

# Iron Ore Market Update

Presentation to Analysts June 2005

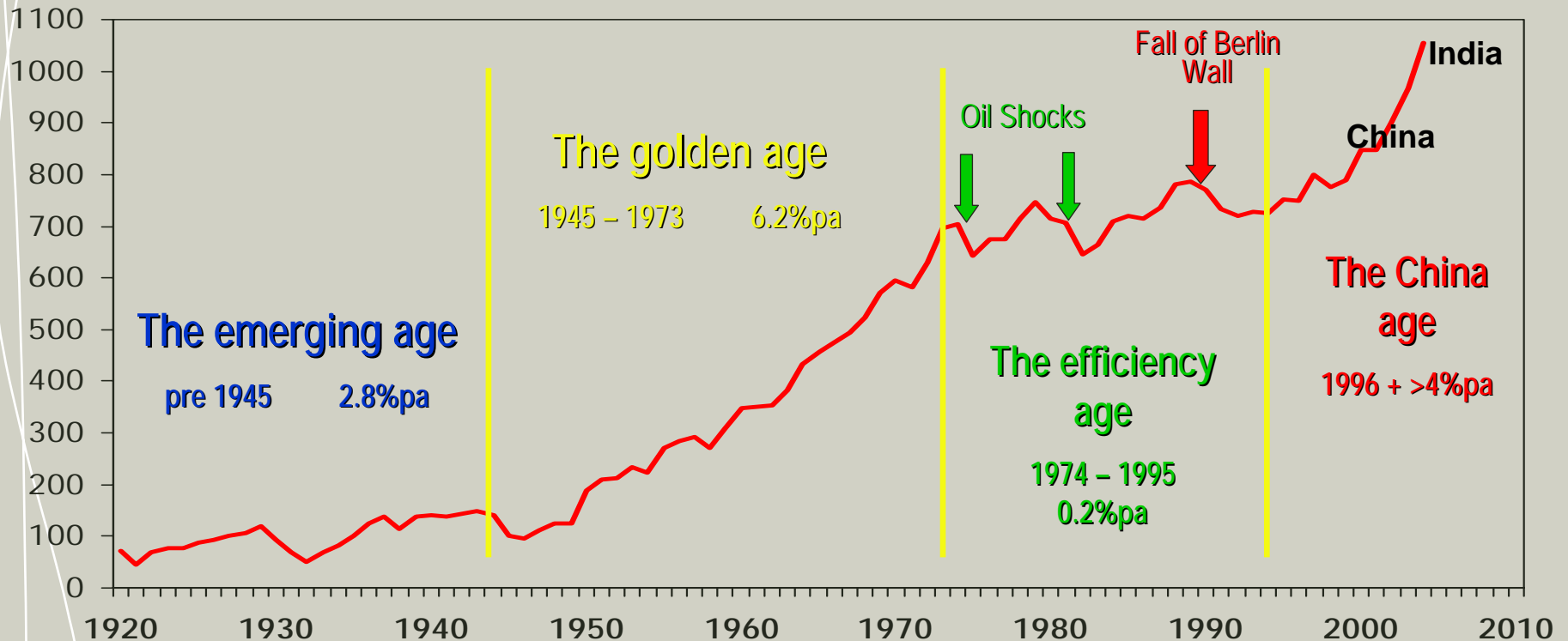


Peter Toth, Vice President Marketing

Iron Ore



# Brief highlights of the global steel industry



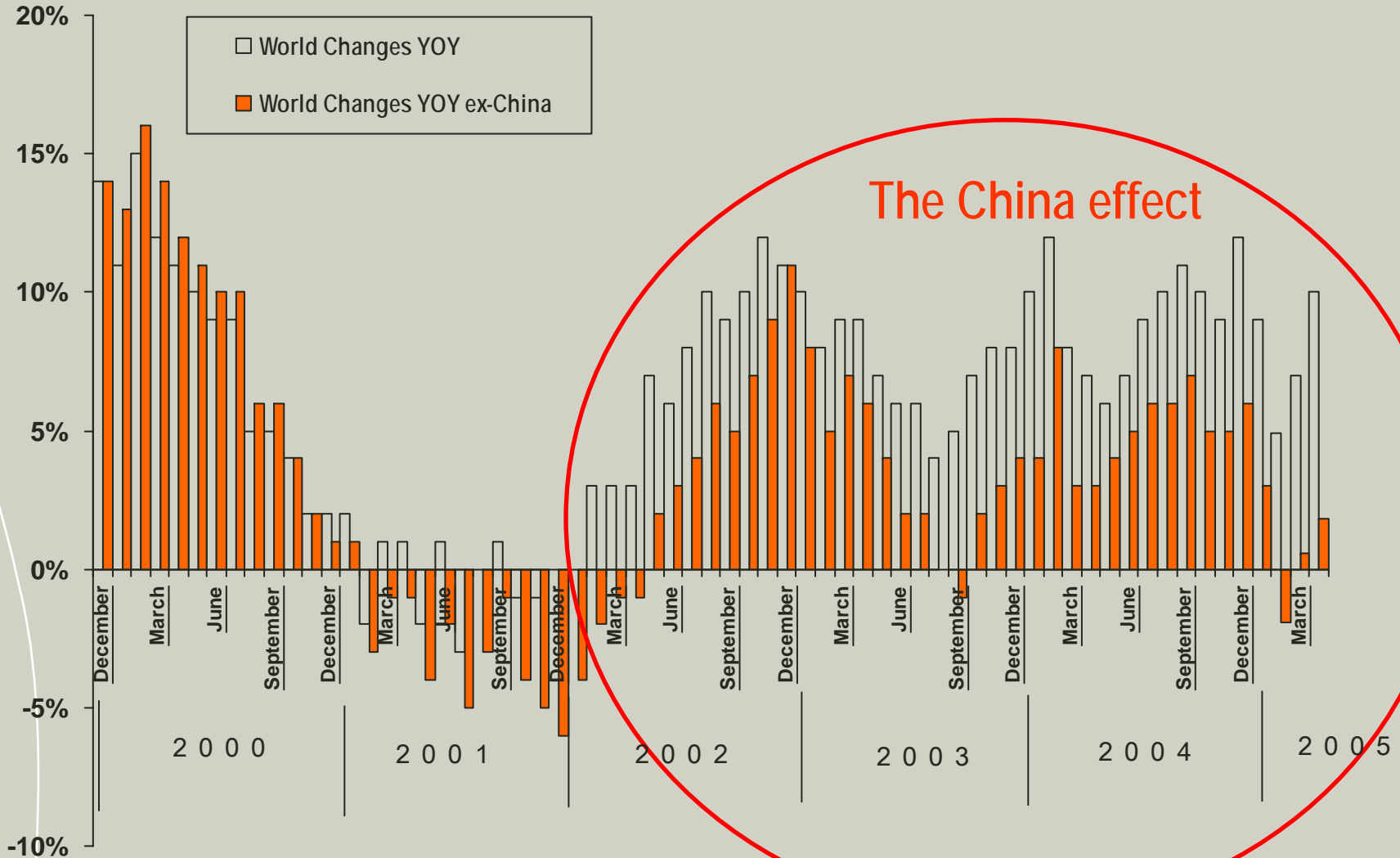
2004 - over a billion tonnes of steel produced

Doubling of steel prices in 2004 – trend continuing into 2005

Industry profitable, Corus EBITDA >US\$1b, best have ROCE's of >35-50%

BF steelmaking here to stay – China, BRICS

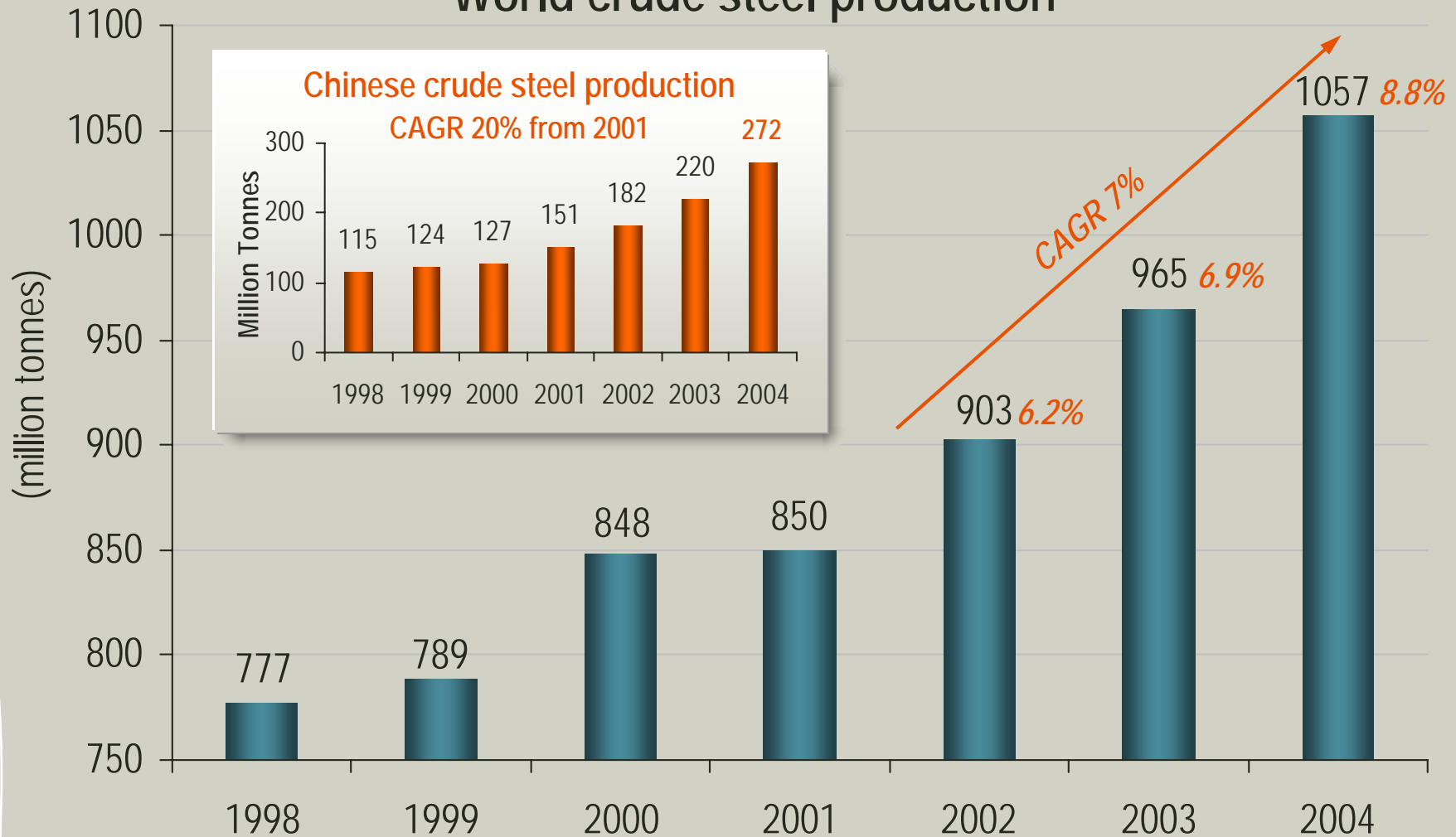
# China's impact on global steel production



