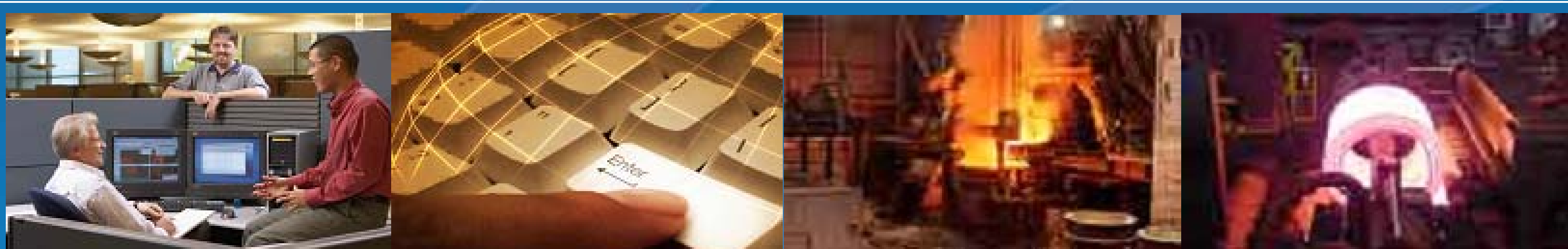
The Australian Steel Convention

"Developments in the Global Market Place for Steel"

Monday 8th September 2003



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Hatch Beddows

Agenda

- **Introduction**
- China
- Steel Futures Contracts
- Global Steel Demand
- The Mystery of the Missing Steel Producer

Introduction

• China	:	How long will it grow at its current rate and what correction will there be?
• Futures Contracts	:	How long will it grow at its current rate and what correction will there be?
• Global Steel Demand	:	Are we looking at a steel shortage in the medium term
• The Mystery of the Missing Steel Producer	:	Will we ever see steel produced in Western Australia?

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World economic growth is sluggish

