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
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.

Chinese Crude Steel Production

Data source: IISI, AME, Tex, CRU, BHP Billiton forecasts
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.
Chinese crude steel Y-on-Y production growth vs ROW

Data source: CMMA, BHP Billiton calculations
Chinese steel import / export position

China Steel Imports and Exports

- Net Flat Imports
- Net Long Imports
- Net Pipe Imports
- Net Finished Imports
- Exports
- Imports

Data source: CMMA, BHP Billiton calculations
Chinese domestic iron ore production

Raw tonnes

63.5% Fe equivalent

Mt

Reported

Mass balance

1999 2000 2001 2002 2003 2004 2005

Mt

100 150 200 250 300 350 400 450 500

1999 2000 2001 2002 2003 2004 2005

100 150 200 250 300 350 400 450 500

Note: Assumes average 32% Fe grade in ROM

Data source: CMMA, BHP Billiton calculations
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
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

Market shares of Chinese imports

Chinese import tonnages by country

Data source: Customs statistics
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”

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

<table>
<thead>
<tr>
<th>Iron ore prospect company</th>
<th>Chinese entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mt Gibson</td>
<td>Shougang Steel</td>
</tr>
<tr>
<td>Midwest</td>
<td>Sinosteel</td>
</tr>
<tr>
<td>Gindalbie Resources</td>
<td>Anshan Iron &amp; Steel</td>
</tr>
<tr>
<td>Cape Lambert Iron Ore</td>
<td>Sinosteel / Shandong Yuansheng</td>
</tr>
<tr>
<td>Mineralogy</td>
<td>CITIC Pacific</td>
</tr>
</tbody>
</table>
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.

Seaborne iron ore supply

Data source: AME, Tex, BHP Billiton forecasts
Global crude steel production exceeded 1.1 Billion tonnes in 2005. The last five years have seen production grow by approximately 33%.

<table>
<thead>
<tr>
<th>Region</th>
<th>2001 (Mt)</th>
<th>2005 (Mt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil - Europe</td>
<td>58</td>
<td>74</td>
</tr>
<tr>
<td>Brazil - Asia</td>
<td>64</td>
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<td>Brazil - China</td>
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<td>230</td>
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<tr>
<td>Aust - China</td>
<td>38</td>
<td>118</td>
</tr>
</tbody>
</table>

Data source: Custom statistics
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.
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
Thank you for your attention.