Source IISI

# Steel industry has experienced sustained rapid growth

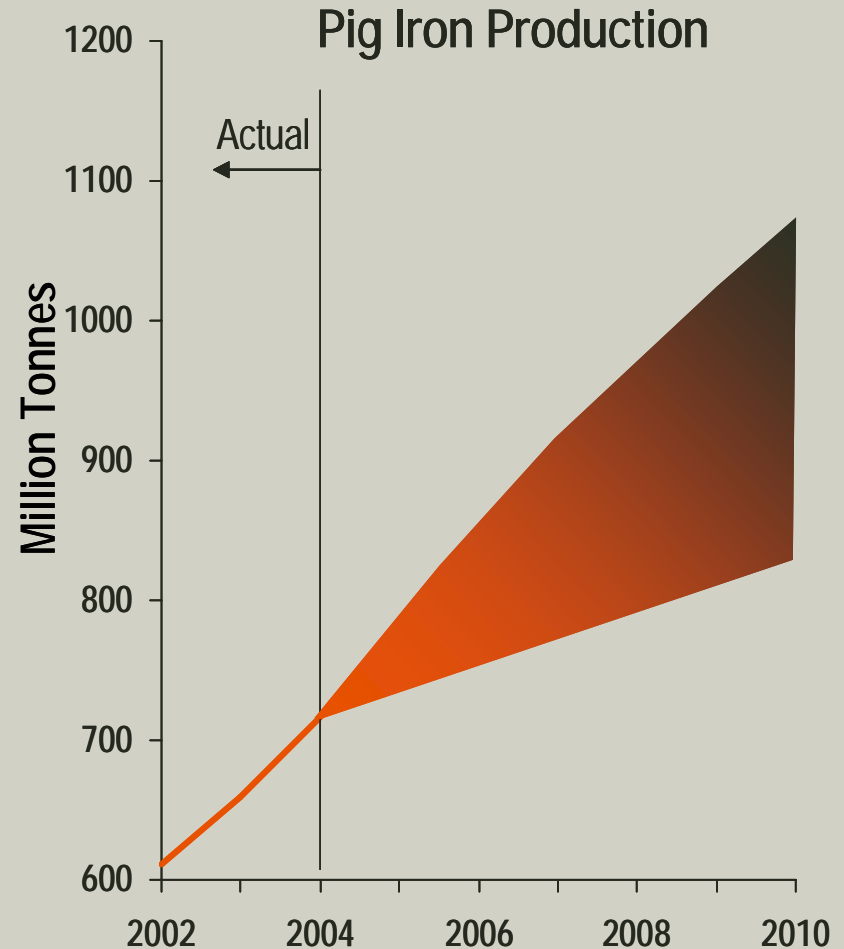
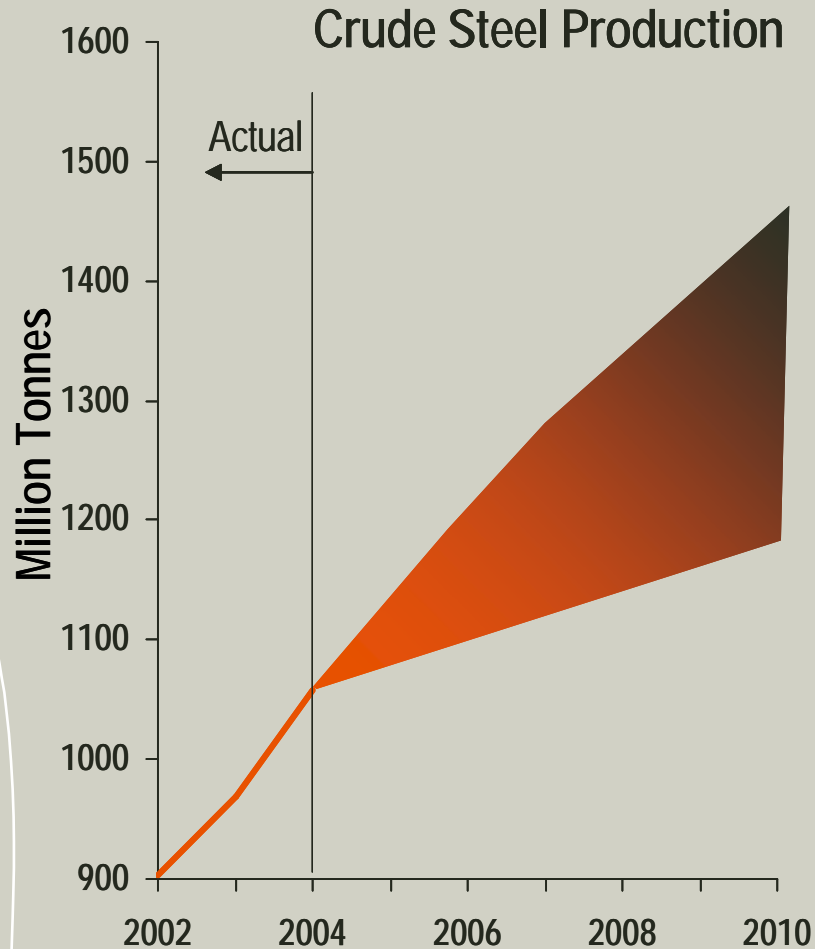
## World crude steel production



Source IISI

# Global steel outlook, crude steel and pig iron

**Continued growth anticipated, with China, India, Brazil and SEA major drivers**



Source: IISI and BHP Billiton

# The short term fundamentals - China

## STEEL

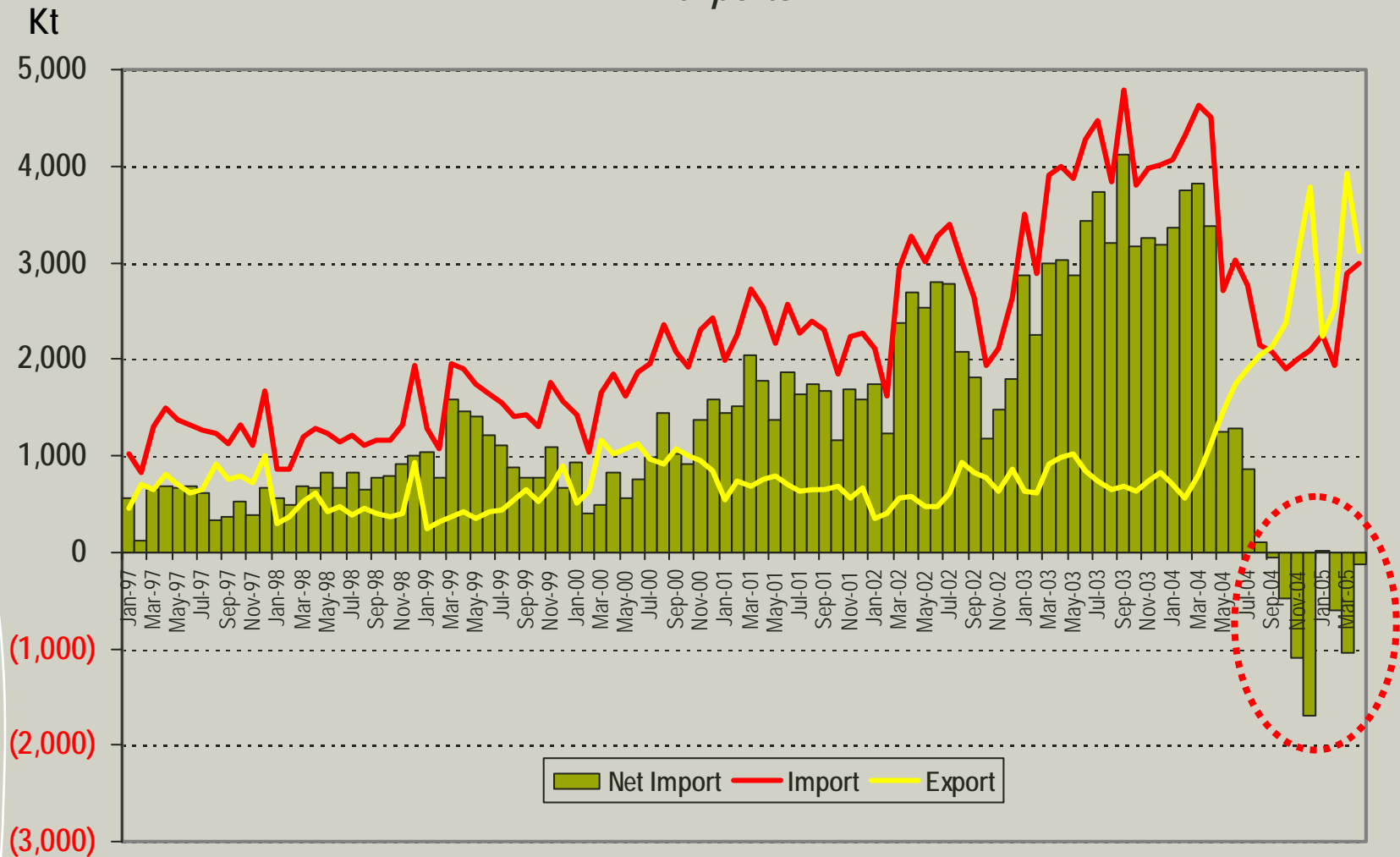
- Jan-Apr '05 steel production 106Mt, annualized 317Mt
- April '05 steel production 28Mt – annualized 336Mt
- Steel production 'too strong'? Slow down positive.
- Steel prices for bars, plates increased in April
- Apparent steel consumption up as exports fall and imports increase – but no visible sign of inventory build up

