

Factors Driving the Global Iron Ore Market



Dr. Neil J. Bristow,
Chief Analyst – Carbon Steel Materials

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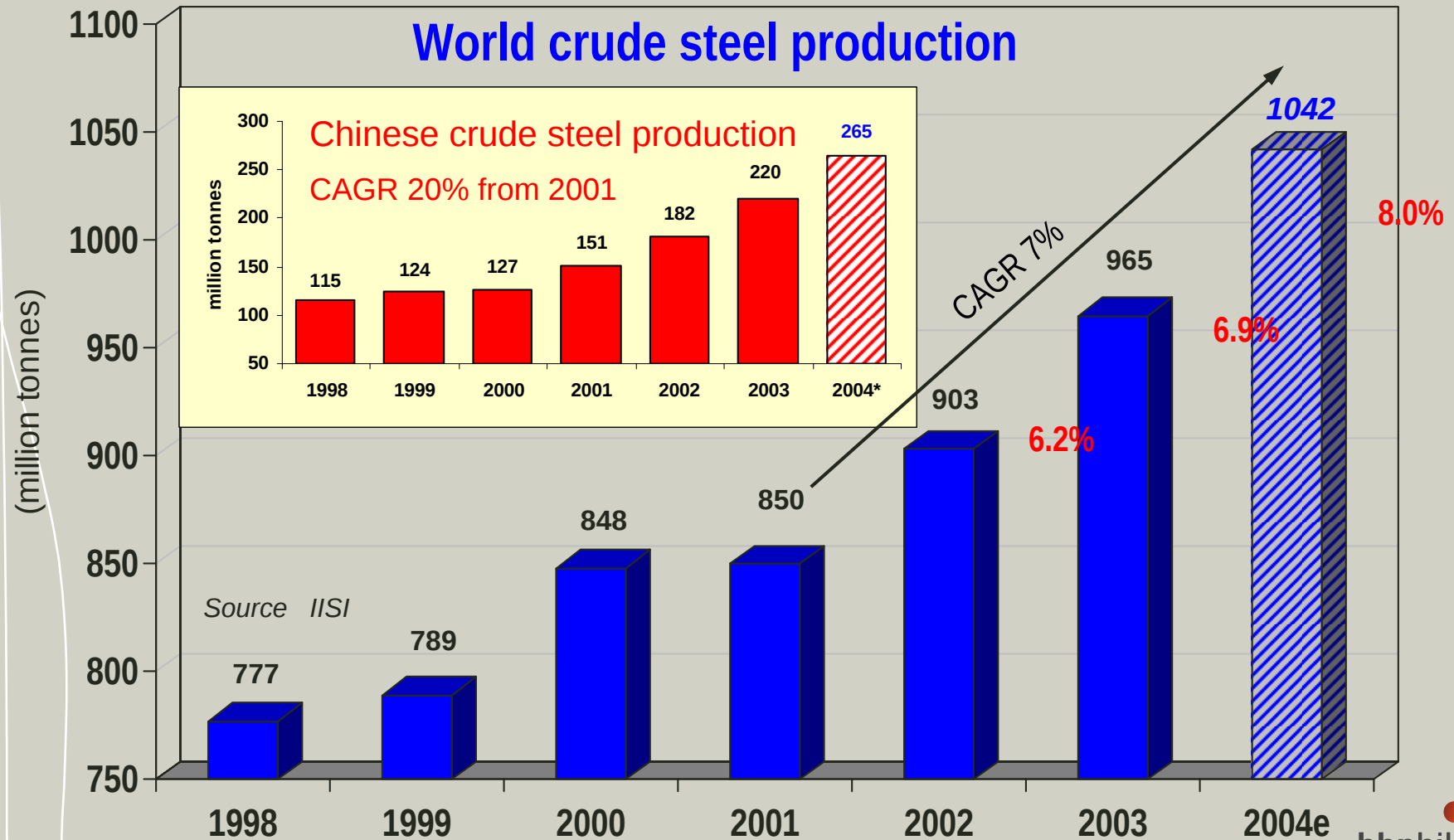


