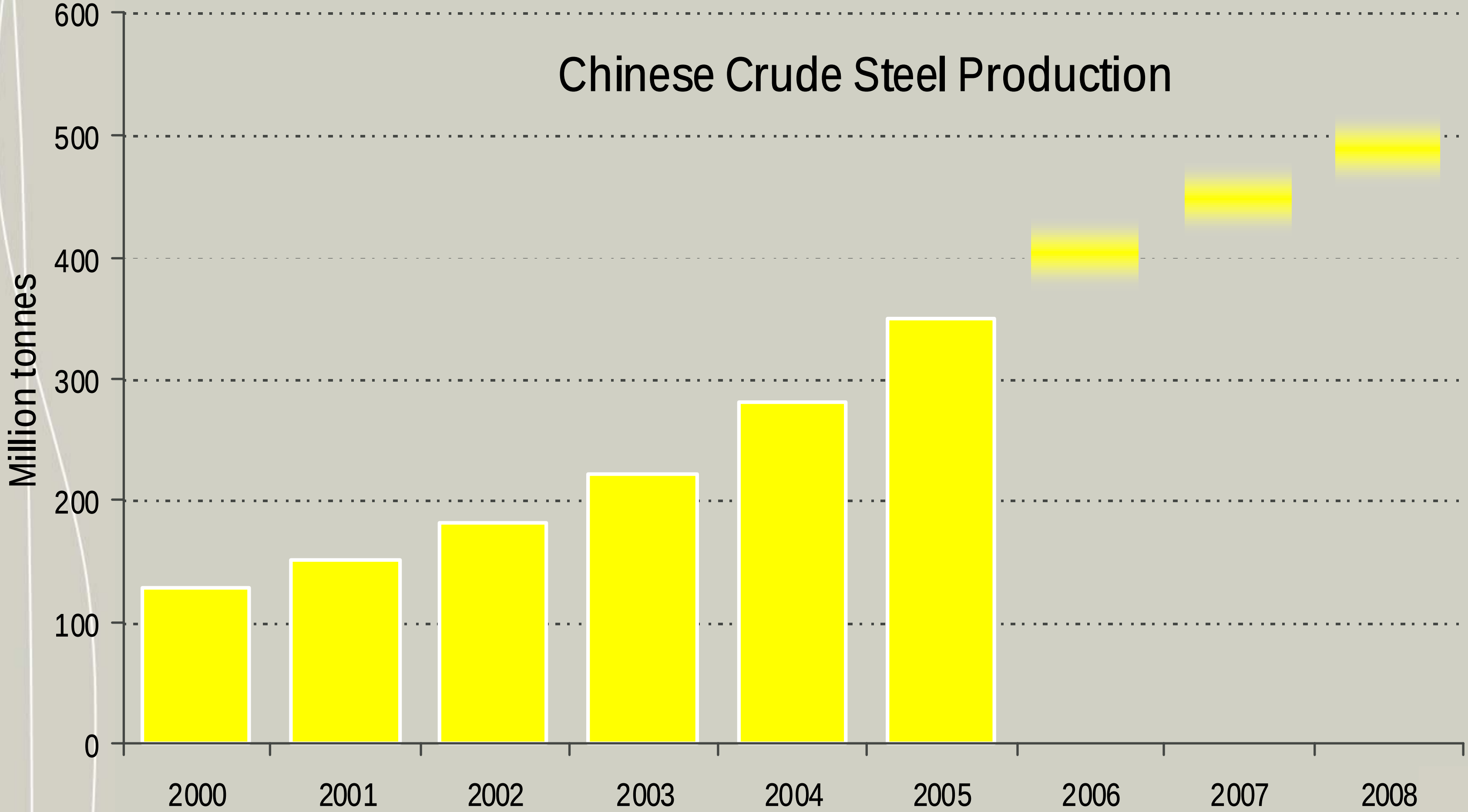
Why China's influence is growing

China will continue to be the growth engine for steel in the region and, consequently, the world. India will be the other market that shows substantial percentage growth.



Data source: IISI, AME, Tex, CRU, BHP Billiton forecasts

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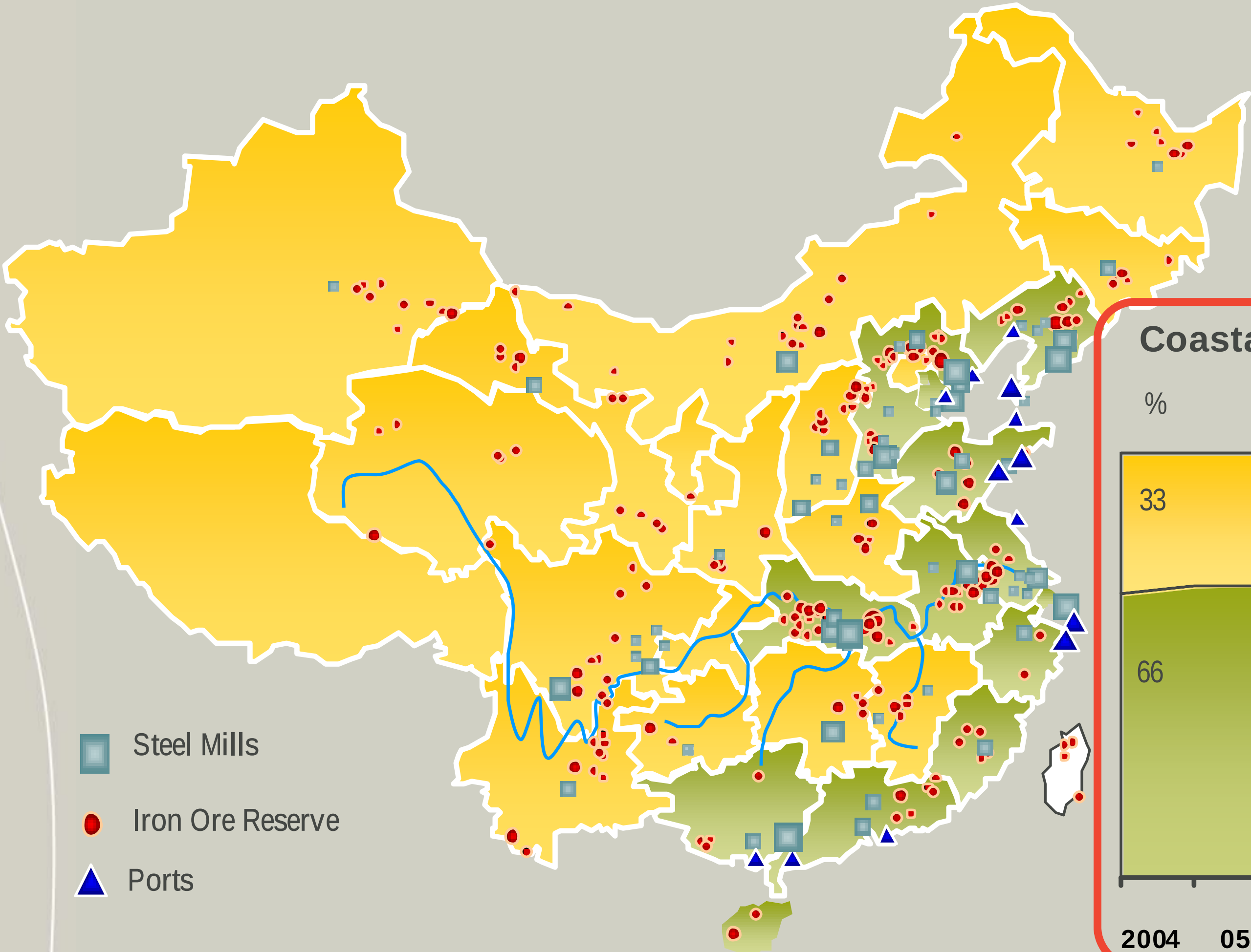
Chinese steel industry evolution