## IRON ORE

- Jan – Apr '05 imports 87.5Mt – annualized 260+Mt
- Apr '05 imports 24.3Mt – annualized 290Mt
- Spot iron ore price falling due to:
  - Handy freight rate \$10 lower (Indian FOB still \$55-60/t)
  - Psychological factors: government intervention, licensing, price ceiling rumors, buyers waiting, distressed Indian cargoes

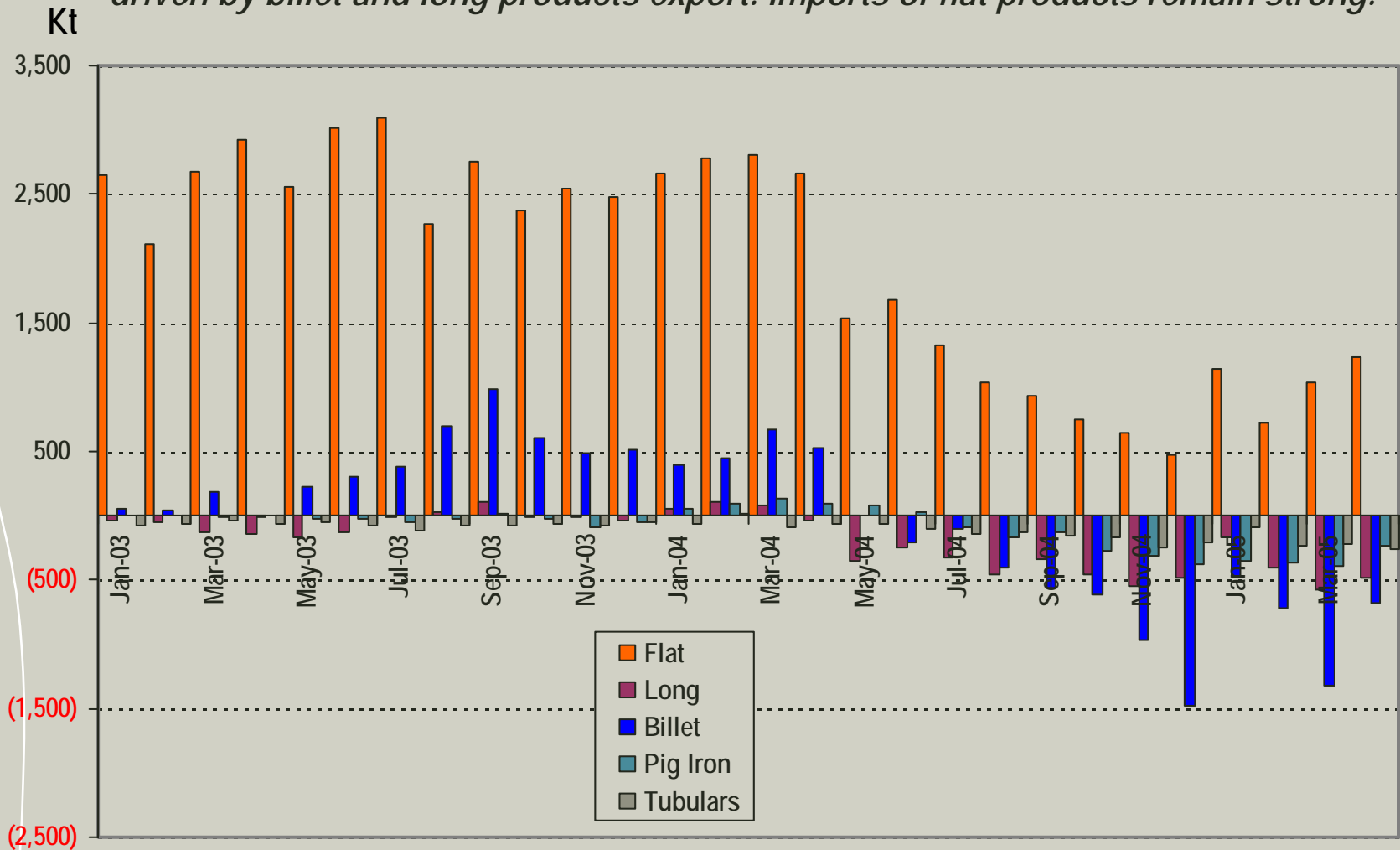
# China Monthly Net Import of Steel

*From September 2004 China became a net steel exporter, driven by billet and long product exports.*



# China Monthly Net Import of Steel & Pig Iron

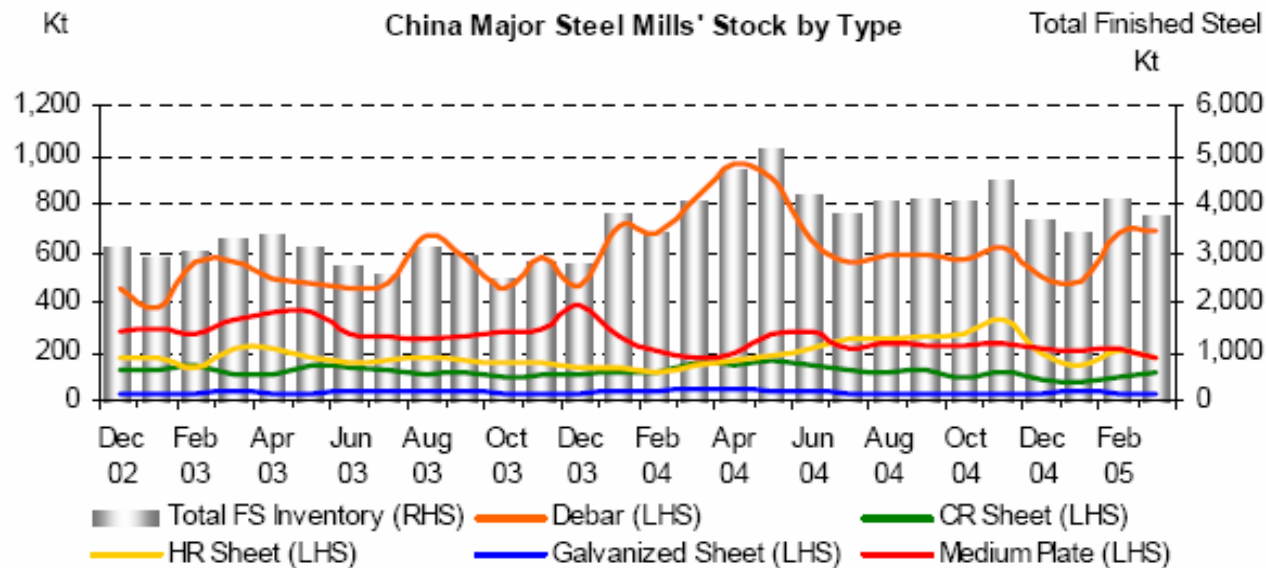
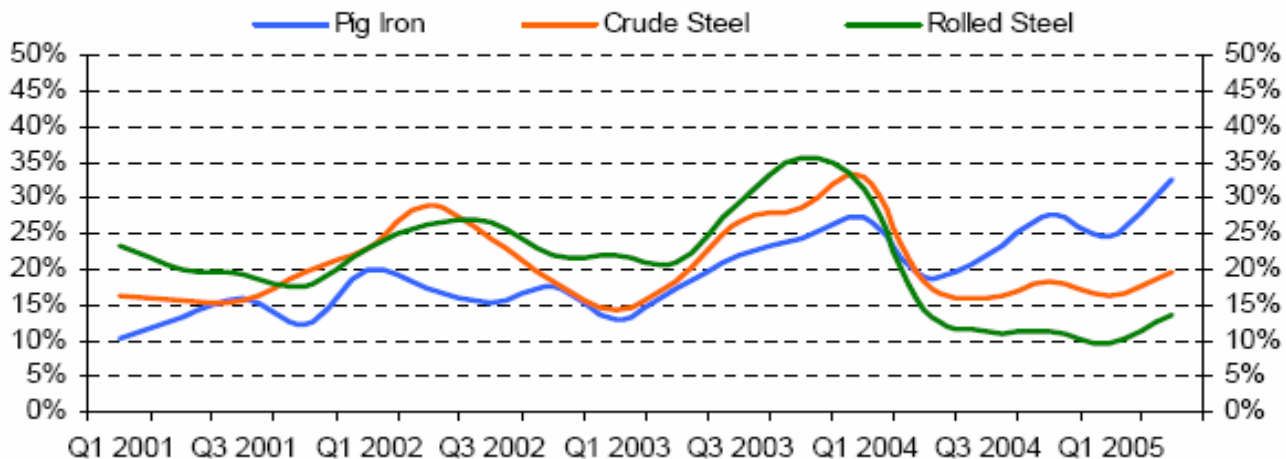
*From September 2004 China became a net steel exporter by crude steel equivalent, driven by billet and long products export. Imports of flat products remain strong.*





