China Nickel 2005

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Agenda

- 2004 - Market overview
- Intensities of use
- Nickel outlook

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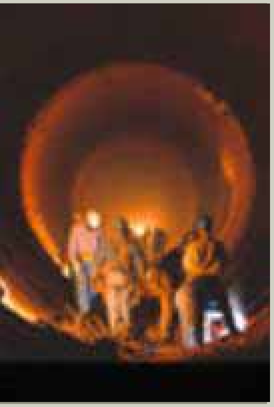

2004 Market Overview

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Consensus that 2004 was a strong year and growth will continue this year

World stainless production forecasts:

	2003	% change	2004	% change	2005
BHPB SSM	22,667	7.4%	24,337	7.1%	26,065
Brook Hunt	22,869	8.2%	24,734	6.2%	26,270
Heinz Pariser	22,812	7.5%	24,523	6.5%	26,127

- Differences due to estimation of production numbers in regions where data is not readily available, for instance, Chinese private sector

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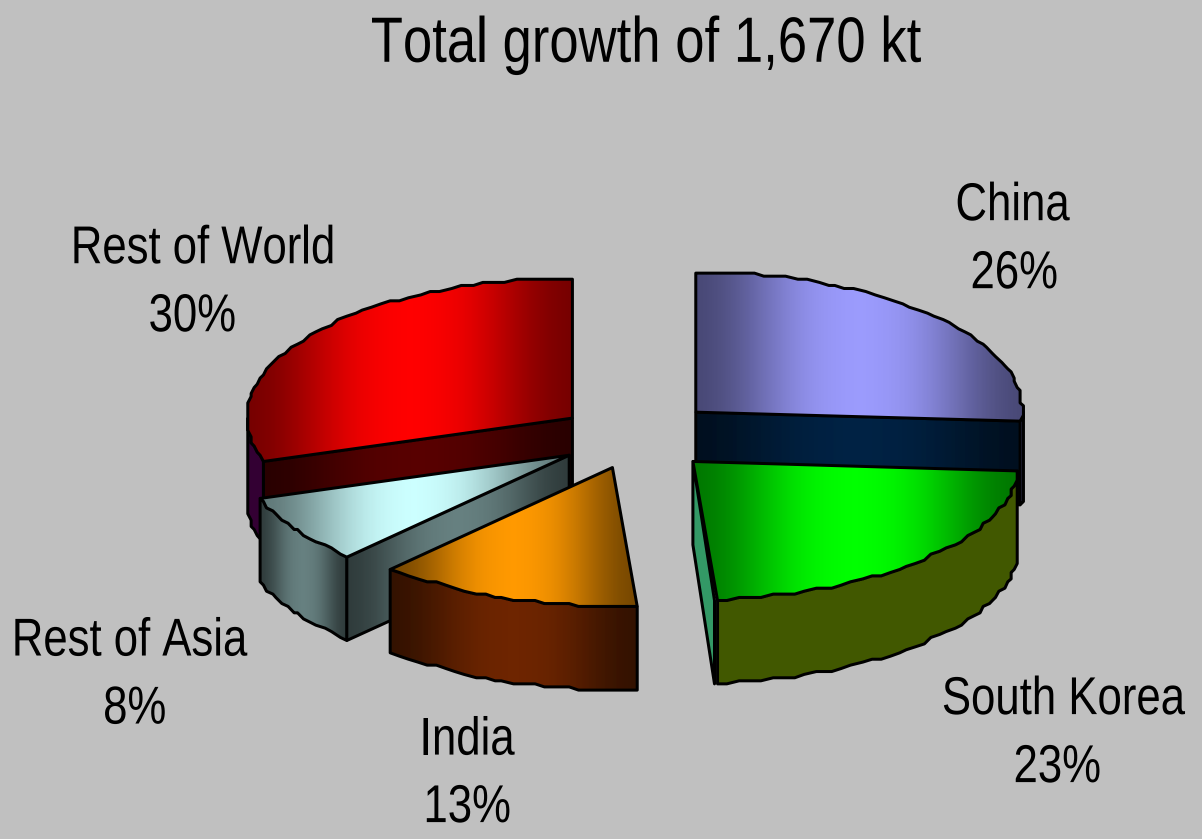
70% of global melting growth in 2004 took place in Asia