Percentage GDP Growth Rates, 2000-2005, Japan, EU, USA

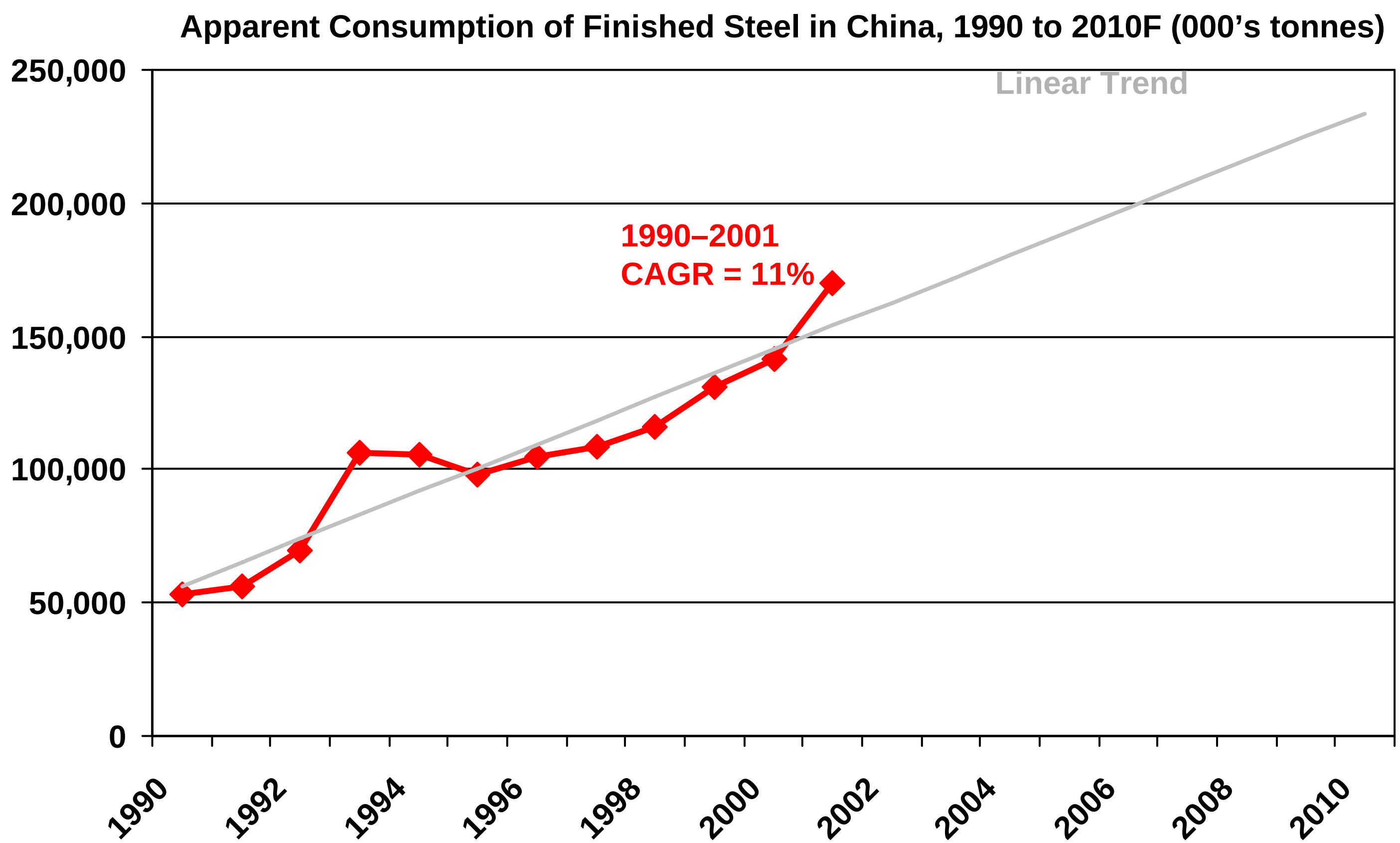
	00 – 02 Actual			**OECD Forecast**		
Japan	2.4	0.8	0.5	0.8	1.0	2.0
EU	3.3	1.5	1.0	1.2	2.6	2.3
USA	4.2	0.3	2.2	2.2	3.6	3.2

and will continue to be …..

….. except for China

but for how long?