China's steel mills are shifting to coastal areas or along the Yangtze river. China's new 5 year steel policy will consolidate the industry and lead to higher usage of imported iron ores



Data source: BHP Billiton internal analysis

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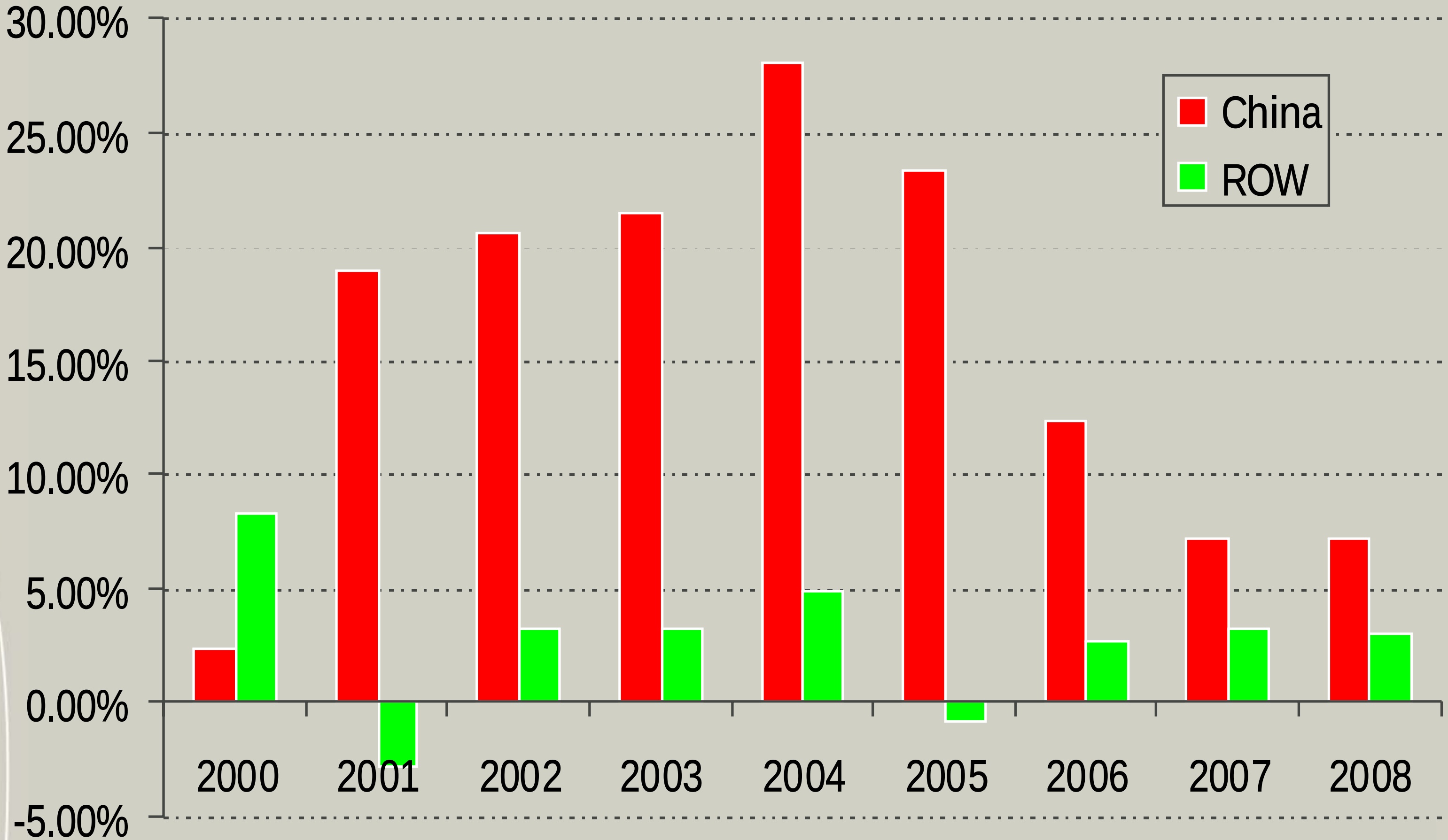
Chinese crude steel Y-on-Y production growth vs ROW