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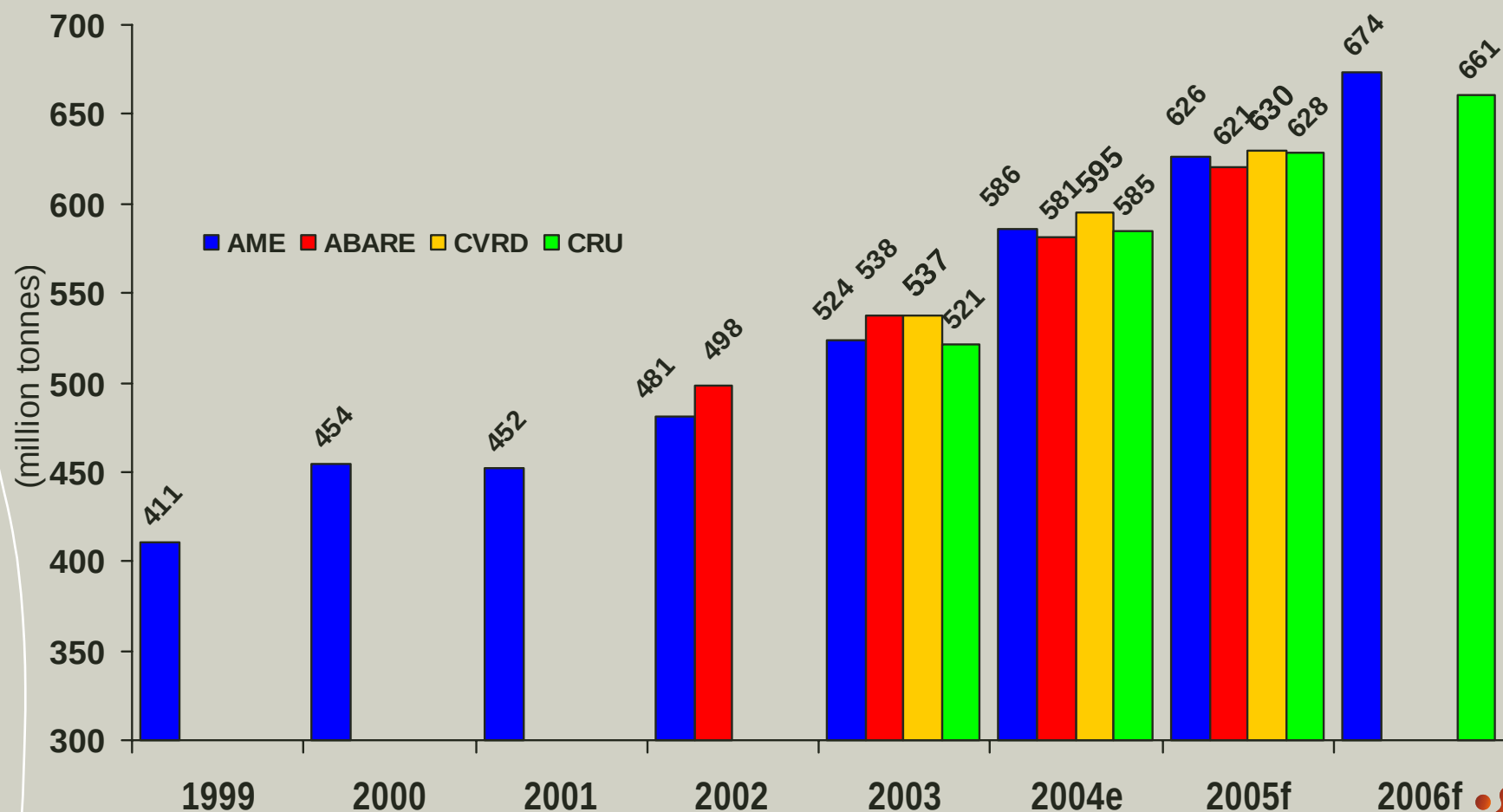
The Steel Industry has experienced sustained rapid growth

Global steel growth has shown a major uplift since 2001, predominantly due to Chinese demand and production growth, outlook is for continued robust growth



Seaborne Iron Ore shipments have followed

Global iron ore trade has grown faster than steel production at ~10%pa from 2001 and the outlook is forecast to continue to grow at rates over 7%pa