Chinese steel consumption has supported the world industry



Extra consumption of 55MT in last 3 years = 7% of world production

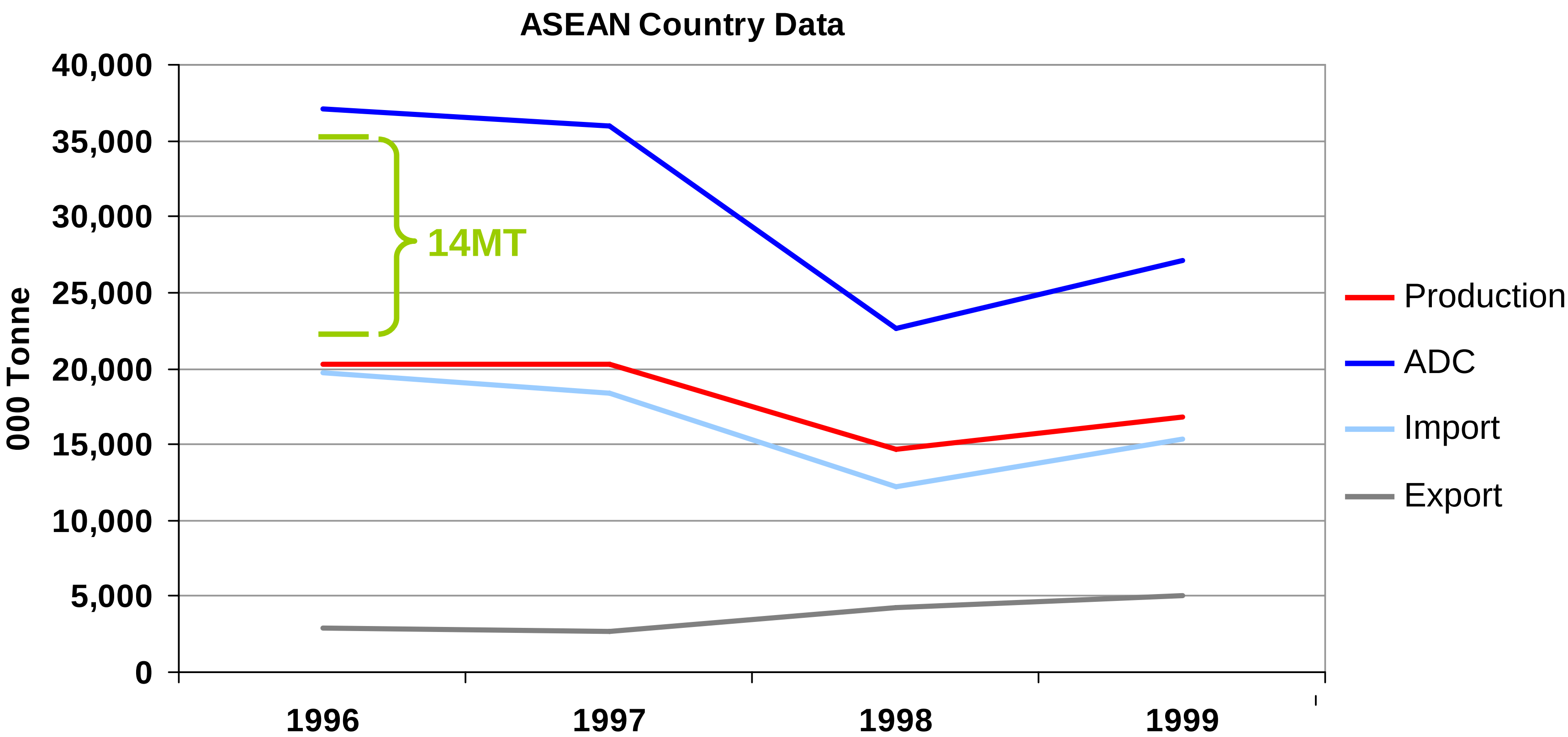
Source: IISI, Hatch Beddows Analysis

China Flat Rolled consumption… can it continue to grow at its current rate?

China HRB Equivalent Demand (000 Tonnes)							
Year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**CAGR** (1997-2002)
Shipment	21553	23284	33953	39518	43526	53445	19.9%
Net Import	5998	6079	9520	10220	11553	18141	24.8%
ASC	27551	29363	43473	49738	55079	71586	21.0%
ASC: Chinese % of world	7.4%	8.3%	11.3%	11.7%	13.4%	16.4%	17.3%

The Flat Rolled sector in China is heading for a correction

A short term correction would impact world steel trade … badly



A short term correction in Chinese trade would probably be 15- 20MT on an annual basis. Proportionately the same as the early 90's. Similar to the Asian 'Crisis'

Note: ASEAN Country data is excluding Laos, Brunei, Myanmar
Source: SEAISI

China summary

- China’s growth has supported world steel in the last 3 years
- A short term correction is coming…. and it will have a very negative impact on trade
- In the long term (for next 10 years) growth will not require substantially enhanced import volumes