Data source: CMMA, BHP Billiton calculations

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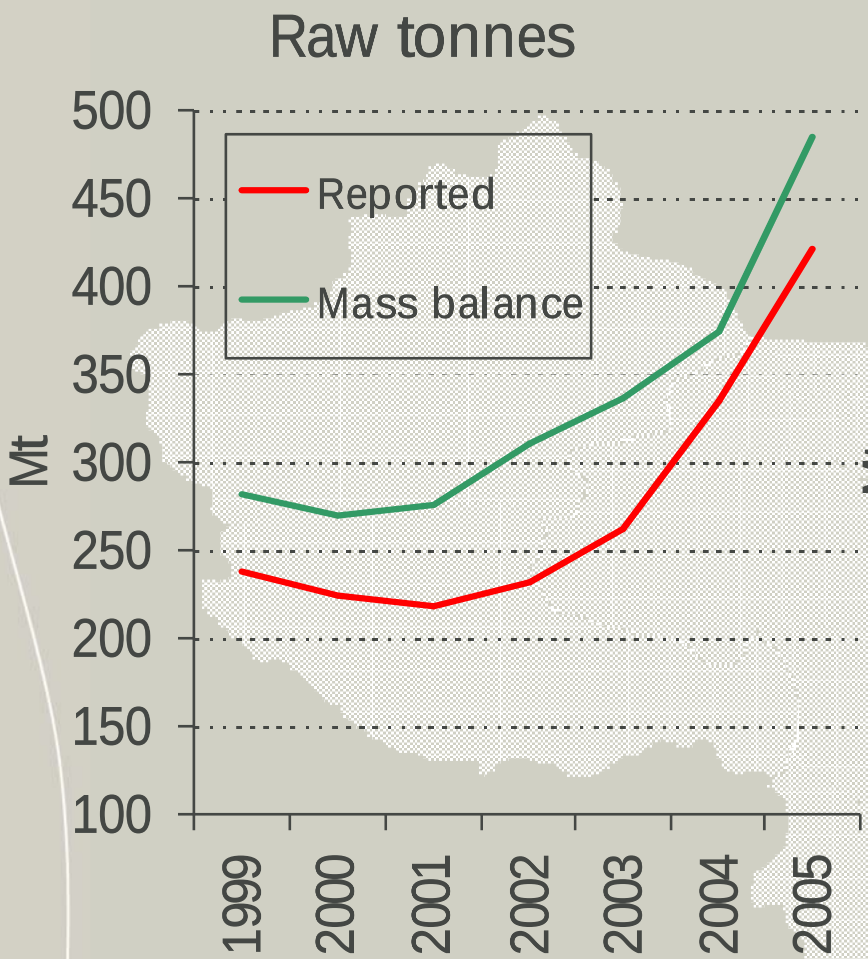
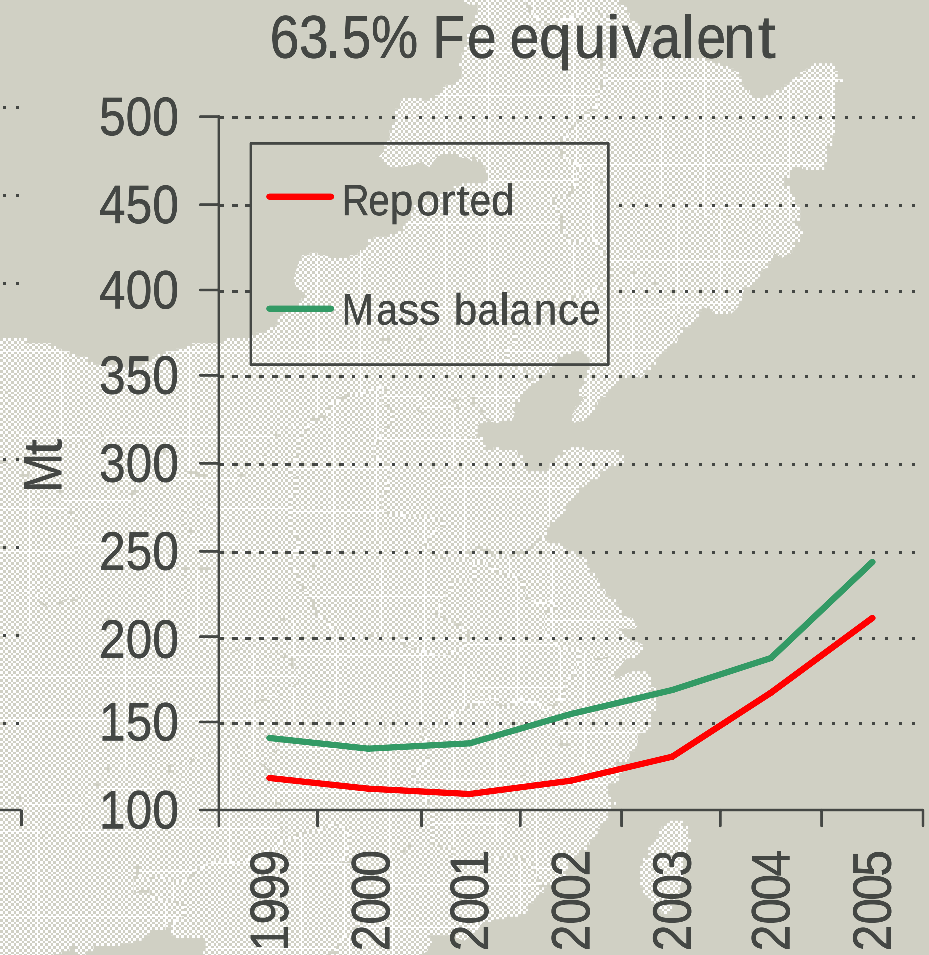
Chinese steel import / export position