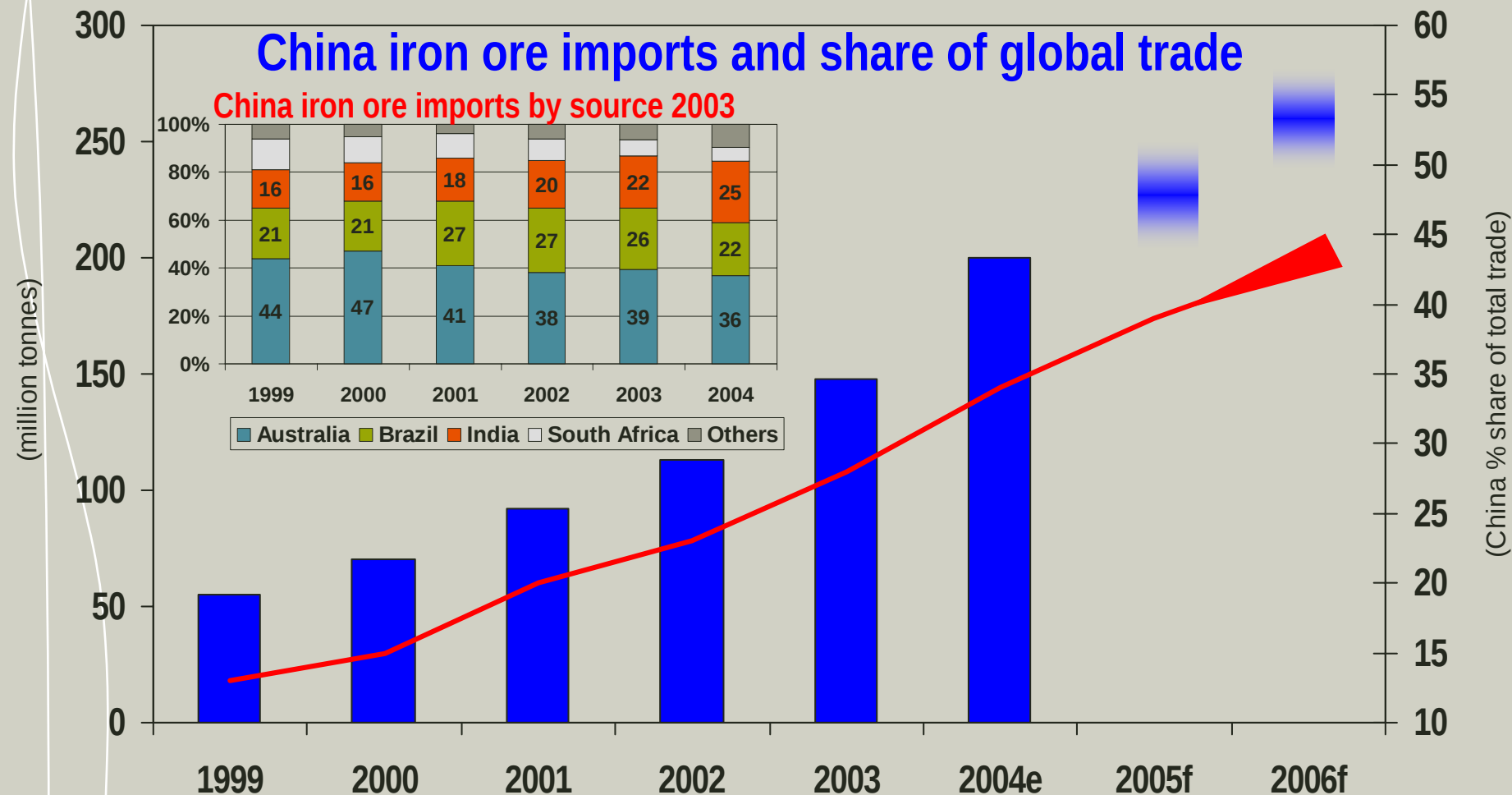
Source: AME/ABARE



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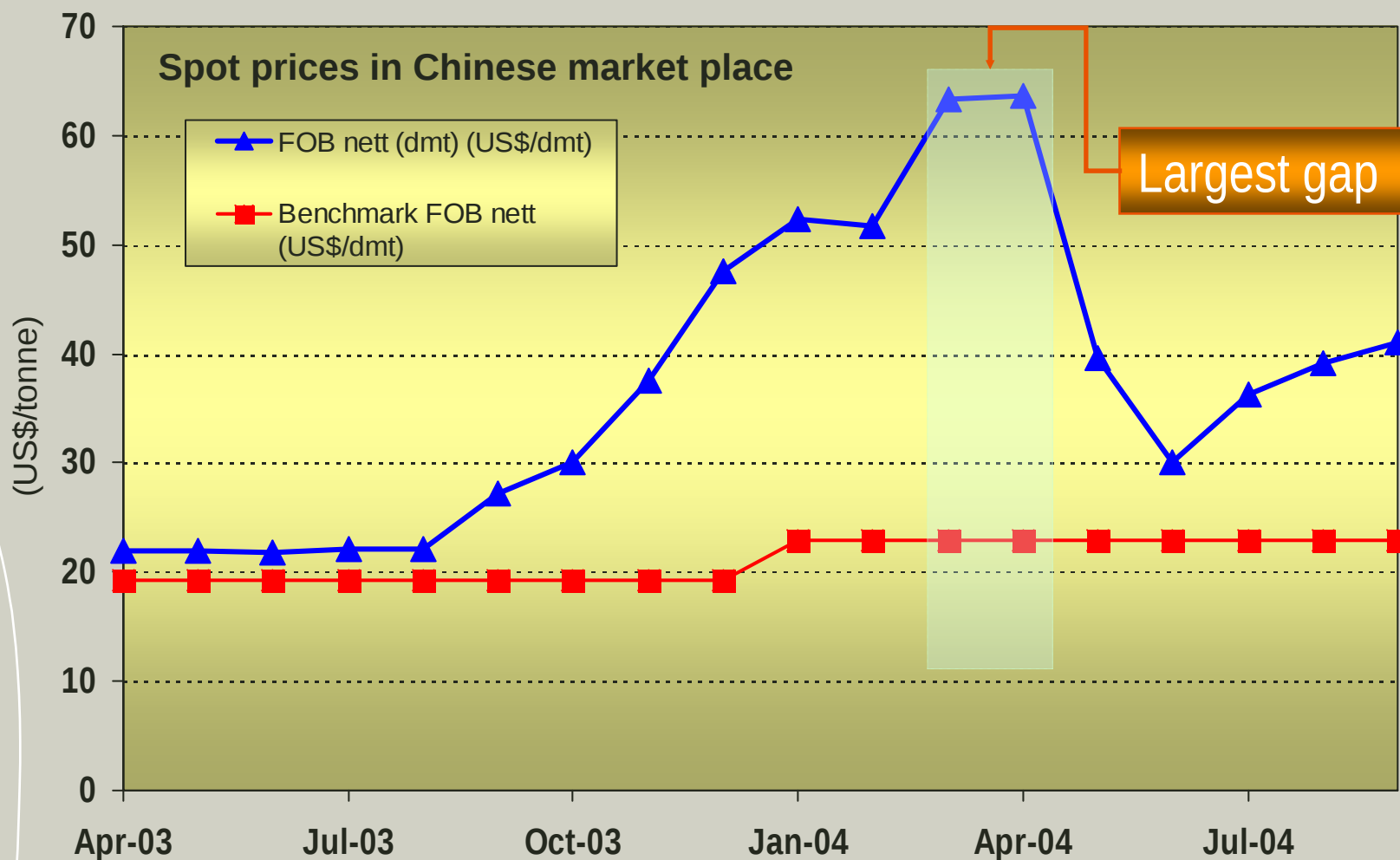
Chinese Iron Ore import growth major demand driver