- In 2005, the growth will be further skewed towards China

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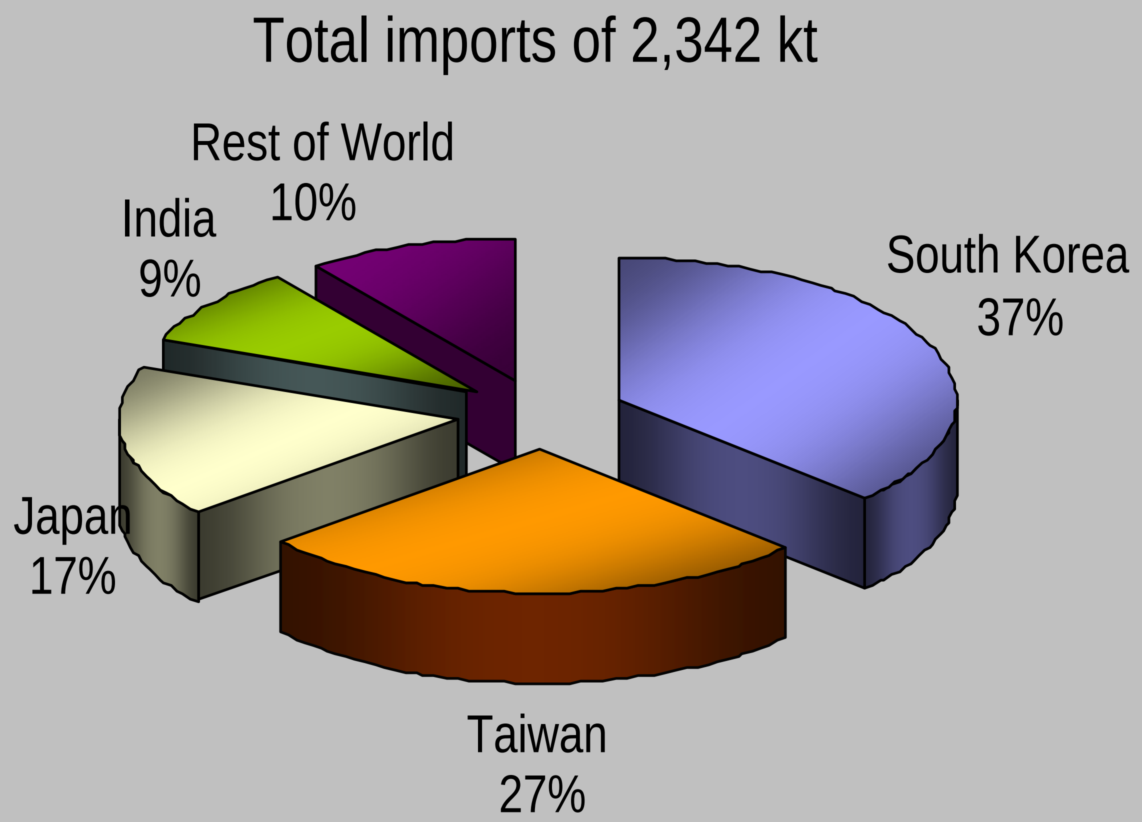
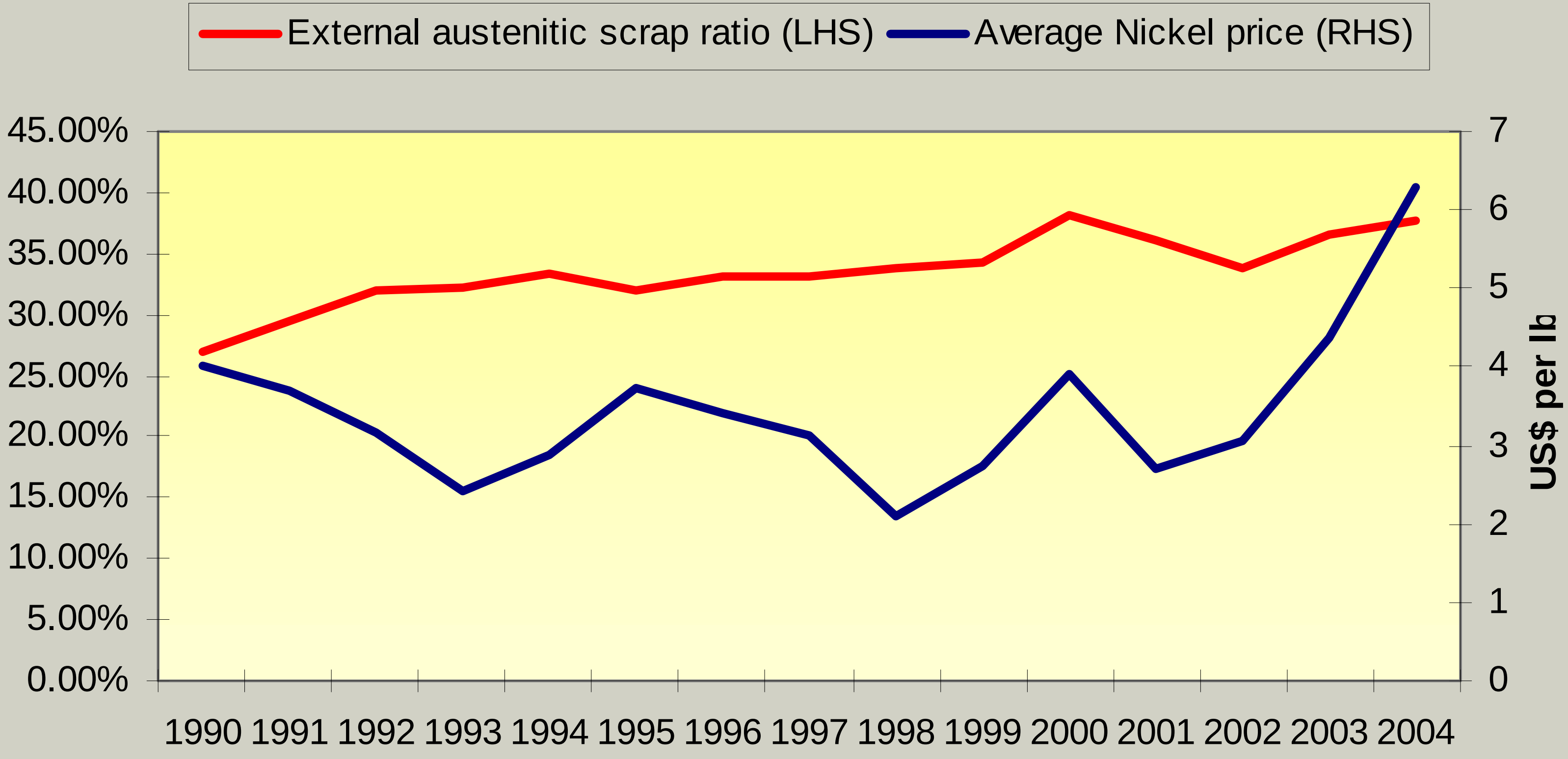
90% of Chinese stainless imports in 2004 came from Asia