Data source: CMMA, BHP Billiton calculations

Chinese domestic iron ore production



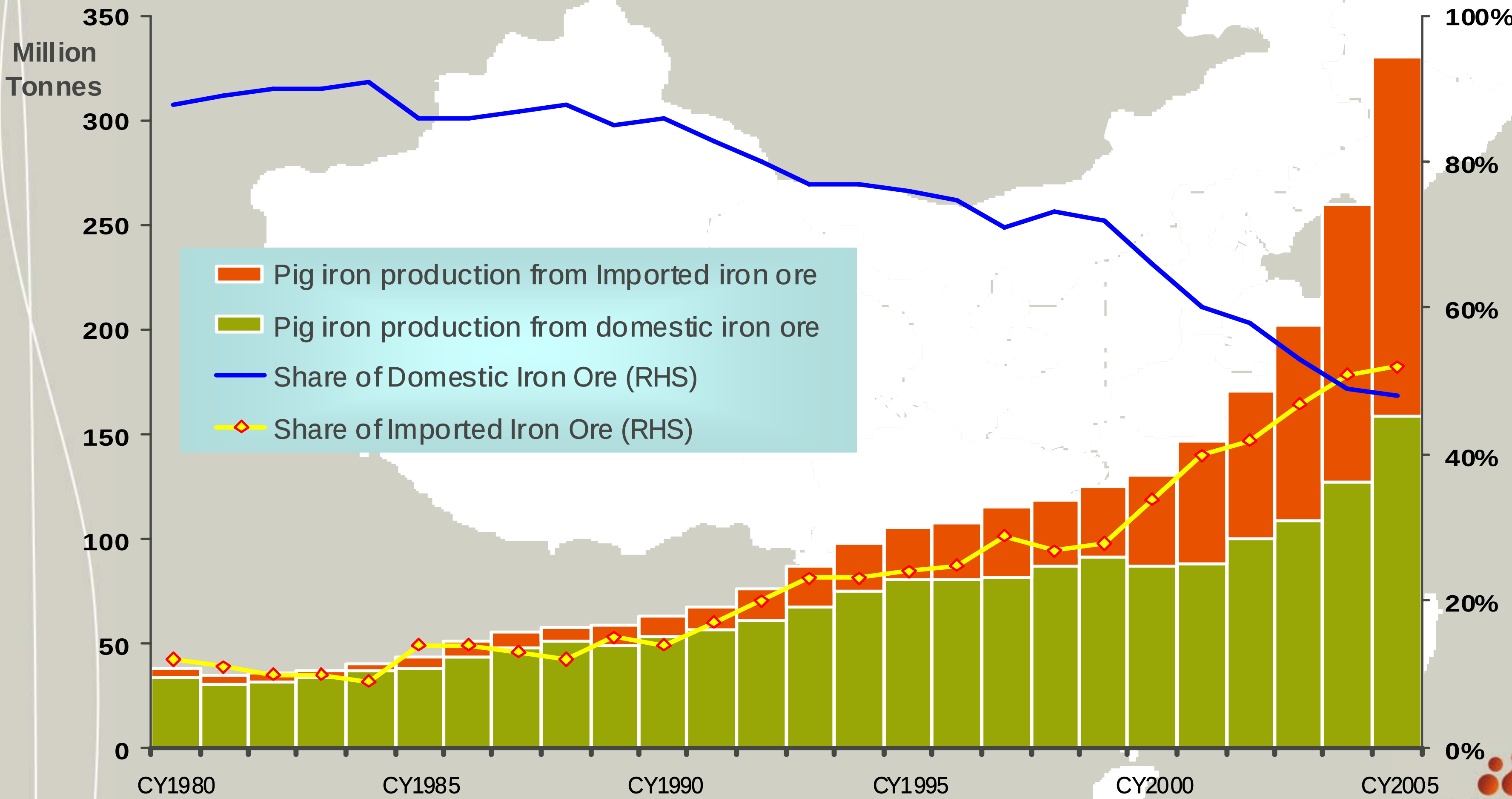


Note: Assumes average 32% Fe grade in ROM

Data source: CMMA, BHP Billiton calculations

Chinese domestic iron ore production

Detailed study of the expansion potential of China's domestic iron ore mines suggests they will not be able to meet the growing demand of China's steel industry. This was shown as more than 50% of the iron units consumed in 2004 were imported.