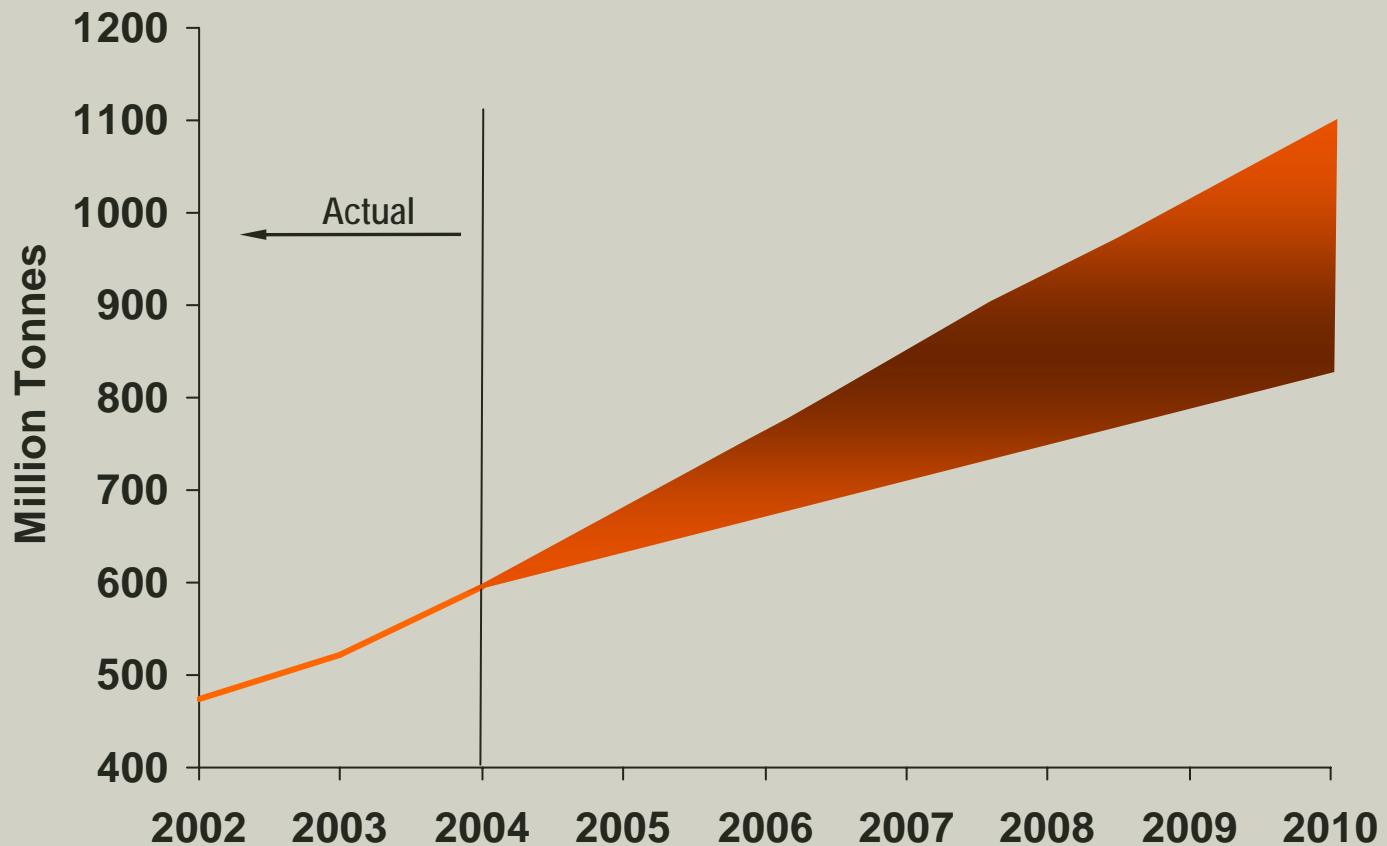
# China steel industry drivers - no reasons to panic

YoY Growth Rate of China Apparent Steel Consumption



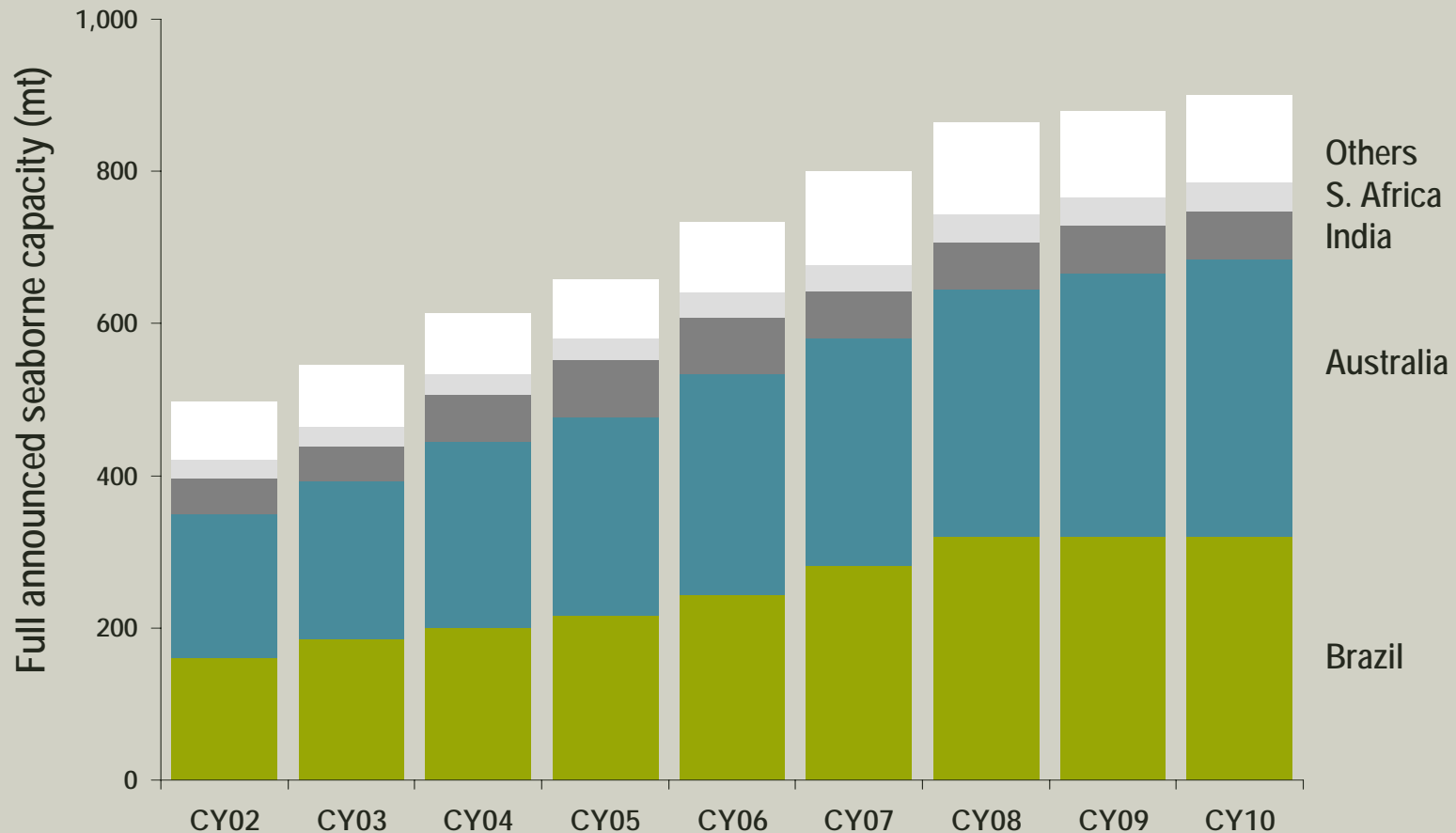
# Seaborne iron ore demand

*Demand for seaborne iron ore will follow the pig iron production trend, growing strongly in the medium term*



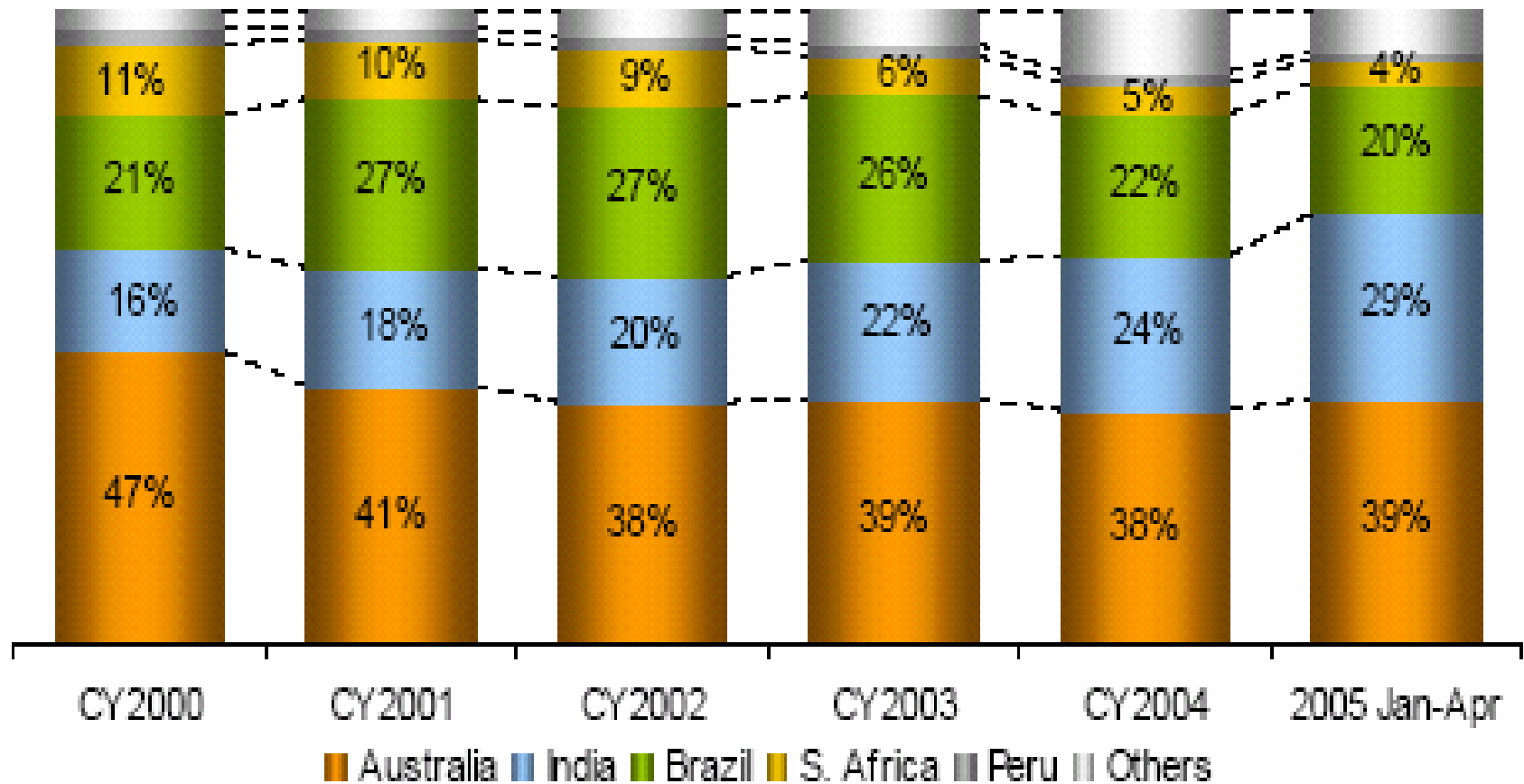
# Estimated future supply increases

*Traditional sources of Australia and Brazil will continue to supply the majority of seaborne iron ore*