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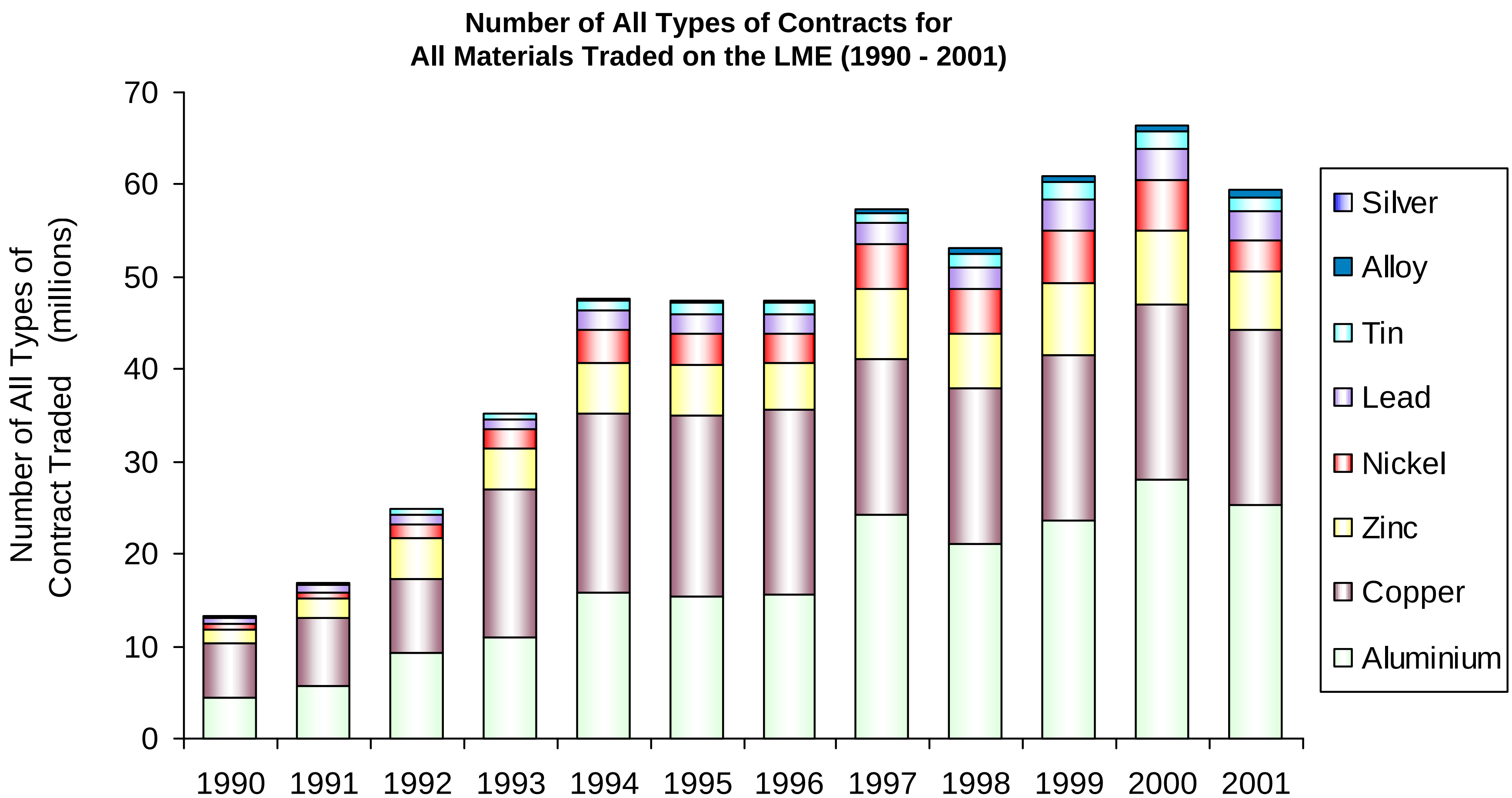
The LME is the world's leading non-ferrous futures and options exchange and was founded in 1877

- The LME has 3 purposes:

Hedging	To provide a market where participants, primarily non-ferrous base metals industries have, inter alia, the opportunity to hedge against risks arising from base metals price fluctuations
Price Transparency	To provide reference prices for the world-wide pricing of activities to non-ferrous base metals
Physical Market	To provide for appropriately located storage facilities to enable market participants to make or take physical delivery of approved brands of non-ferrous metals