Data source: CMMA, NBS, BHP Billiton

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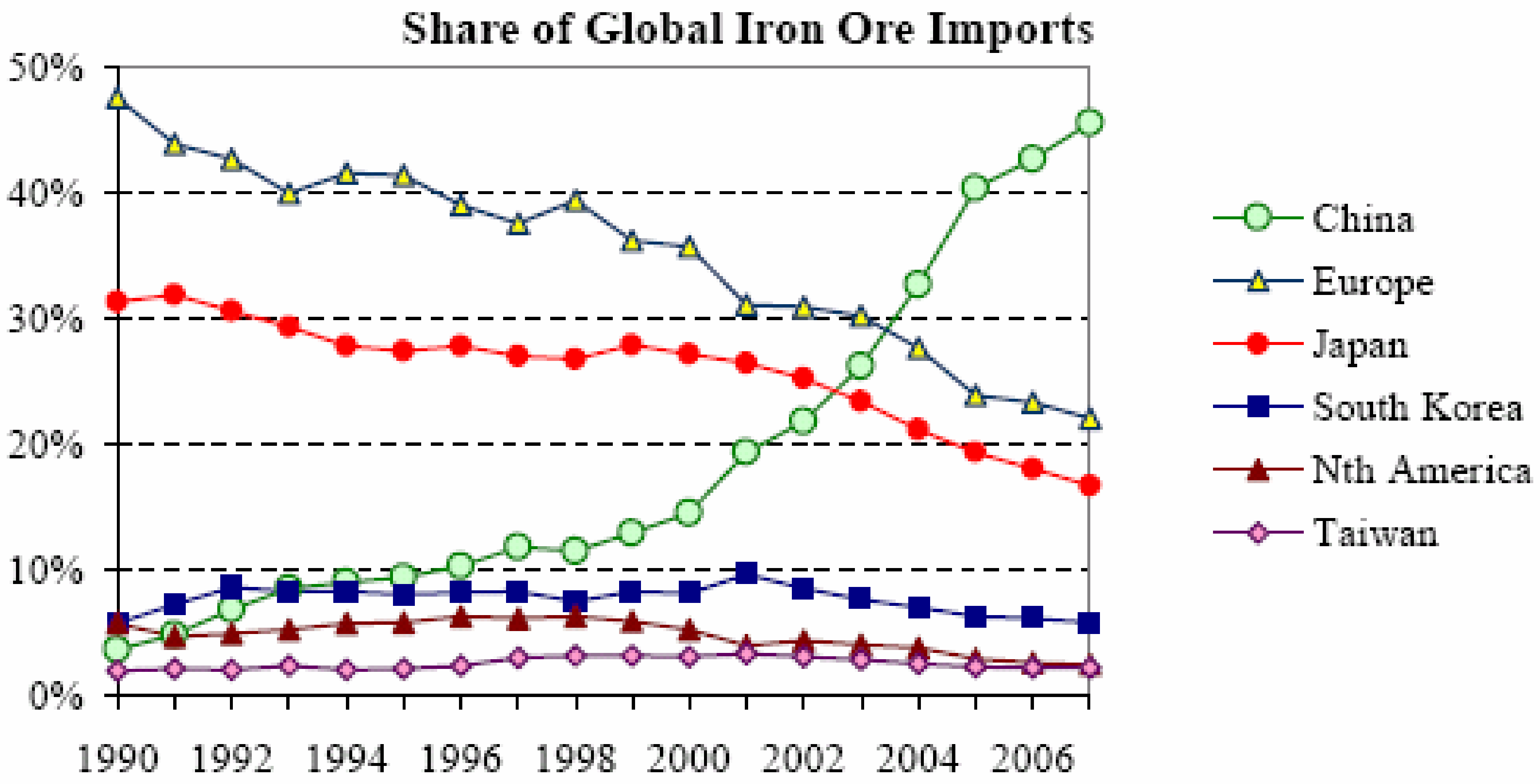
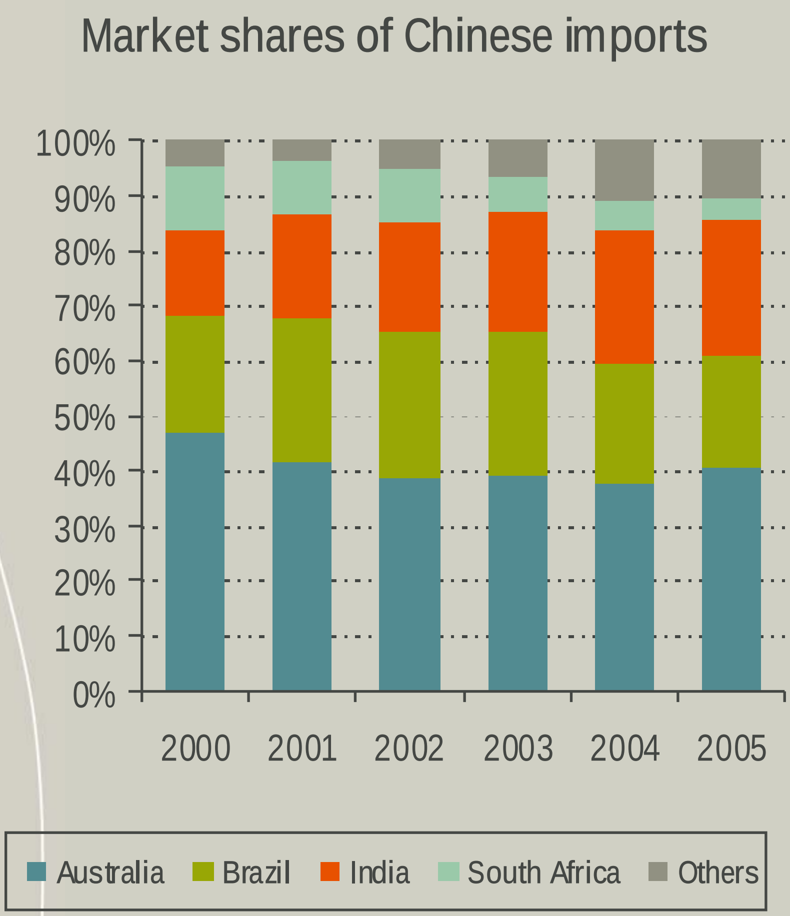
China's share of seaborne iron ore demand is growing

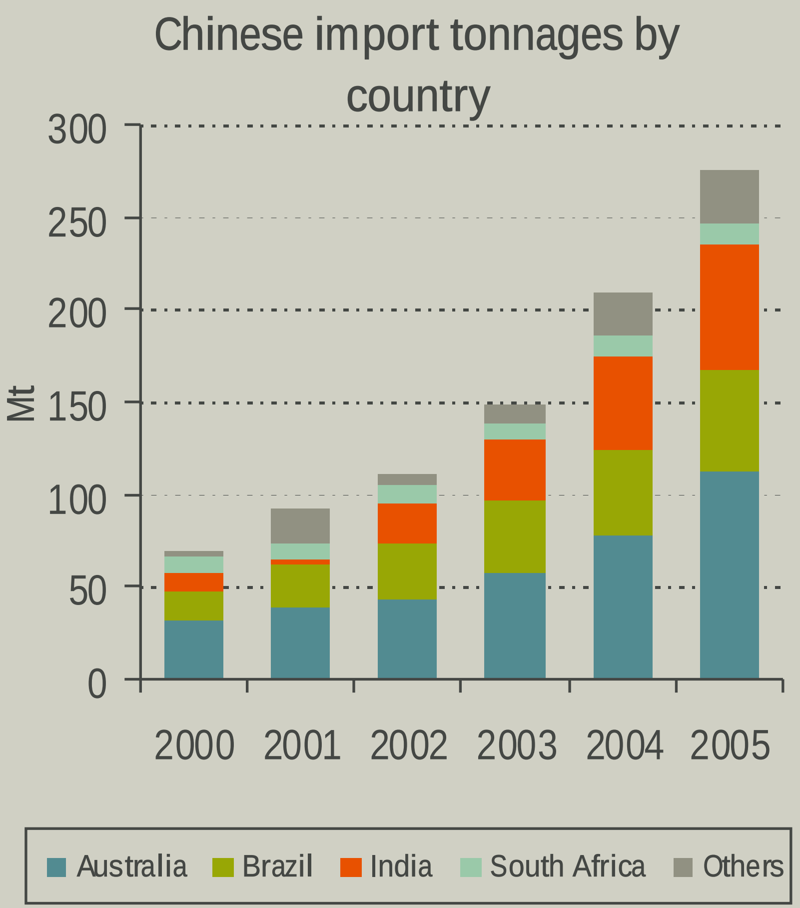
China's share of the global seaborne market has grown strongly and will exceed 45% in 2007