Chinese iron ore imports have grown very strongly almost trebling in 5 years, China's share of seaborne trade is expected to be well over 30% this year



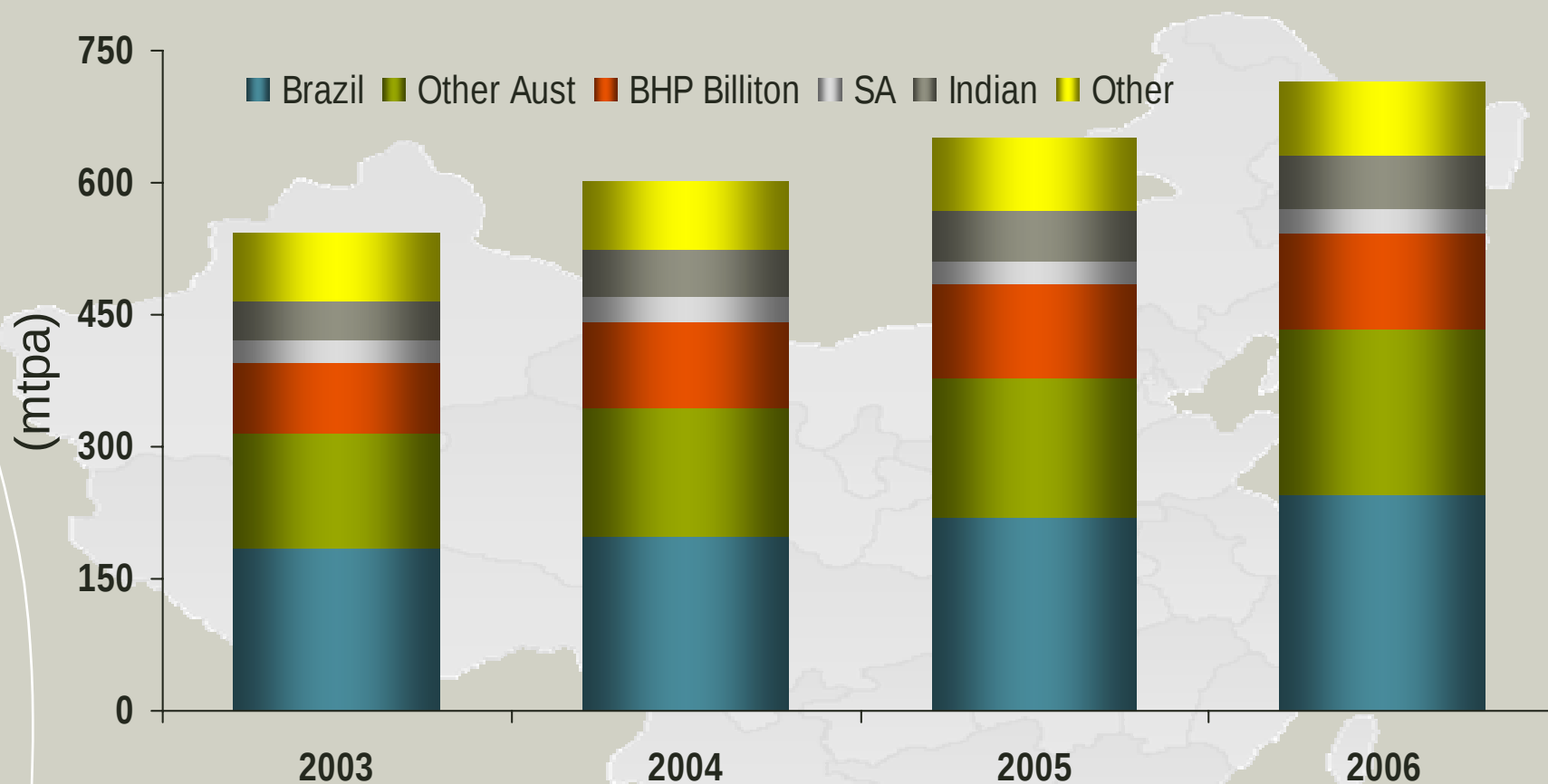
Leading to the development of a Chinese spot market

As a result of lack of available iron ore, a large spot market has developed with prices well above benchmark in most “liquid” iron ore market of China