- Imports will slow as greater capacity comes online in China

External austenitic scrap ratio has climbed from 34% in 2002 to 38% in 2004.



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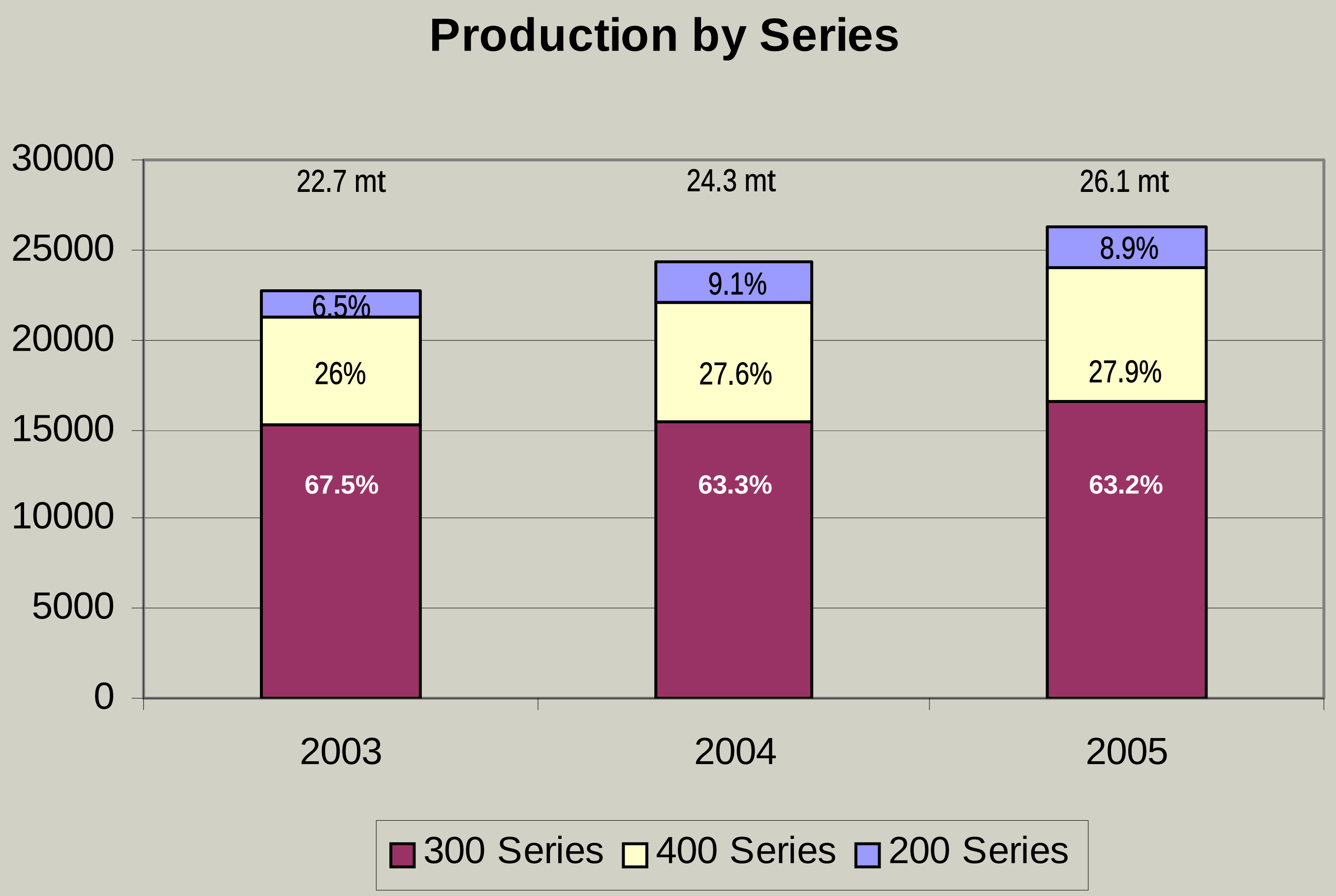
Rapid penetration of 200 series in last two years



- Further "exponential" growth of 200 series is limited by application

2004 saw…

- A high growth in stainless melting production
- Accompanied with an even higher growth in
  - External scrap usage
  - Production of 200 series
- That led to a very modest growth in Nickel consumption (1.8%)
- But, even with such a limited growth in demand, the Nickel market remained very tight

Intensities of use

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Chinese stainless consumption and intensity of use – broadly, three pillars of demand

2004 (4.6 Mt)

Industrial usage

35%

Consumer durables

34%

Construction

24%

- **Industrial usage**: Chemicals, petro-chemicals, pharmaceuticals, food & beverage, pulp & paper, refining, power
- **Consumer durables**: Flatware, holloware, white goods
- **Construction**: Kitchen & bathroom fittings, decoration, elevator & escalator, city landscape
- 70% of stainless steel consumption is for domestic market
- Consumer durables is the main sector that is supplying overseas markets