Data source: AME,

Sources of Chinese iron ore imports

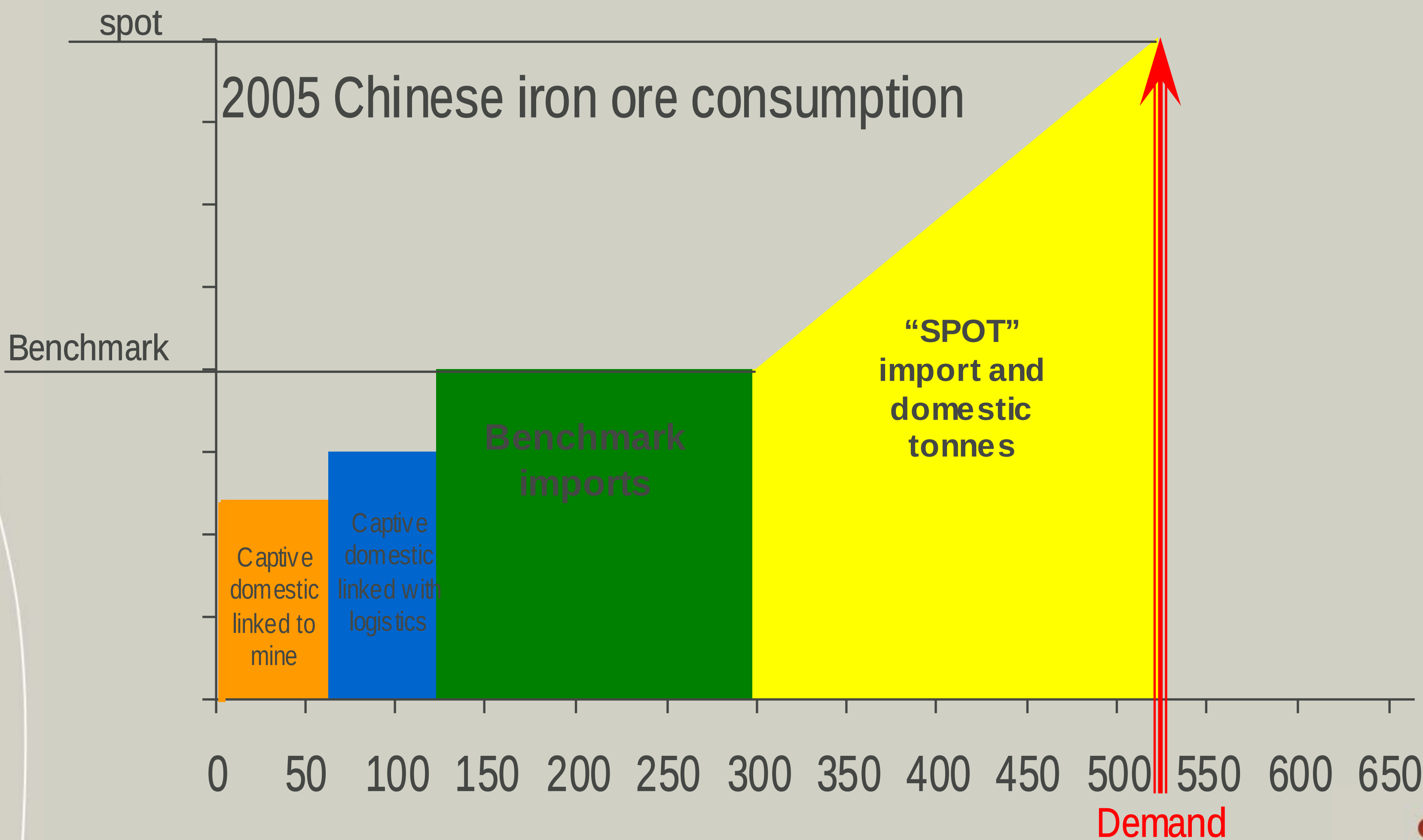




Data source: Customs statistics

2005 Chinese iron ore dynamics

Iron ore demand and supply dynamics are complex. The rapid demand growth has seen a strong growth in higher cost imported and domestic ores the majority of which are sold as "spot"



Source: China Customs, Xinhua News Agency, China Maritime Co, www.steelhome.com.cn, BHP Billiton

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Chinese mills actively pursuing future supply security

- Chinese mills are actively pursuing long term security of import ore supply
- Mills actively securing long term supply agreements with major suppliers
- Also, mills are also actively pursuing joint venture agreements via equity stake in small to medium size projects

Iron ore prospect company	Chinese entity
Mt Gibson	Shougang Steel
Midwest	Sinosteel
Gindalbie Resources	Anshan Iron & Steel
Cape Lambert Iron Ore	Sinosteel / Shandong Yuansheng
Mineralogy	CITIC Pacific