Announced future capacity increases

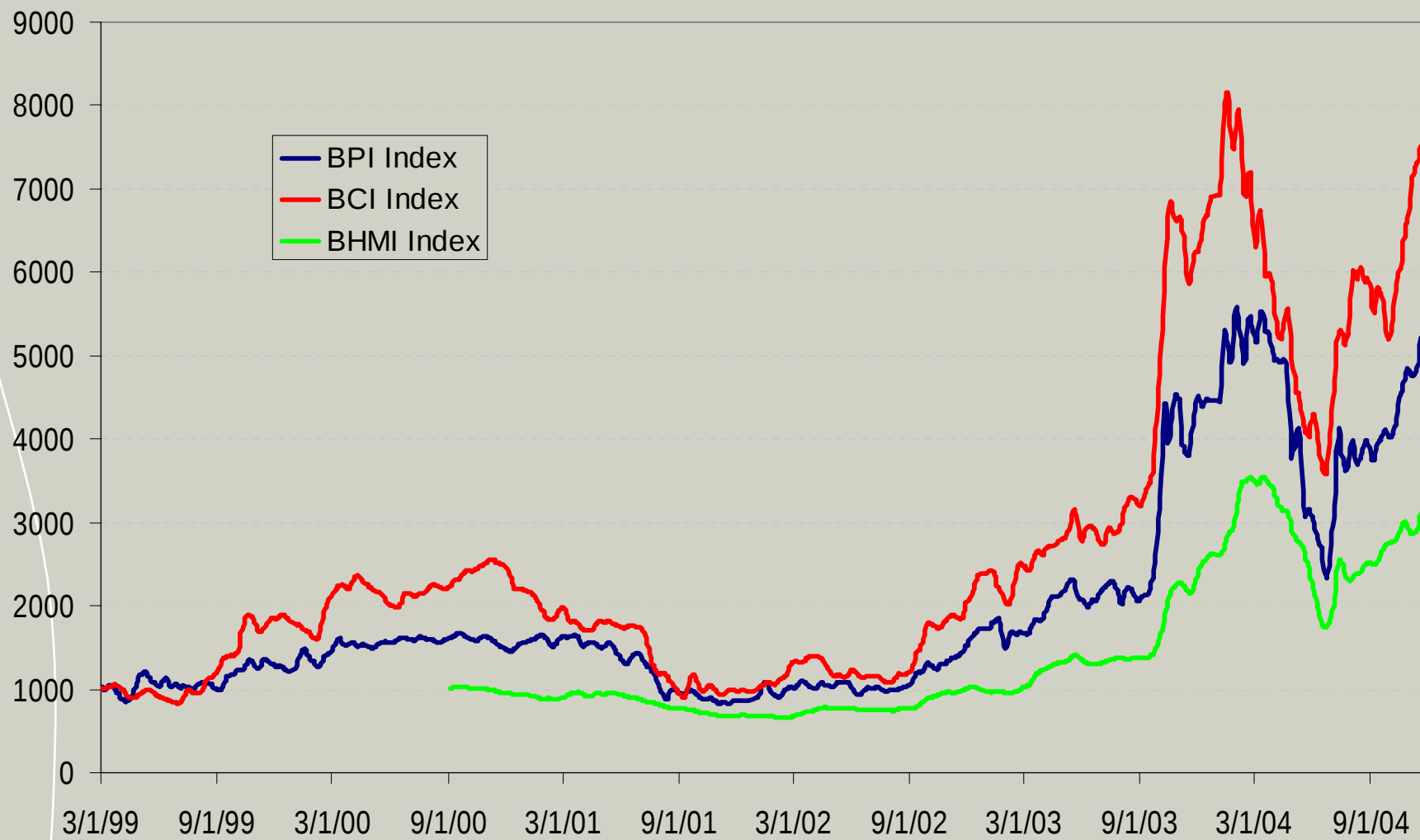
All major iron ore producers have expansion plans to meet strong demand growth, but will take 2-3 years to implement, thus market will remain tight in near term