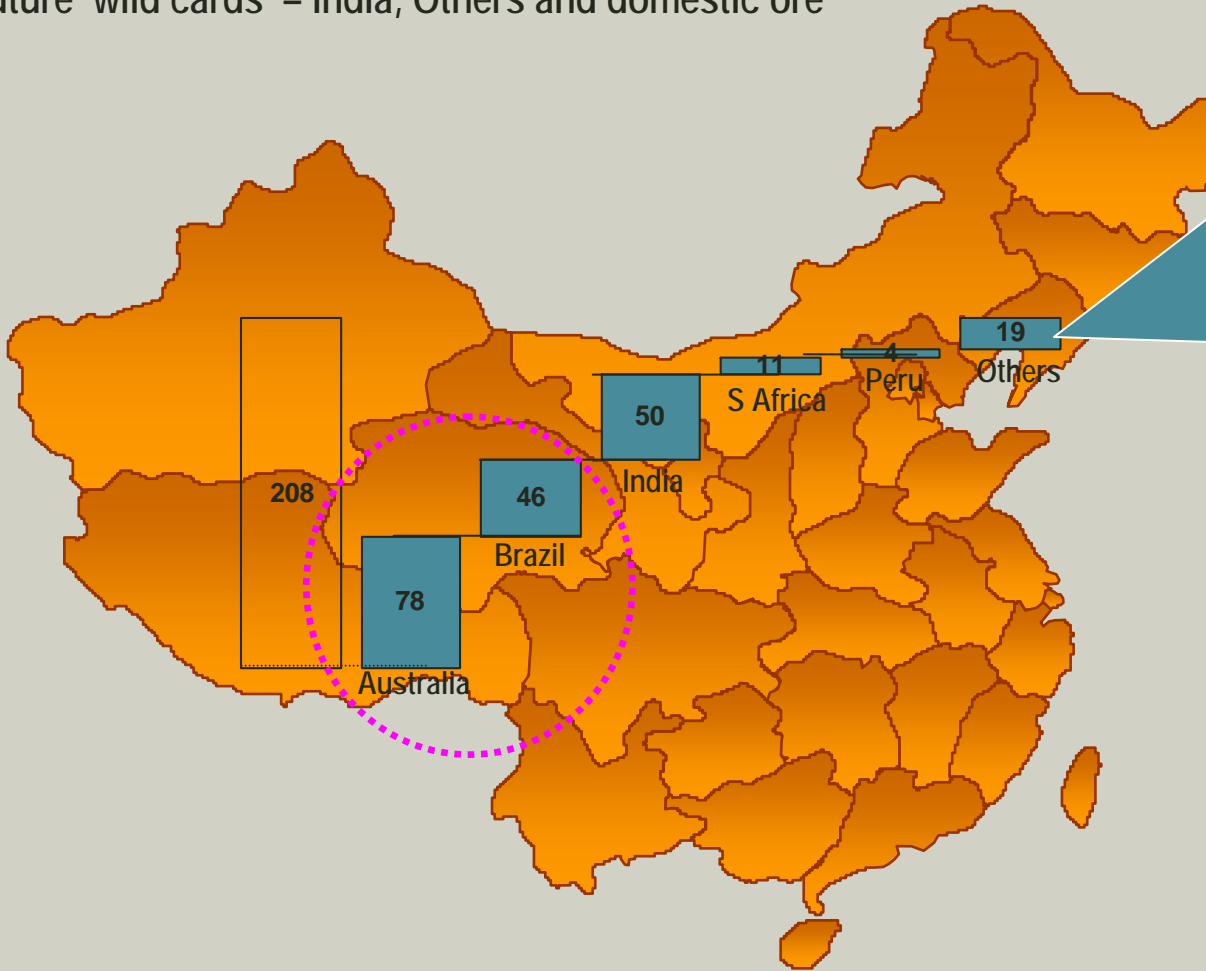
# Chinese iron ore imports by country

## China Iron Ore Imports by Country



# Australia and Brazil are the major source of seaborne iron ore

- Indian iron ore export to China up to 50 Mt in CY04, from 17 Mt in CY01.
- The future 'wild cards' – India, Others and domestic ore

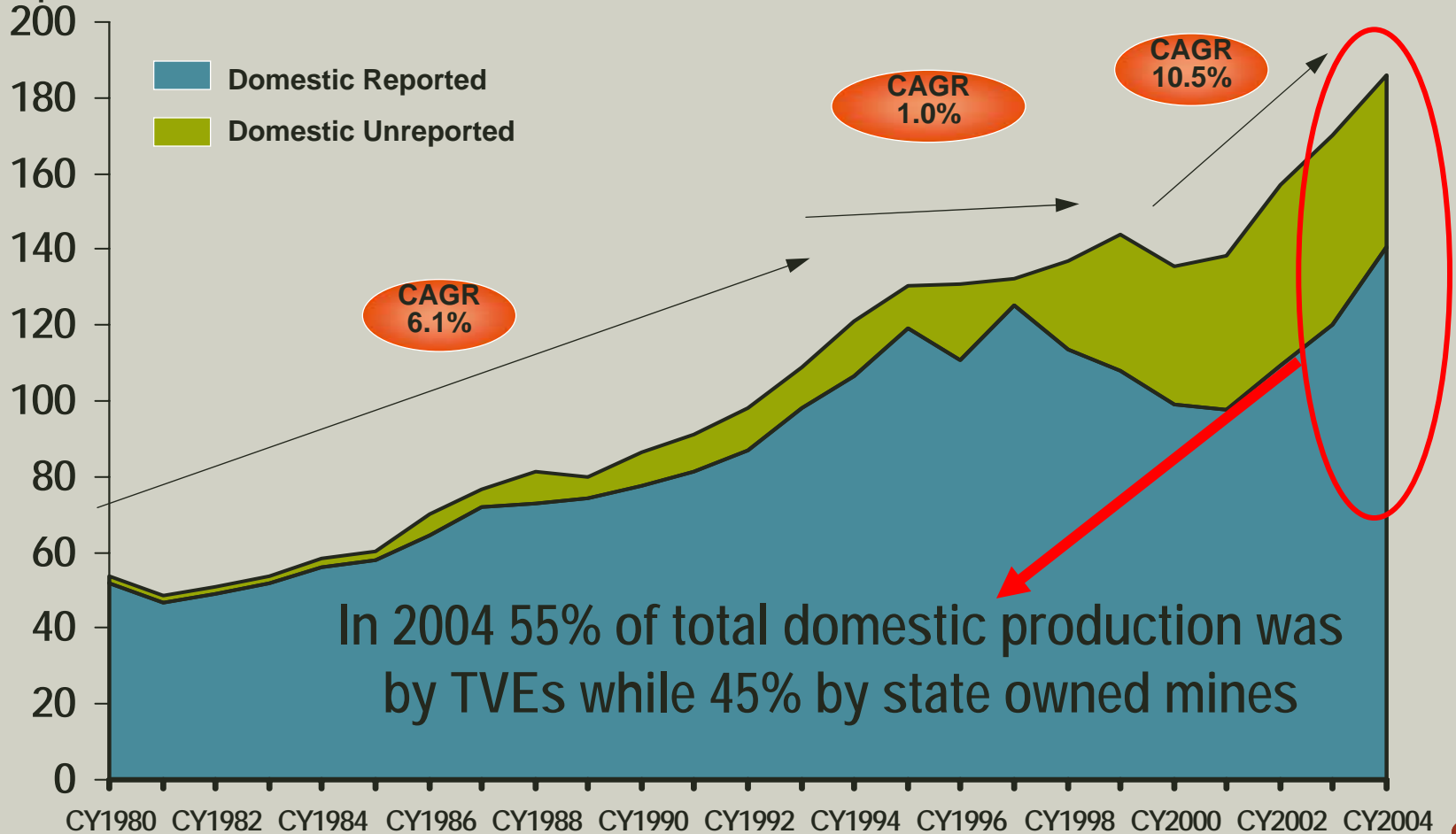


- Bahrain
- Belgium
- Canada
- Chile
- Indonesia
- Iran
- Italy
- Kazakistan
- Korea DPR
- Liberia
- Malaysia
- Mexico
- Mongolia
- Mozambique
- Myanmar
- New Zealand
- Philippines
- Russia
- Saudi Arabia
- Sweden
- Thailand
- Trinidad & Tobago
- Ukraine
- United States
- Venezuela
- Vietnam