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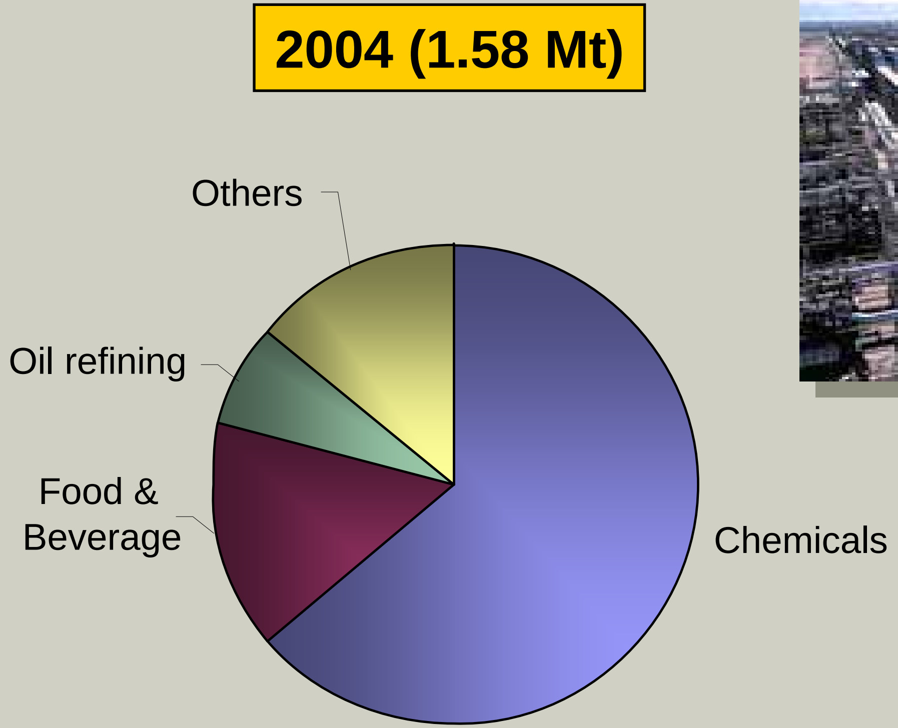
Industrial use. 200 series is unsuitable for many industrial applications



Key area is Chemicals

➢Growth driven by sectors like textile and clothing end-use industries

Substitution to 200 series limited by application

➢Instances of 200 series being fraudulently sold as 300 series have instigated a negative reaction

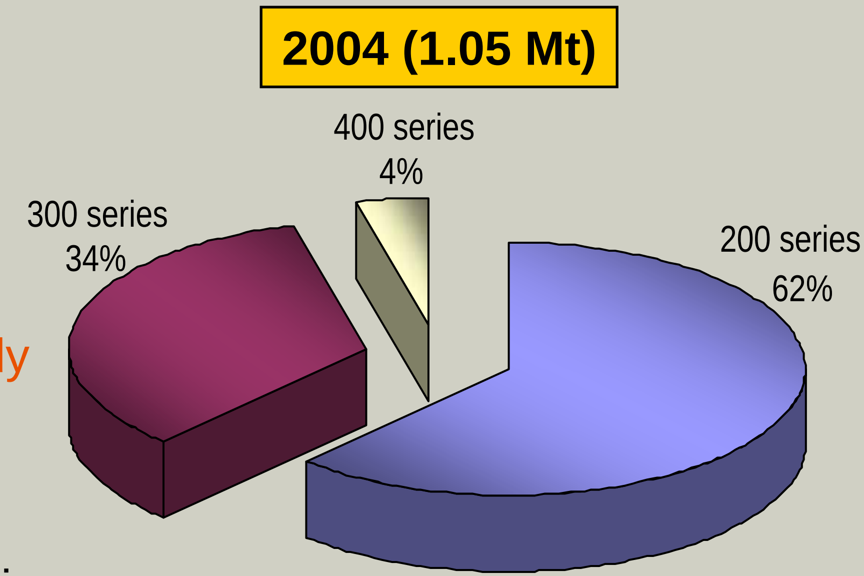
Construction – 200 series is very suitable for certain applications

Pudong, Shanghai 1990

Pudong, Shanghai 2000

Key growth driver is urbanization

- Expected to grow from 38% in 2004 to 65% in 2025
- Increasing quality of construction



Substitution to 200 series has already taken place

- Stability in 200 series total share
- Potential upside to greater 300 series usage exists

Photos source: www.pudong.gov.cn

200 series has not been the panacea as earlier hoped

- Processing of these grades is more difficult
- Mechanical parameters are not met
- Corrosion problems
- Contamination of austenitic stainless scrap
- And strong competition from small induction based furnaces makes these grades un-attractive for large mills