Source: BHP Billiton, Public Announcements

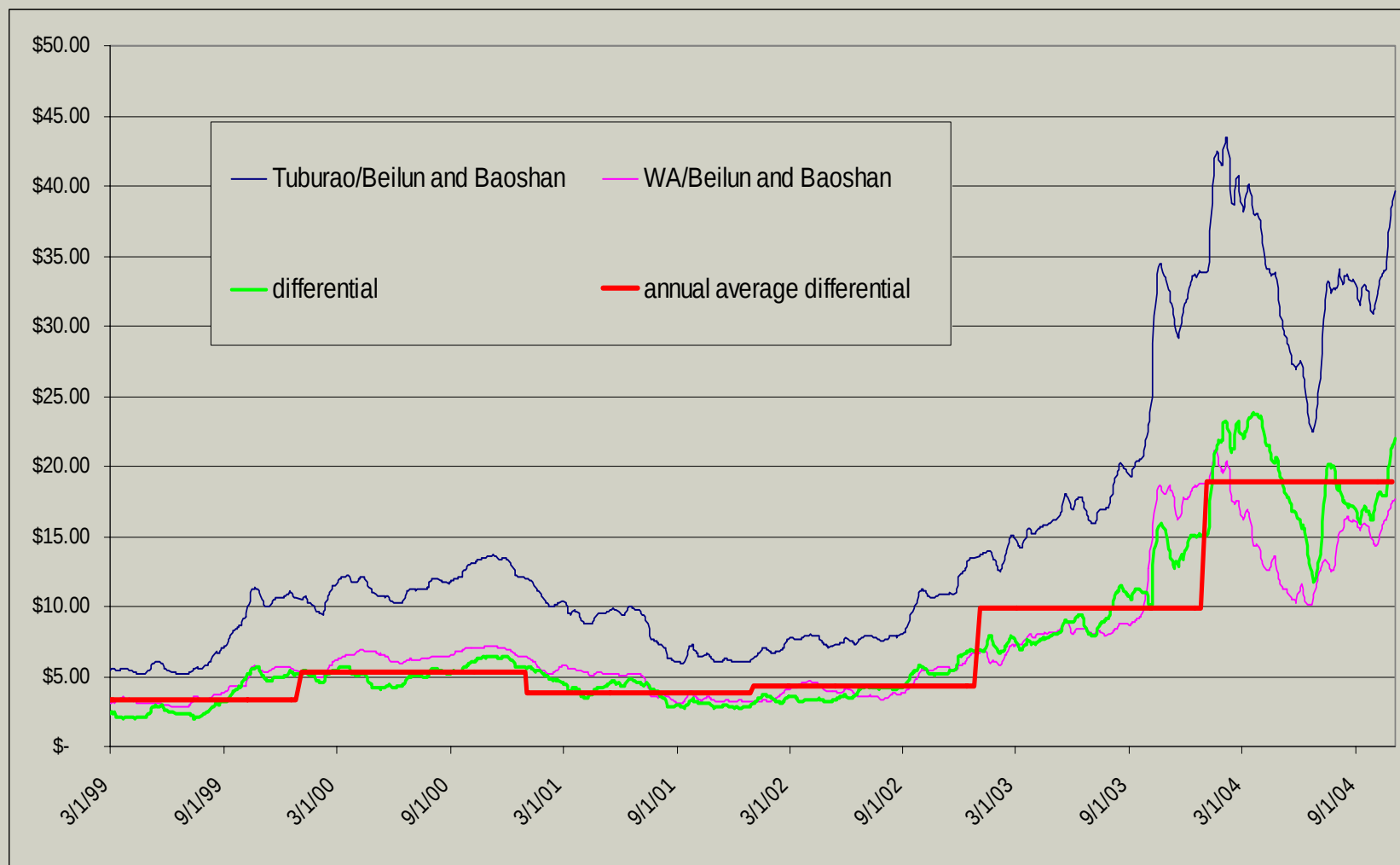
Major changes in freight indices from Q3 2003

Very strong demand for bulk commodities, especially iron ore from China, resulted in strong rises in freight rates to uncharted levels for cape, panamax and handysize



Structural changes have occurred in the freight industry

Due to record Chinese demand for iron ore, cape freight rates have also seen record levels and sharp sustained growth in differentials between Brazil, Australia to China