# China domestic iron ore production has been increasing rapidly in the current tight market

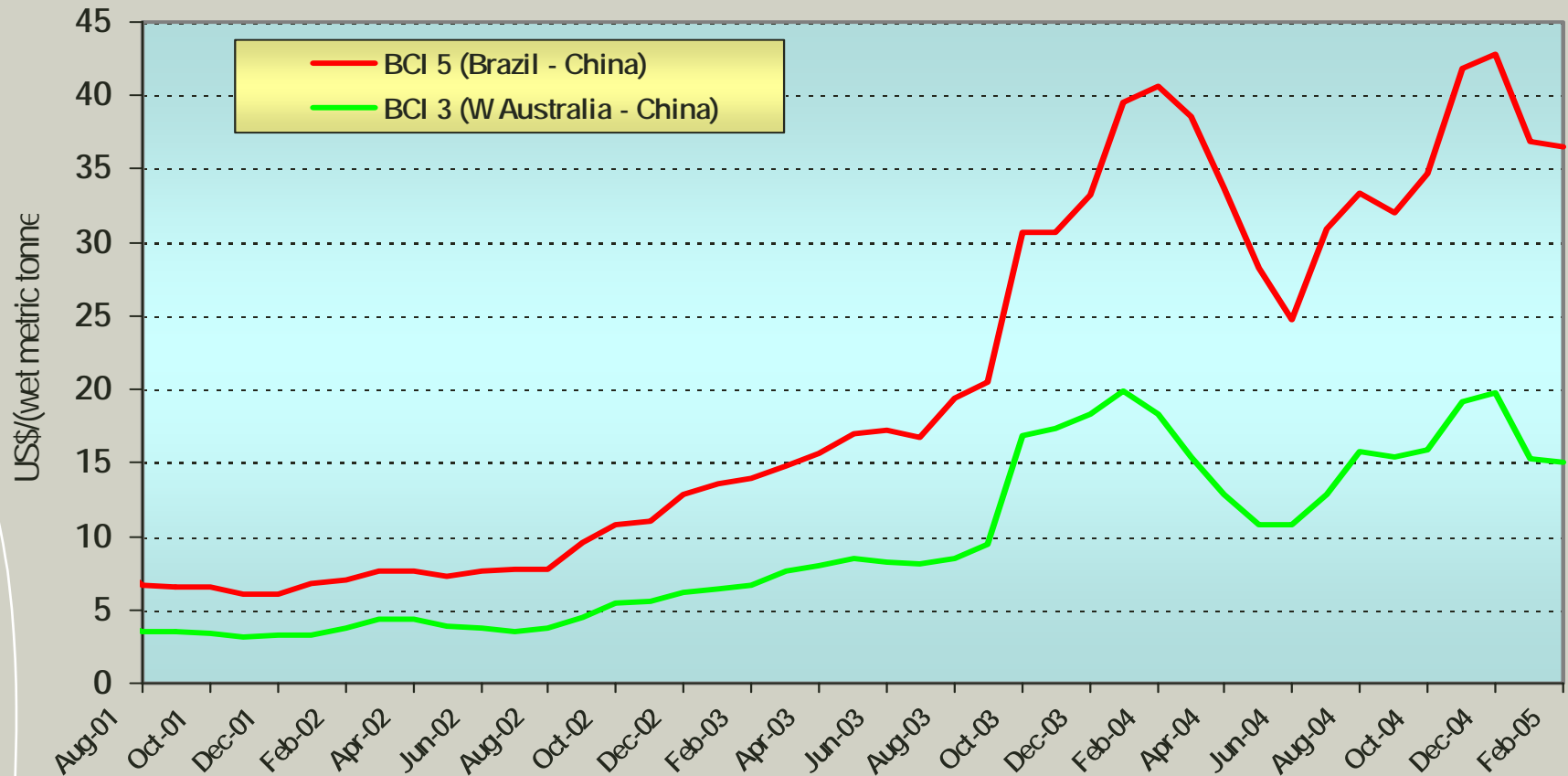
*Many high cost operations have emerged to fulfill the iron ore demand from China's steel sector. Domestic producers are highly fragmented, no high quality reserves and increasing environmental issues emerging.*

63.5% Fe Equivalent  
Unit: Mt

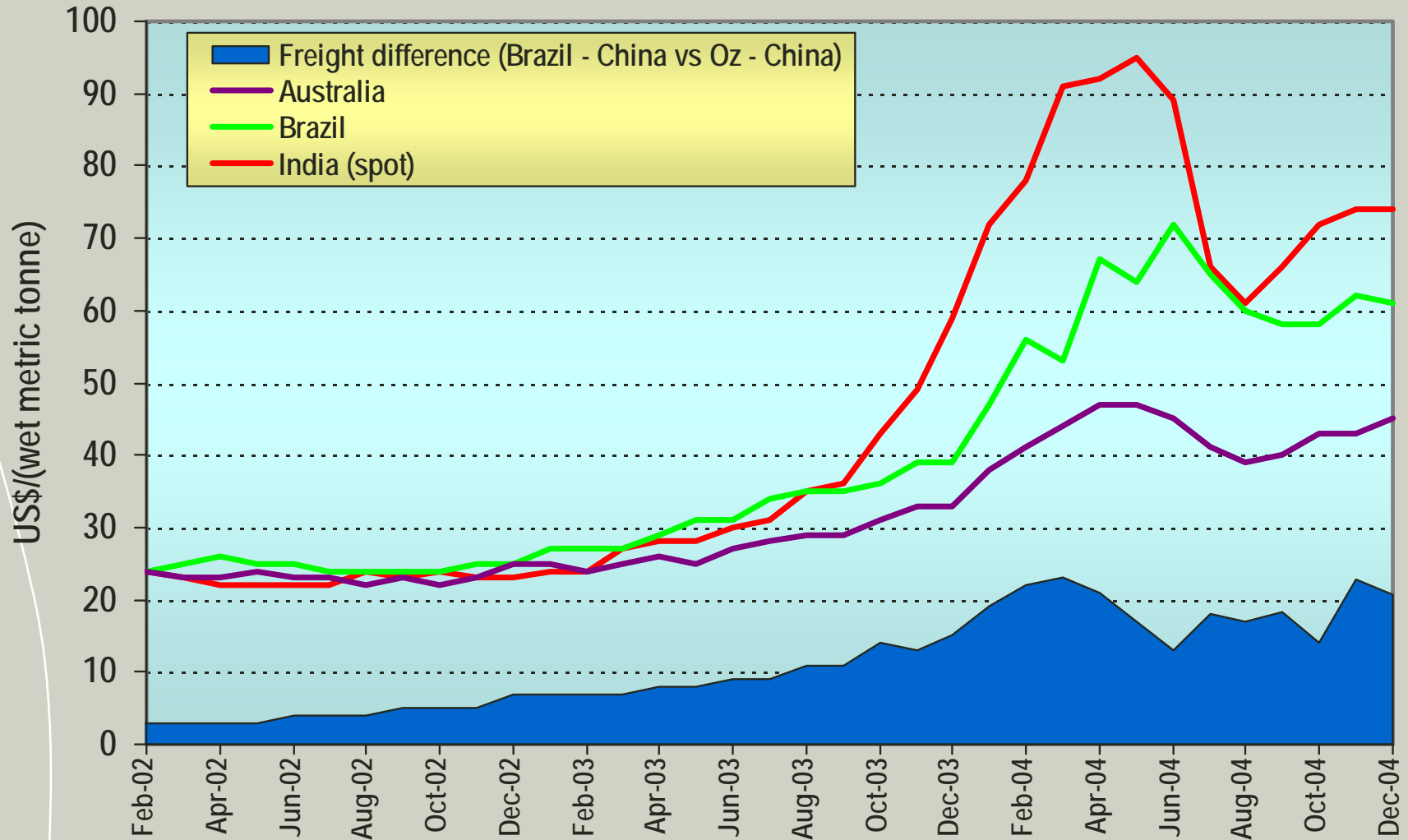


# Defining the problem - freight

*Historically freight rate differentials for Brazil-China and WA-China have averaged around US\$3-5. In mid 2003 freight rates increased pushing the differential first above US\$10 and then US\$20.*



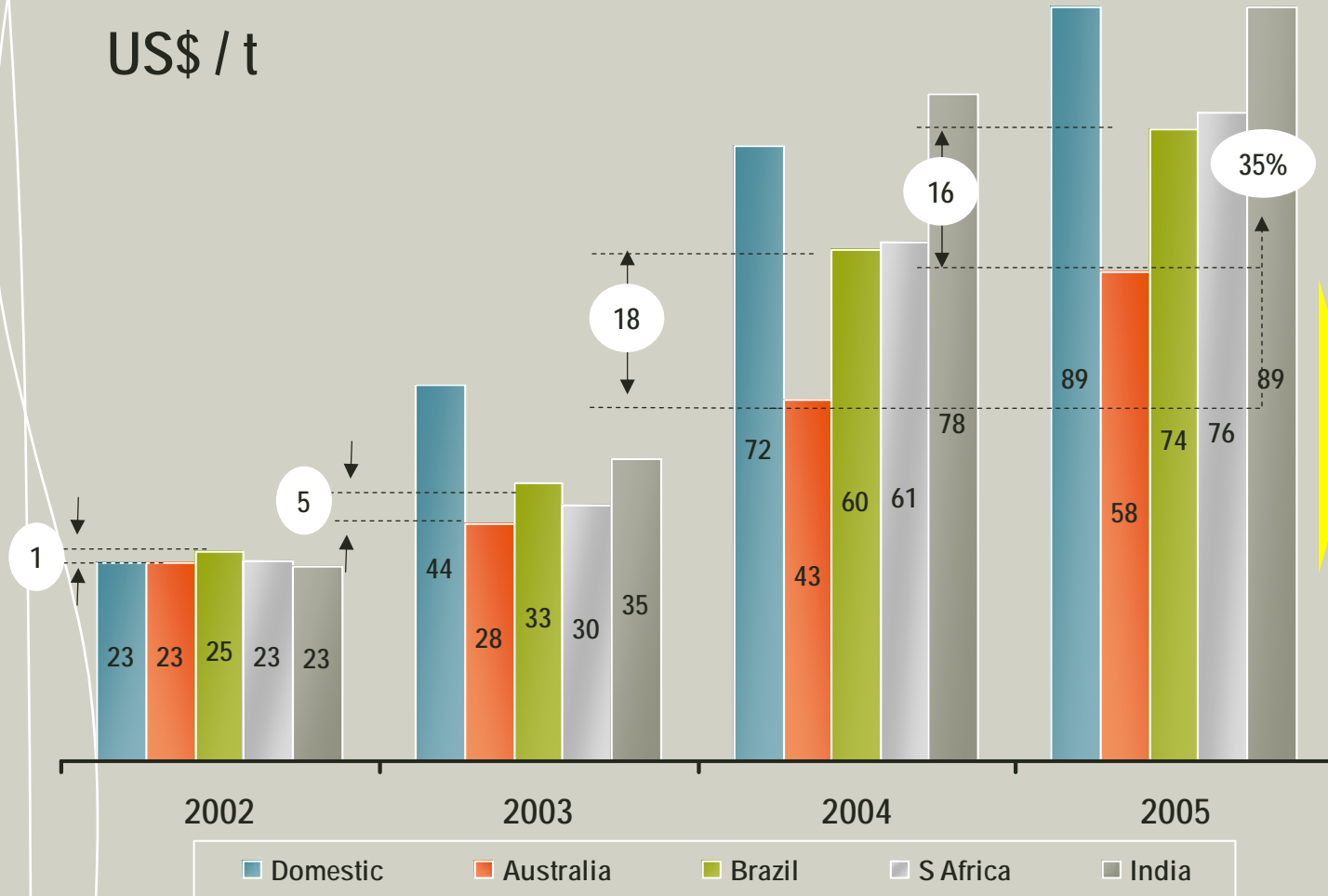
# Delivered costs of iron ore into China