Source: Heinz Pariser

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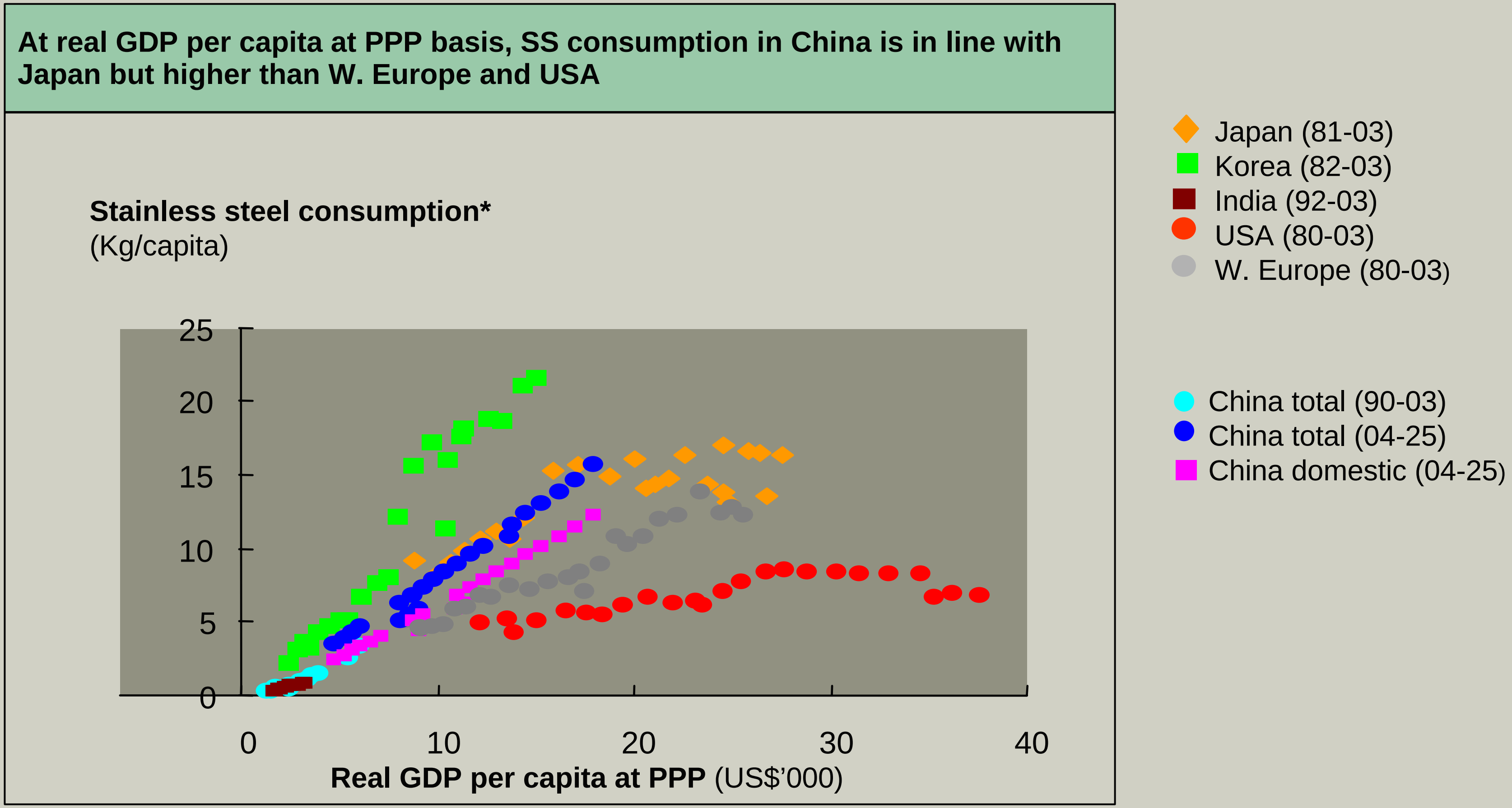
China's stainless steel consumption shows higher usage intensity than other earlier developing economies



*SS consumption in Taiwan and Korea are much higher, probably due to their export-driven SS end-use sectors

Source: JFK; Global Insight; country custom yearbook and steel associations

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China's development is well timed for greater stainless steel usage