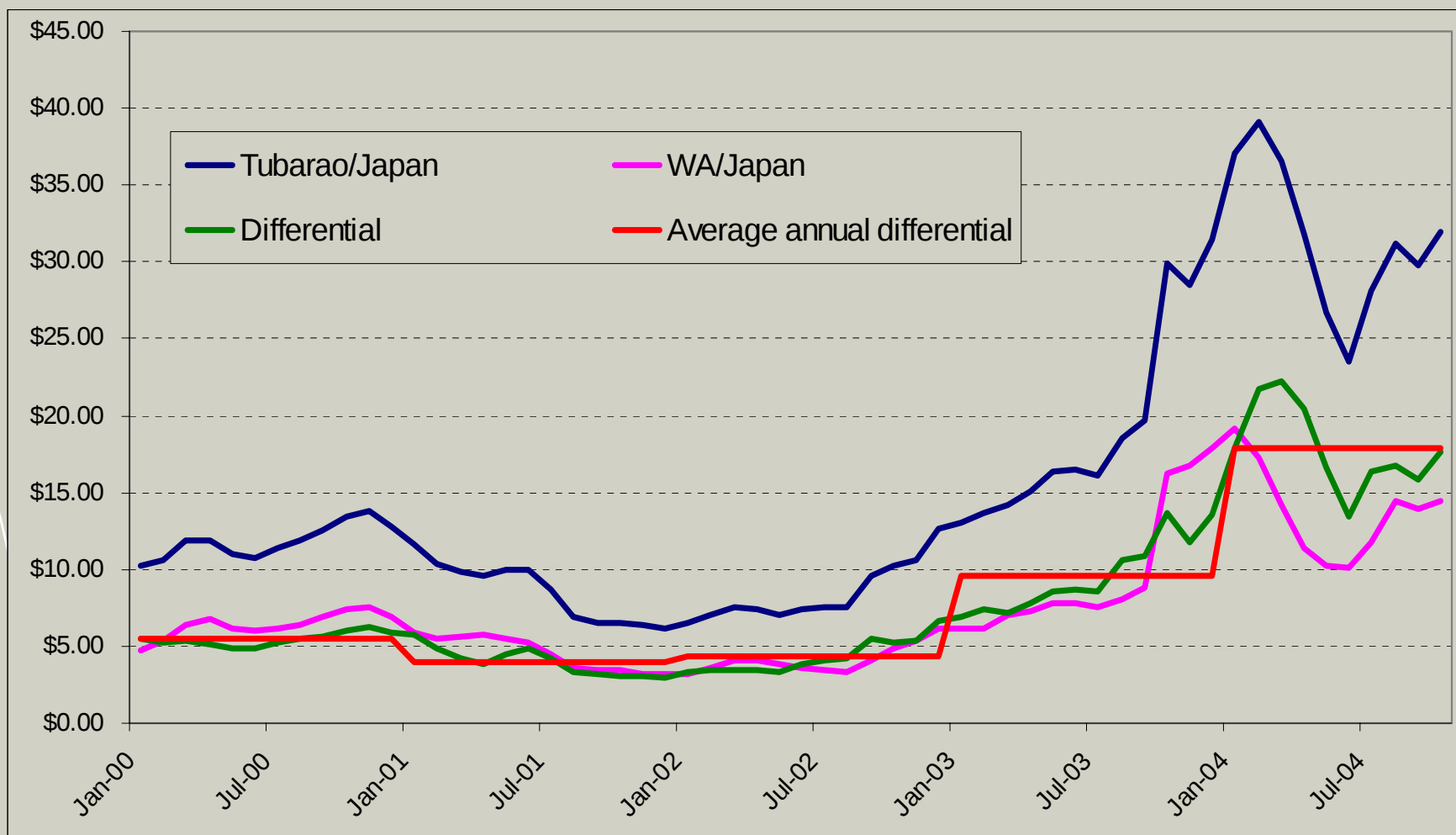
Source: BCI 3 and 5 route indices



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Freight differentials to Japan have also been affected

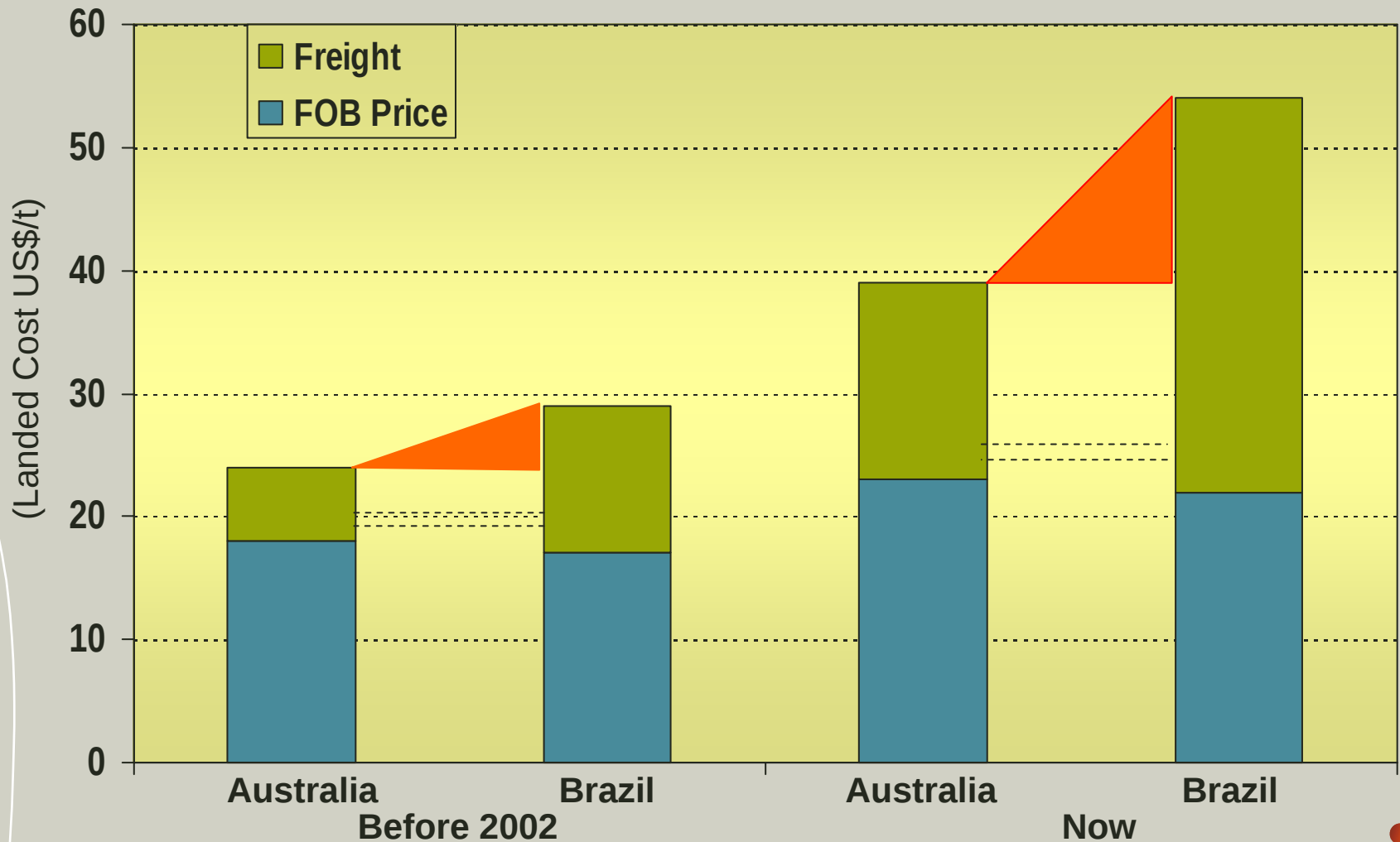
The impact of high demand for capes from China has also pushed up differentials for Japan routes, with averages rises from ~\$5/t to ~\$18/t for JFY04