# China Historical CIF Iron Ore Prices

US\$ / t

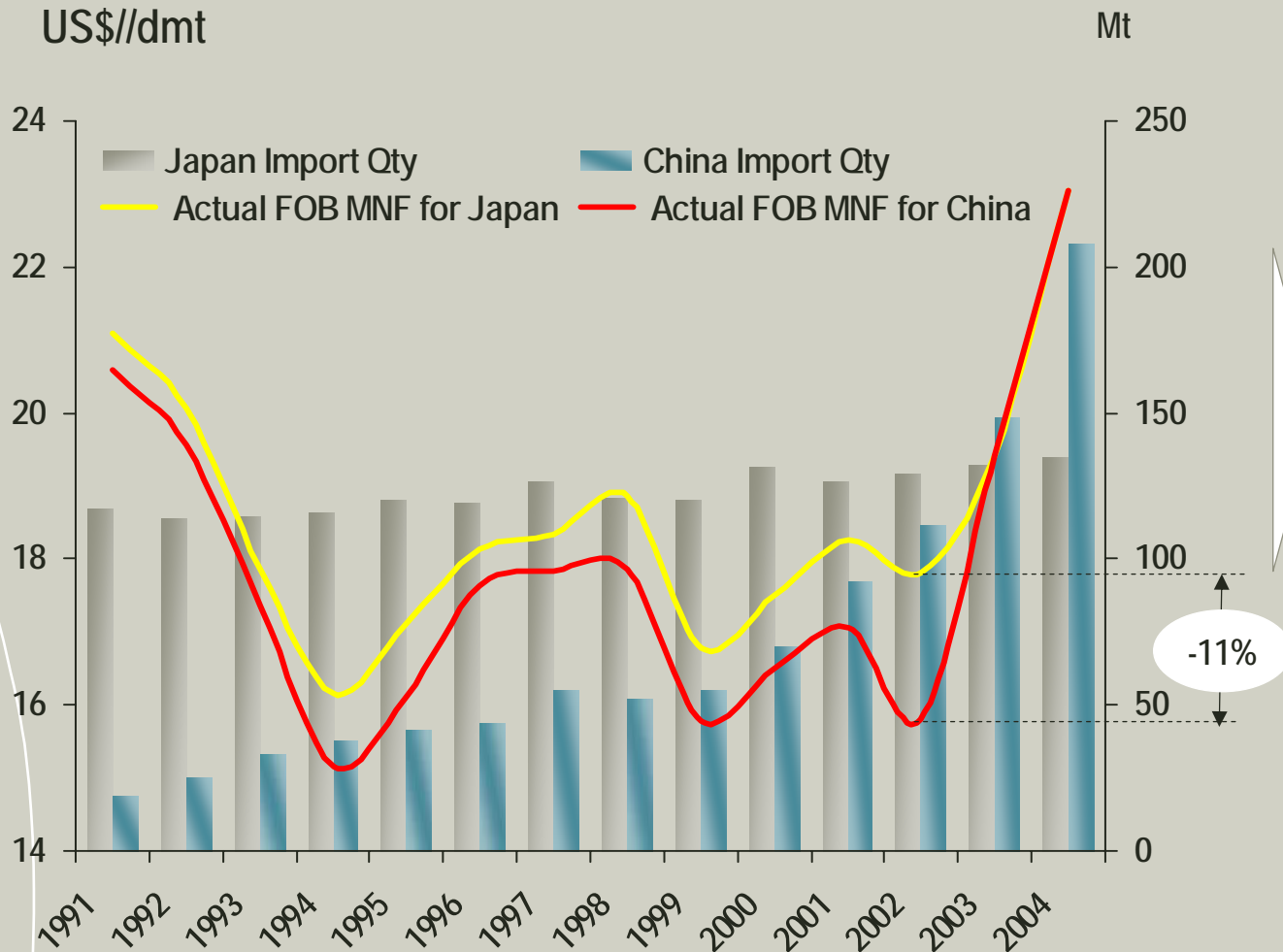


- Australia still the cheapest iron ore, even after the 71.5% FOB price increase
- March, 2005 CFR Australian iron ore is US\$15+ cheaper than Brazilian, and US\$30/t lower than domestic spot
- 2005 Australia iron ore increased by US\$15/t, or 35% YoY CFR

Remark: CY2002-2004 Imported Iron Ore Price from China Customs, CY2005 Imported Iron Ore (exclude India) Price from FOB+Sea Freight, 2005 India price from domestic spot market (due to India iron ore price is settle once every year, every batch's price is different. Domestic Concentrate use average Tangshan Area's Equivalent CFR price. That is Tangshan Conc. Price minus logistics to Tianjin Port and minus VAT

Data Source: China Customs, TEX Report, [www.steelhome.cn](http://www.steelhome.cn), [www.mysteel.com](http://www.mysteel.com), BHPB Internal Resources,

# Historical Iron Ore Prices (FOB)- China Vs Japan



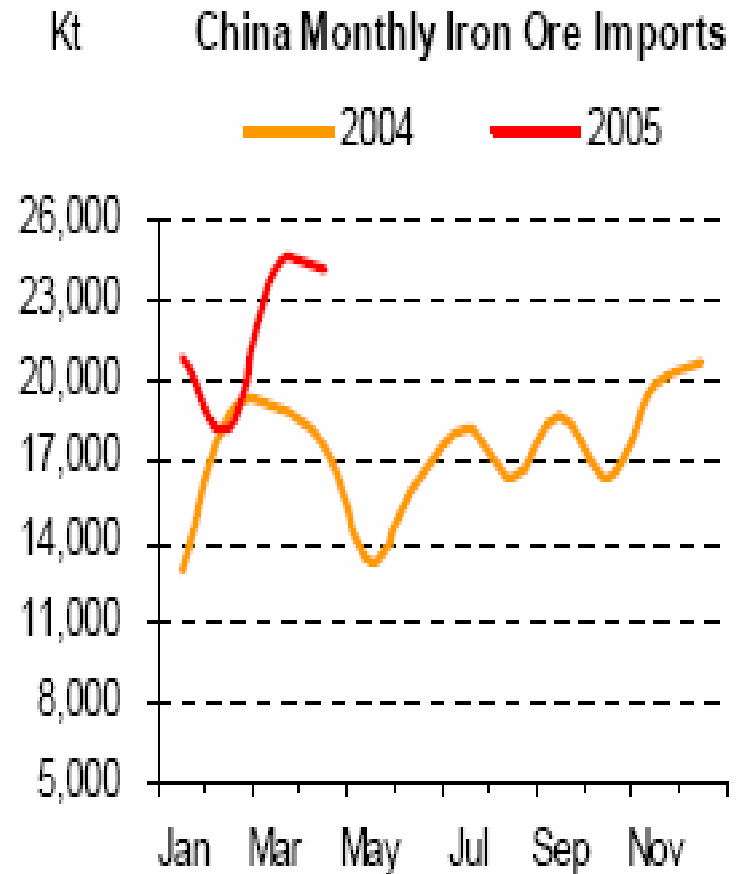
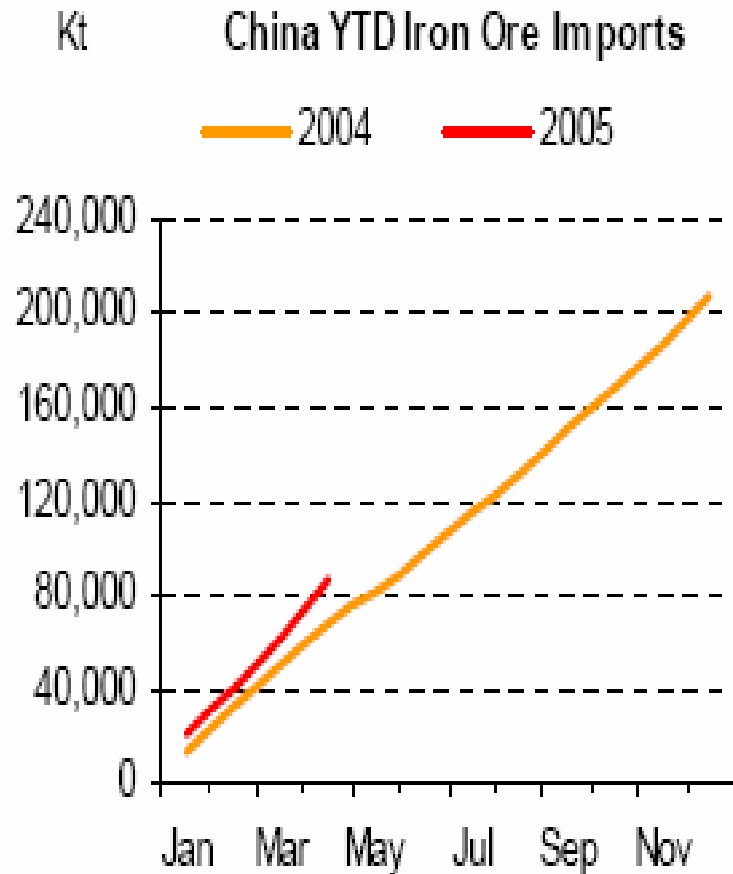
- China used to enjoy lower FOB price than Japan because of rebates/discounts
- In 2002 China's price was 11% lower than Japan
- The discounts disappeared in 2003 due to tight supply