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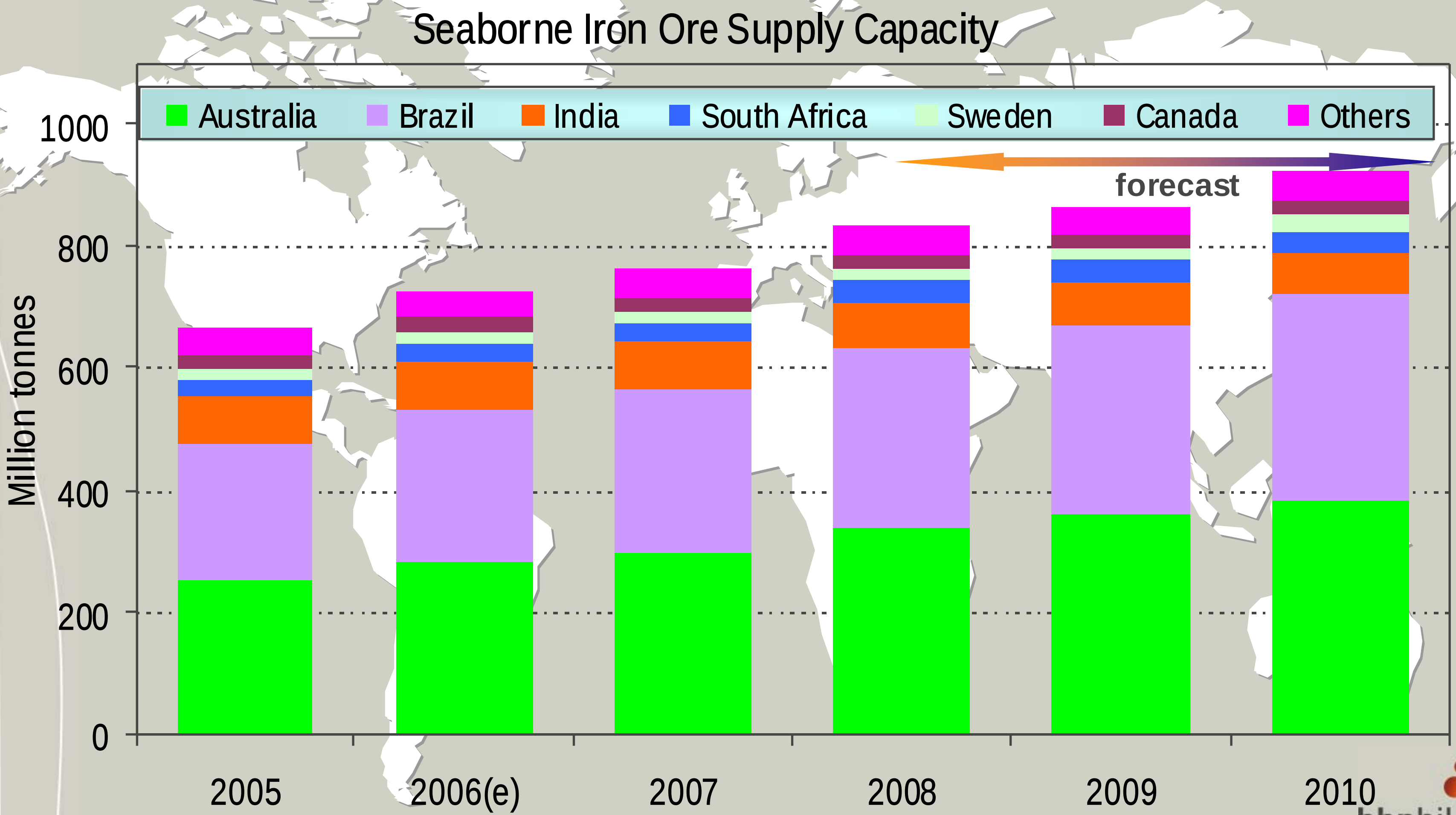
Seaborne iron ore supply

Supply growth to meet the demand of the expanding global steel industry will come from the traditional supply basins of Australia and Brazil (>90%). While India has met some of the shortfall its own growing future demand may result in falling exports.



Data source: AME, Tex, BHP Billiton forecasts

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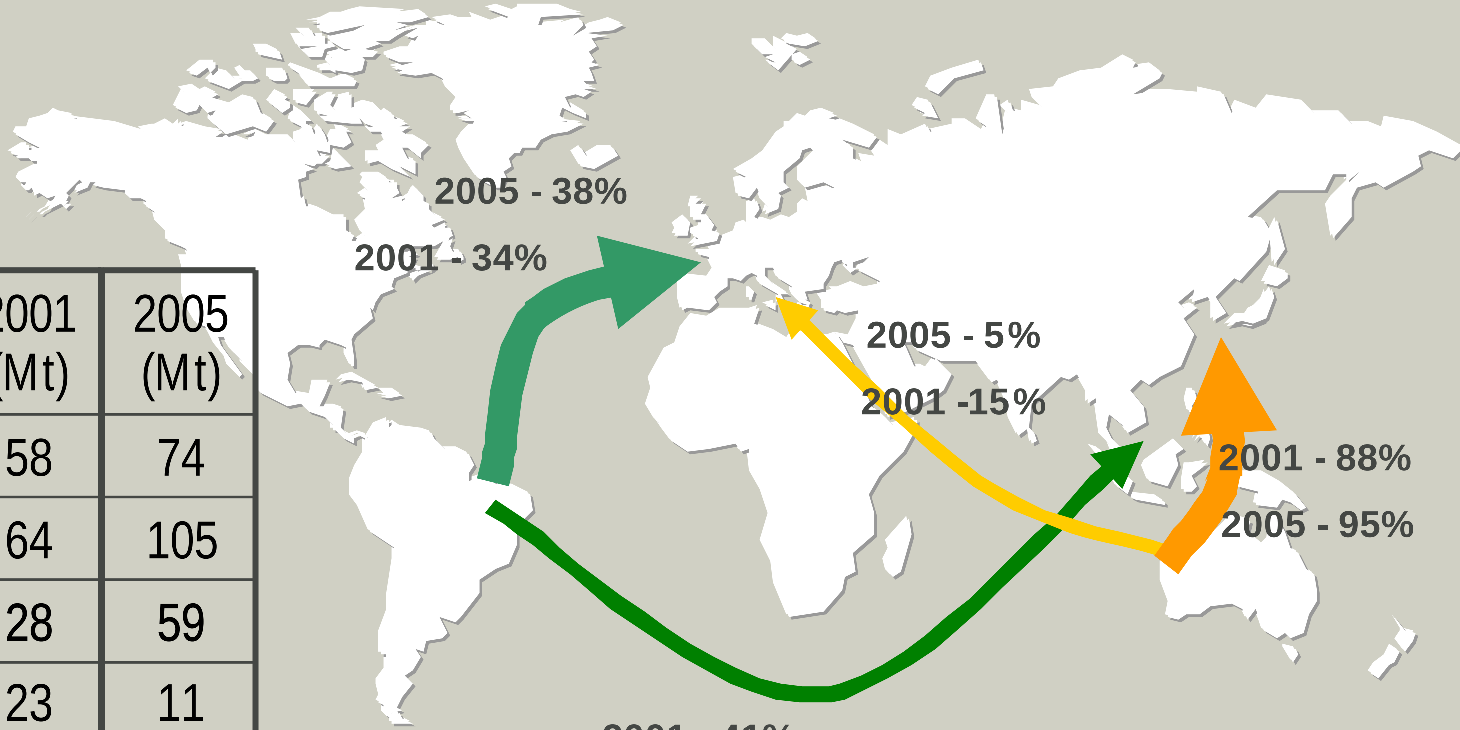
Major iron ore flows – 2001 versus 2005