- Trading in financial instruments on the LME amounts to approximately $10 billion per day

Price risk hedging is popular … steel is a major opportunity



Source: LME,Hatch Beddows analysis

The aluminium industry has benefited : de-integration and market transparency are directly supported by the LME exchange facilities

- Aluminium ingot contract was introduced in 1978 on the LME
- "When the contract was introduced, we fought as strongly as we knew how to kill it", SVP in major Al producer
- "We now see the contract as the single biggest reason for the health of the industry", CEO of same Al producer
- 99%+ of contract transactions represent information transfer--not physical transfer
- Creates indisputable price transparency and forecast: the summation of all participants expectations
- Facilitates the arbitraging of risk
- Downstream activities now cut back production rather than margin
- Upstream activities have a more predictable market environment and hence manage capacity growth effectively

For steel five areas of potential benefit have so far been identified

- Price risk exposure can be managed and controlled
  - for producers
  - for all participants in the value chain
  - the market of last resort for buyers and sellers can match finance to inventories and provide for trade finance opportunities

- Front end capital investment decision taking
  - performance will be much more transparent
  - forecasts will be more “honest”
  - project finance will be objective and the risk hedgable

Five areas of potential benefit have so far been identified (cont.)

- Downstream of HRC
  - margin and profit will be the drivers
  - businesses will be able to participate in the emerging value space between materials and OEMs
  - fragmentation will be economically viable and more niche and sector specialization should emerge
- Raw material relationships
  - energy industry example
  - aluminium industry example
  - front ends as a “utility” business
  - opposition from iron ore industry expected
- Consolidation of the front ends
  - consolidation will be facilitated
  - new companies and players
  - utility orientation
  - ownership of front ends and back ends no longer necessarily linked

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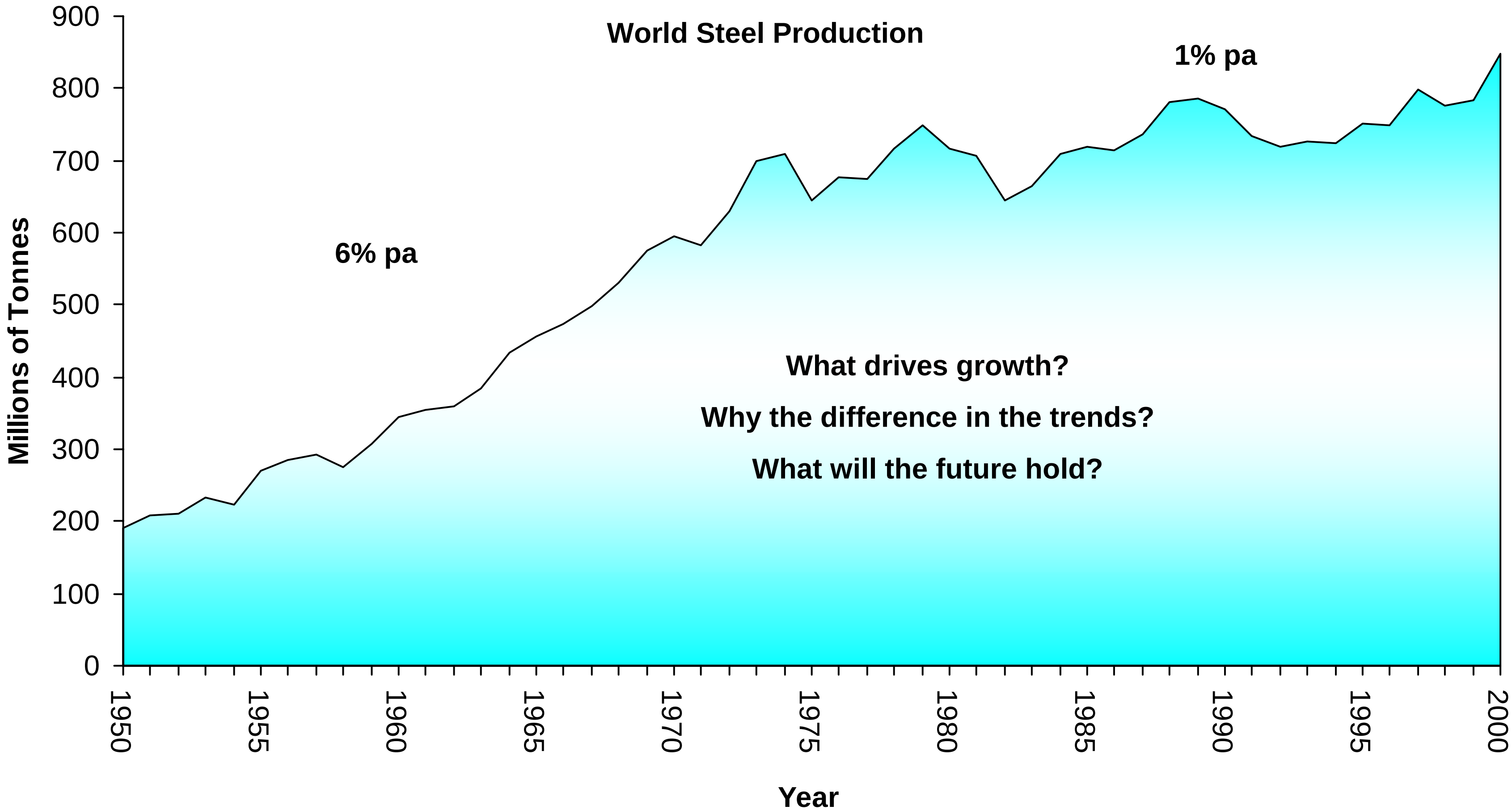
Could we face a surplus of demand in the medium term?