Big Ben Clock Tower, London

Built 1858

Jin Mao Tower, Shanghai

Built 1998

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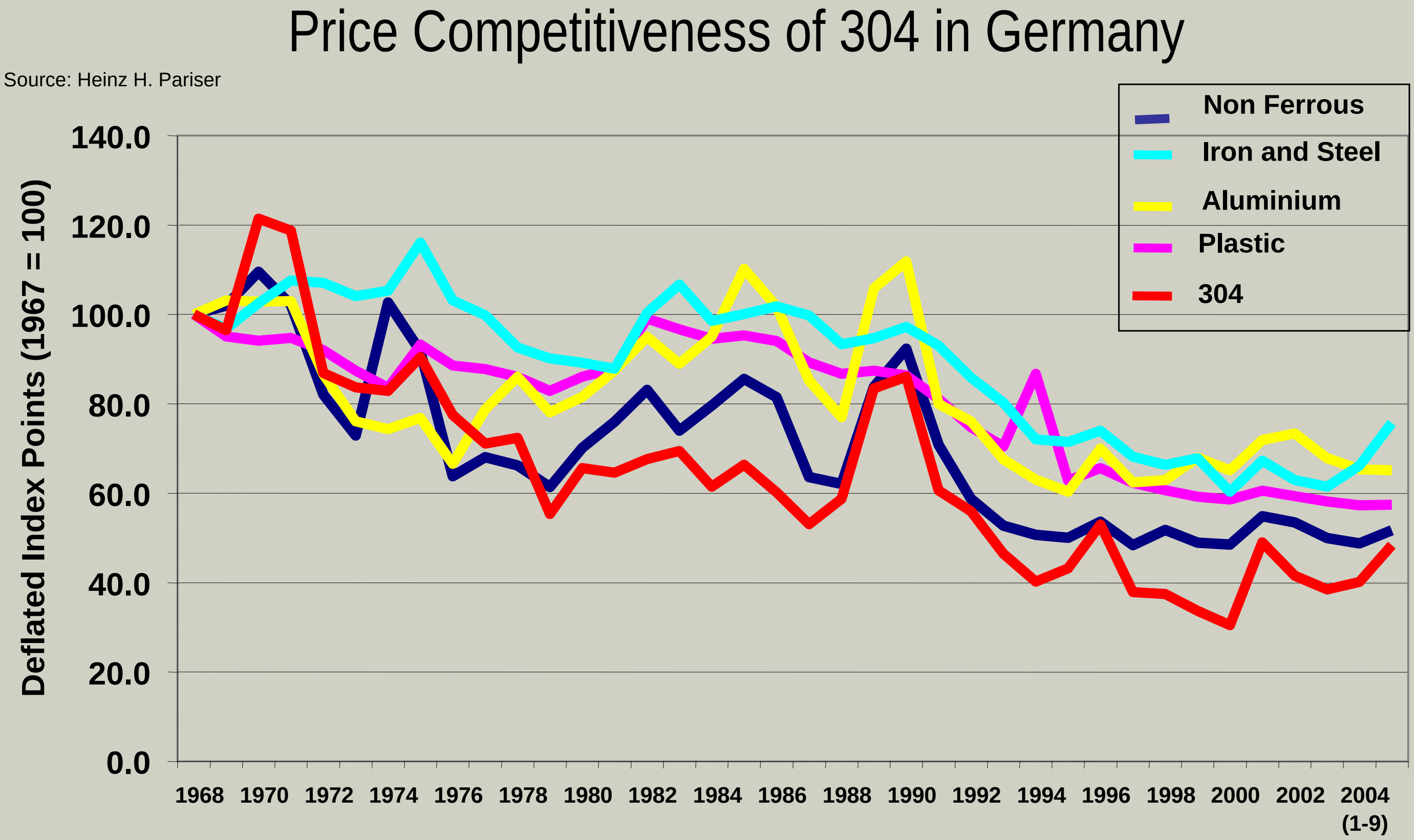
304 is good value for money



Taking inflation into account, 304 is priced at half of the 1967 level

Conclusion

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Nickel market is in structural tightness

- **Nickel demand remains robust**
  - 300 series remains the workhorse of the stainless industry because of “core” applications
  - Strong growth in the aerospace industry and land-based turbines
  - Hybrid electric vehicles provide a positive development for long-term growth
- **Real constraints to supply**
  - No major technological revolution anticipated
  - Capital costs are high

Nickel demand is, however, sufficiently elastic to avoid a prolonged period of high prices. Nickel bearing stainless steels remain cost-competitive against alternatives in their core applications.

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