Source: Clarksons

Having a significant impact on delivered price

Freight differentials seriously affects the landed cost relativities of distant and locally sourced iron ores making Brazilian ores markedly more expensive on a delivered basis



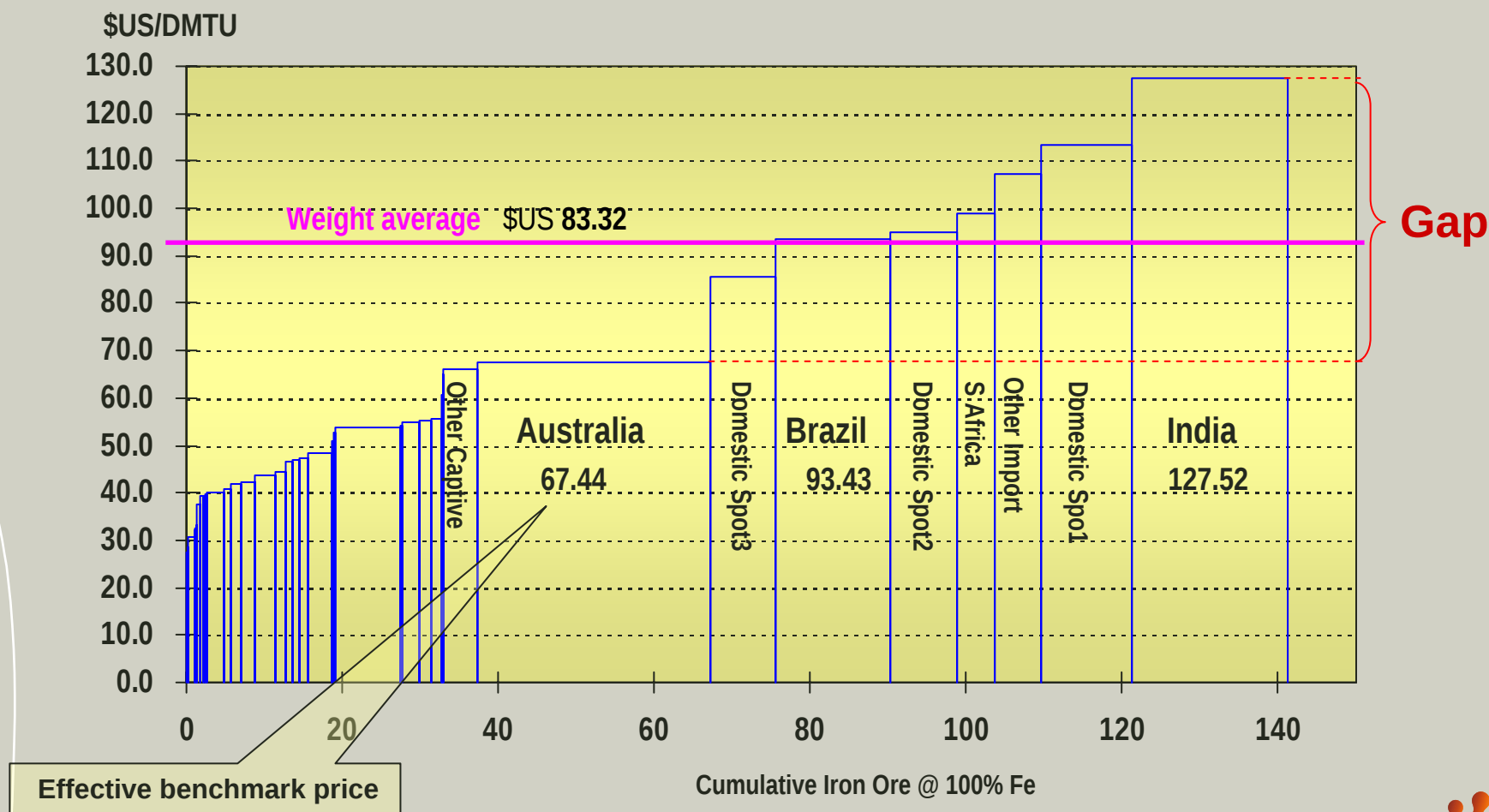
Source: BHP Billiton



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Price curve CFR equivalent for Jan-Aug of CY2004

Opportunistic Indian suppliers have taken full advantage of high Chinese spot price – potentially to the detriment of their contract, benchmark customers



Data Source: China Customs, CMMA, BHP Billiton internal analysis

Summary and Concluding Remarks

There are three main factors influencing the seaborne iron ore market today:

- Demand and supply is tight and likely to remain so in the near term
- The shortage of ore has led to the growth of a spot market in China, the largest and most liquid iron ore market
- Higher freight rates have significantly widened the differential between Australia/Brazil to north Asia making locally sourced ores cheaper on a delivered basis. This gap is unsustainable and needs to be addressed to bring the market back to a more rational basis.





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