Source: IISI, Hatch Beddows analysis

One possible scenario

Steel production; Millions of tonnes Crude steel

	2002	% pa. Growth	2007	2012
EU-15	142.0	1.0%	149.2	156.9
Other Europe	37.2	6.0%	49.8	66.6
Former USSR	31.3	5.0%	39.9	51.0
Nafta	135.2	2.0%	149.3	164.8
Lat America	29.6	6.0%	39.6	53.0
China	218.0	7.5%	313.0	449.3
Japan	74.4	1.0%	78.2	82.2
Other Asia	134.4	6.0%	179.9	240.7
Aus/NZ	7.6	1.0%	8.0	8.4
Africa	16.9	6.0%	22.6	30.3
M East	16.9	6.0%	22.6	30.3
	843.5		**1,052.1**	**1,333.4**

How much "excess capacity" is there?

How fast will capacity increase?

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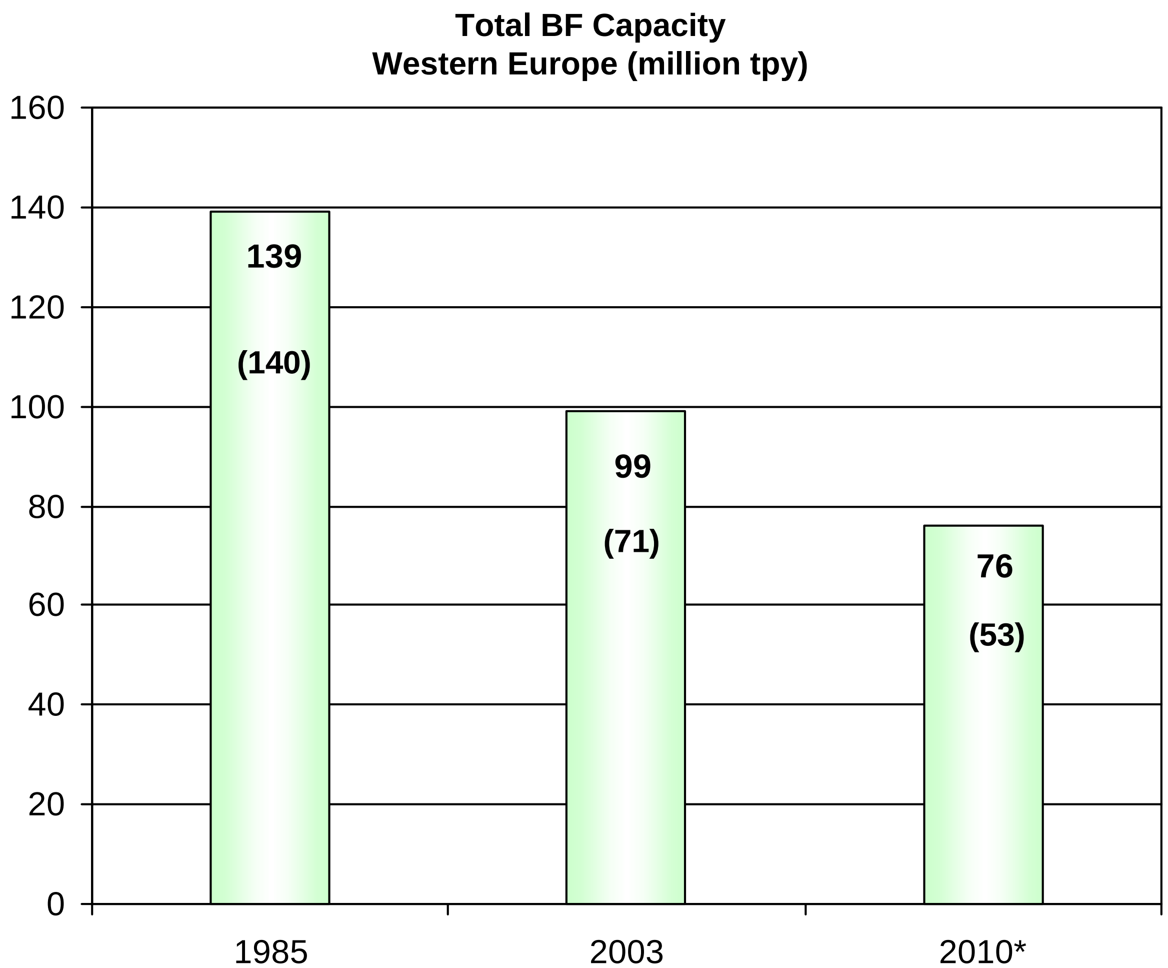
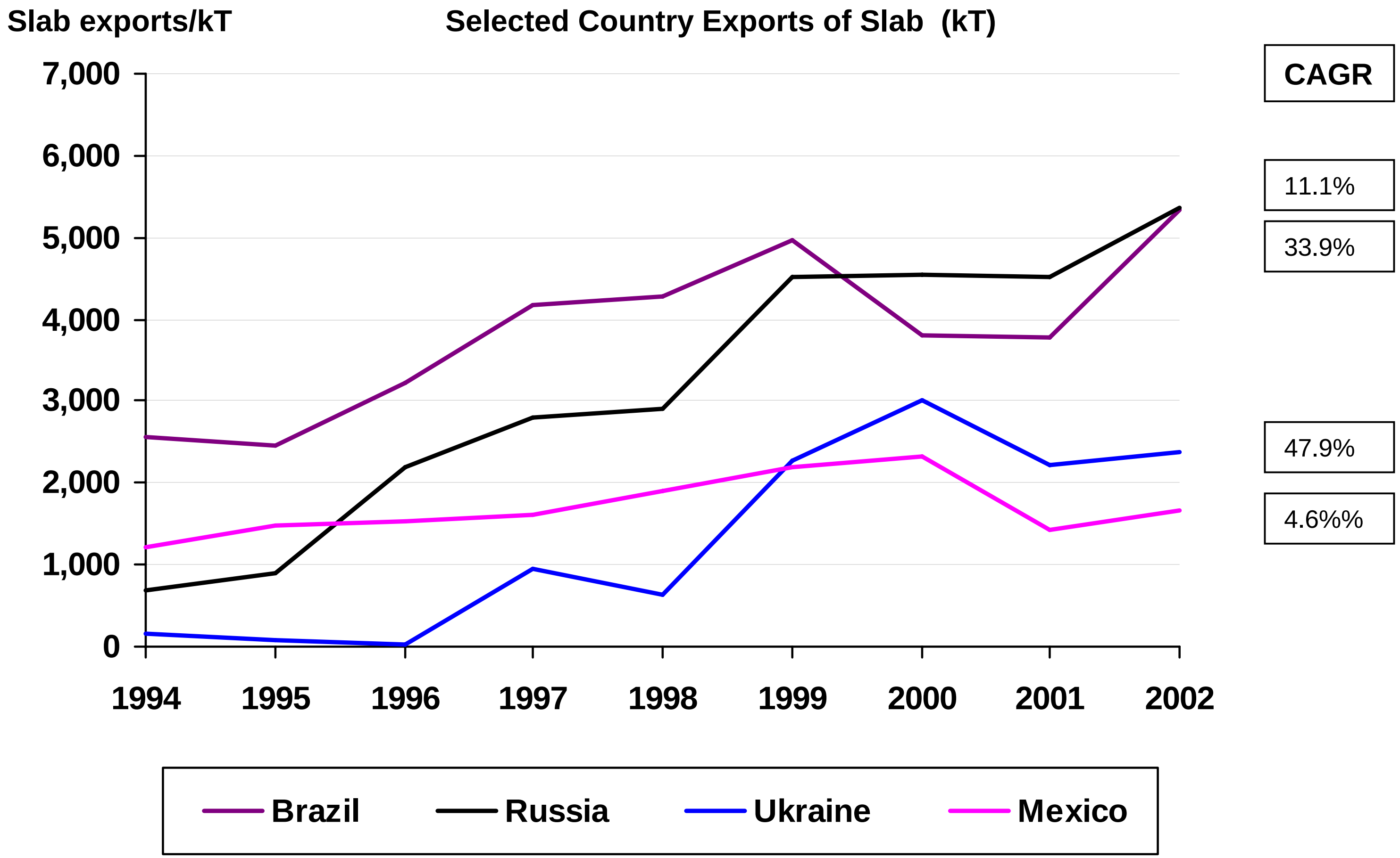
Blast furnace capacity in Western Europe declines by 44% between 1985 and 2010



Source: Hatch Beddows, James King

* HB estimates

Traded slab is in increasing demand



Source: ISSB, Hatch Beddows analysis

What drives de-integrated processes?

The major reasons for this are:

- Environmental; front end processes are the most polluting
- Strategic; value added is largely created from post slab processing,
- Limitations on capital availability; low returns and elimination of subsidies forces capital rationing
- Lower costs in the developing world; both operating and capital costs
- Structural risk advantage; steel investments in growing developing regions represent a lower market risk as they have more opportunities to find an economic use

Is Australia competitive?

Costs (Australia's Position out of 6)

Pellets & Sinter	5th
Electricity	4th
Scrap	4th
Natural Gas	4th
Coke	2nd
Labour	6th

Others:
Brazil
India
Russia
South Africa
Venezuela

…. and then there is the infrastructure challenge

Will we ever see steel made in Western Australia?

Conclusion

• China	:	How long will it grow at its current rate and what correction will there be?
• Futures Contracts	:	Are they real? What benefits do they offer?
• Global Steel Demand	:	Are we looking at a steel shortage in the medium
• The Mystery of the Missing Steel Producer	:	Will we ever see steel produced in Western Australia?