# Impact of Iron Ore & Coking Coal price increase on downstream Industries' cost in China (as of 1 April 2005)

Downstream Industries		Unit Consumption	Unit	Scenario 1 Iron Ore up 71.5%	Scenario 2 Iron Ore up 71.5% + domestic Coking Coal up 15.4% & international Coking coal up 115.5%
Steel Industry		1.6t/t Iron Ore/Pig Iron 0.288t/t Coke/Pig Iron	Cost hikes in US\$/MT	26.6	34.1
Construction Industry	Residential	55 kg/ Sq m	US\$/Sq m	1.5	1.9
	Commercial	100 kg/Sq m	US\$/Sq m	2.7	3.4
	Industrial	85 kg/Sq m	US\$/Sq m	2.3	2.9
Automobile	Passat	750 kg/car	US\$/Car	19.9	25.6
Machinery	Metallurgical	1000 kg/tonne	US\$/MT	26.6	34.1
House Appliance	Refrigerator	34 kg/refrigerator	US\$/Unit	0.9	1.2
	Microwave Oven	15 kg/Microwave Oven	US\$/Unit	0.4	0.5

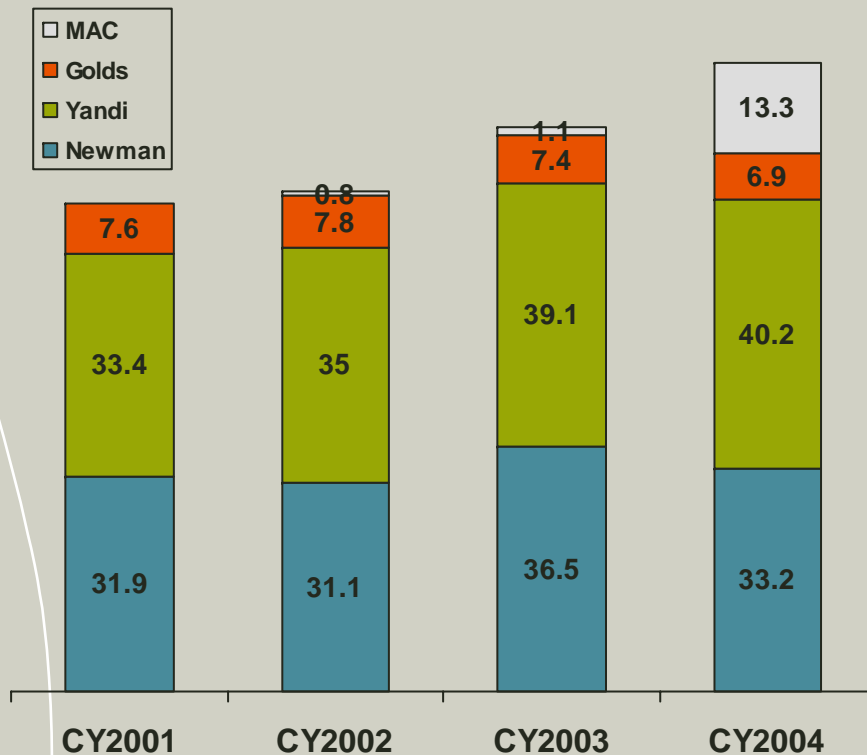
Notes: Assuming steel mills use 100% long term contract iron ore, 15% imported coking coal and 85% domestic coking coal( most Chinese steel mills don't use imported coking coal)

# China iron ore imports

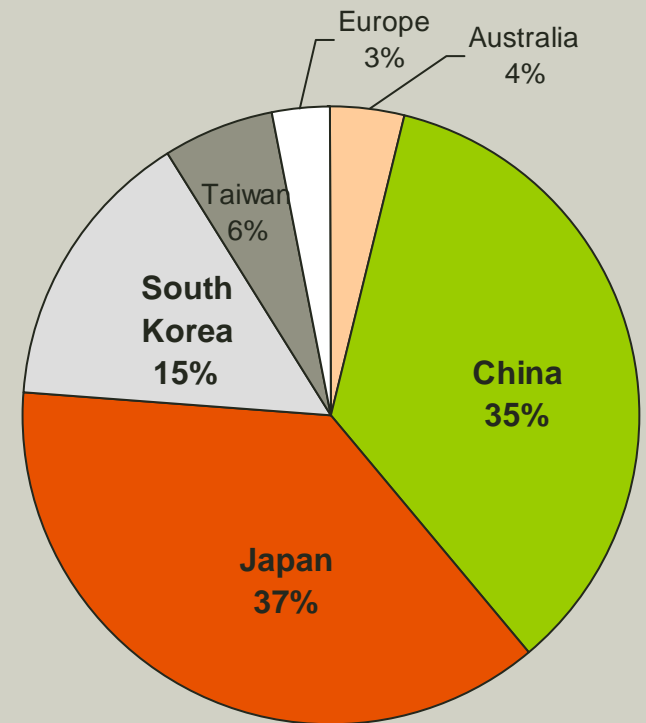


# Iron Ore Global Book – product and geographical spread

Sales distribution for CY04 - products

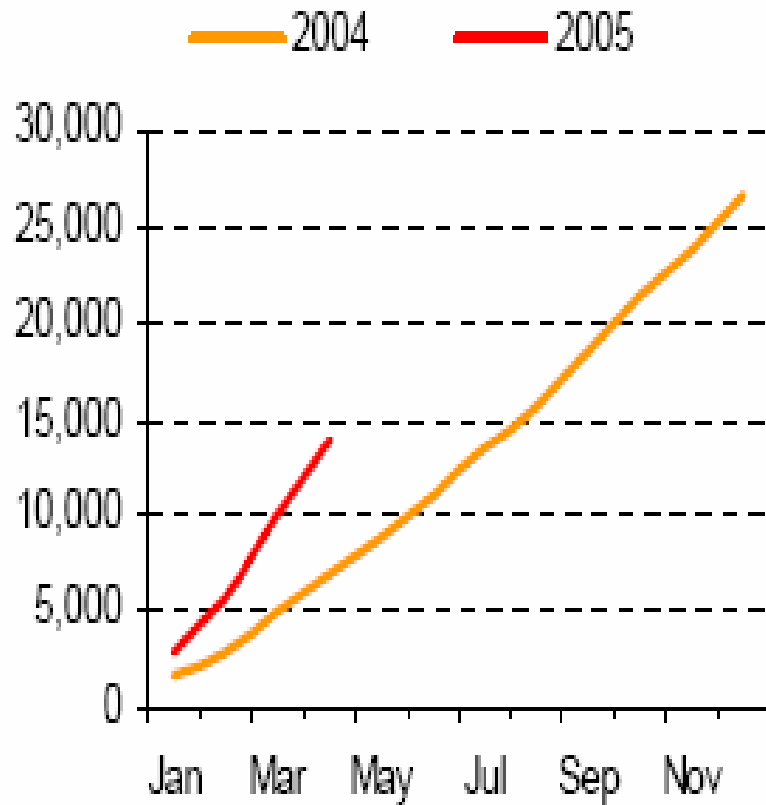


Sales distribution for FY05 - regions

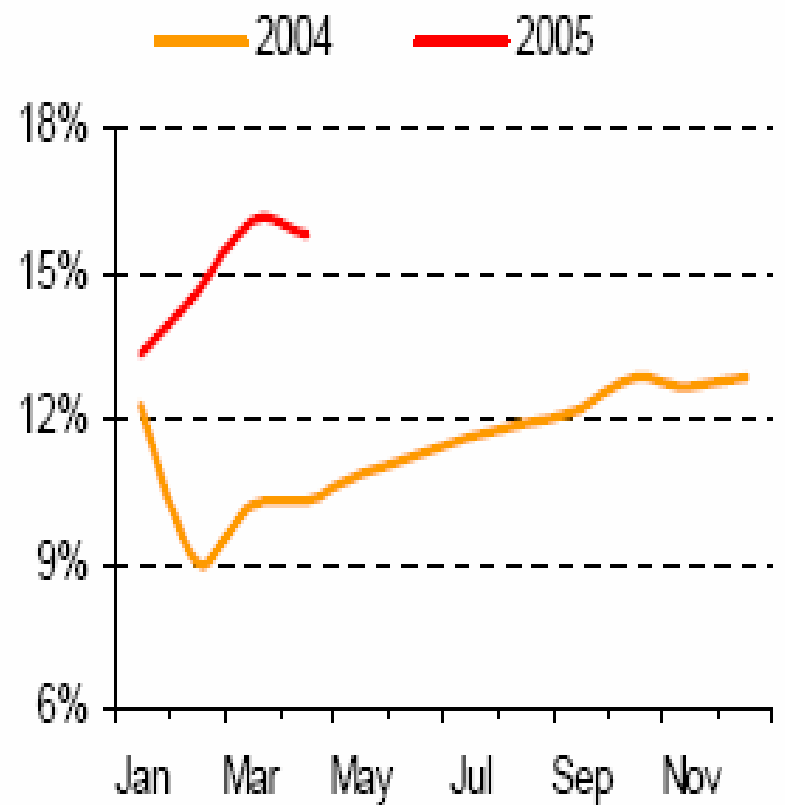


# BHP Billiton iron ore sales in China

Kt BHPB YTD Iron Ore Shipments



BHPB YTD Iron Ore Market Share



# Iron Ore Global Book - regional market shares