Global crude steel production exceeded 1.1 Billion tonnes in 2005. The last five years have seen production grow by approximately 33%.

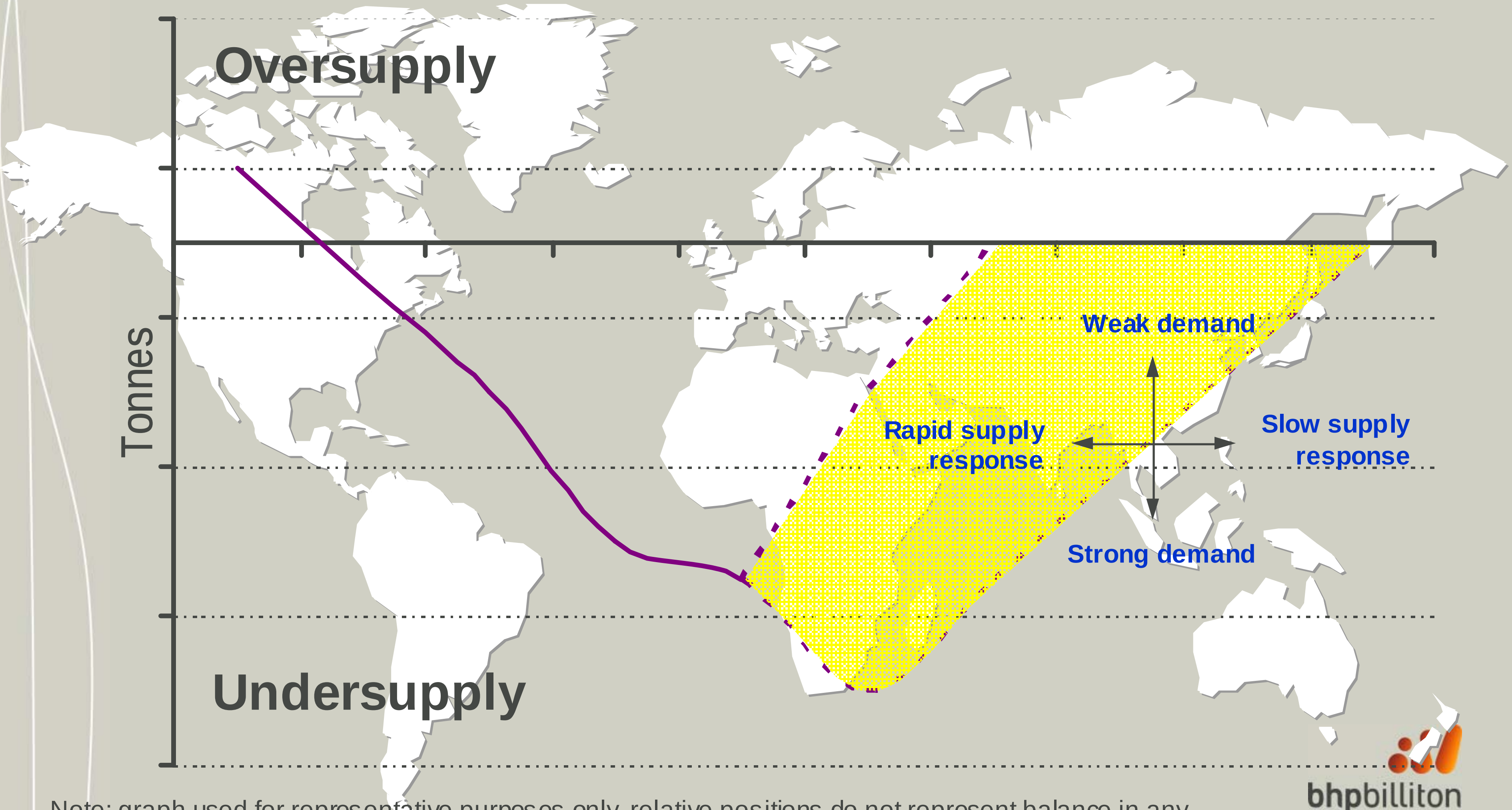
	2001 (Mt)	2005 (Mt)
Brazil - Europe	58	74
Brazil - Asia	64	105
Brazil - China	28	59
Aust - Europe	23	11
Aust – Asia	139	230
Aust - China	38	118



Data source: Custom statistics

Seaborne market balance

Seaborne iron ore market will eventually come back into balance. The timing of this will depend on a number of factors including Chinese demand and speed and extent of supplier response.



Note: graph used for representative purposes only, relative positions do not represent balance in any particular year

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Closing remarks and potential implications

- China remains the key for future demand growth
- Brazil and Australia will remain the key for supply increases
- Moving ore long distances will have an impact on freight rates potentially keeping the differential higher, longer
- Supply continues to struggle to catch up with demand – market to remain tight for some time yet
- Due to tight market conditions we are witnessing increased volumes of higher cost production
- Planned expansions are facing cost and speed-of-delivery challenges bringing on supply to meet the growing market demand

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Thank you for your attention