Panel Discussion - “The Challenge of Sustainability in Times of Financial Crisis”

Some Market Fundamentals –
With Focus on Iron Ore

Magnus Ericsson

8th ICARD and Securing the Future

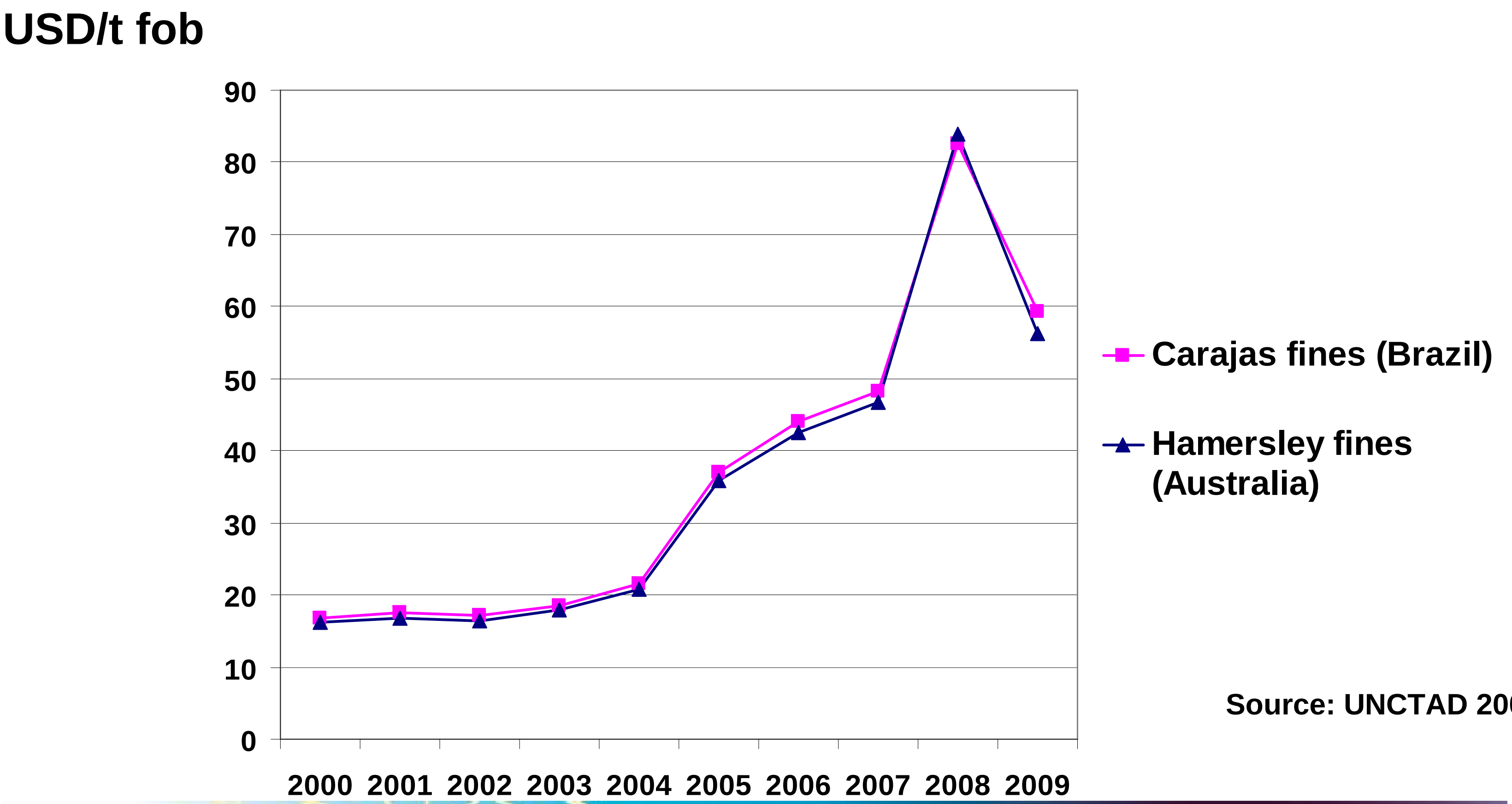
June 24, 2009, Skellefteå, Sweden

Raw Materials Group

Is there a crisis in the mining sector?

- Iron Ore Prices dramatically down 2008-2009, but still on high levels
- Reduced demand followed by reduced production
- Uncertainty do have an impact on exploration and other investment

Iron ore contract prices



Source: UNCTAD 2009.

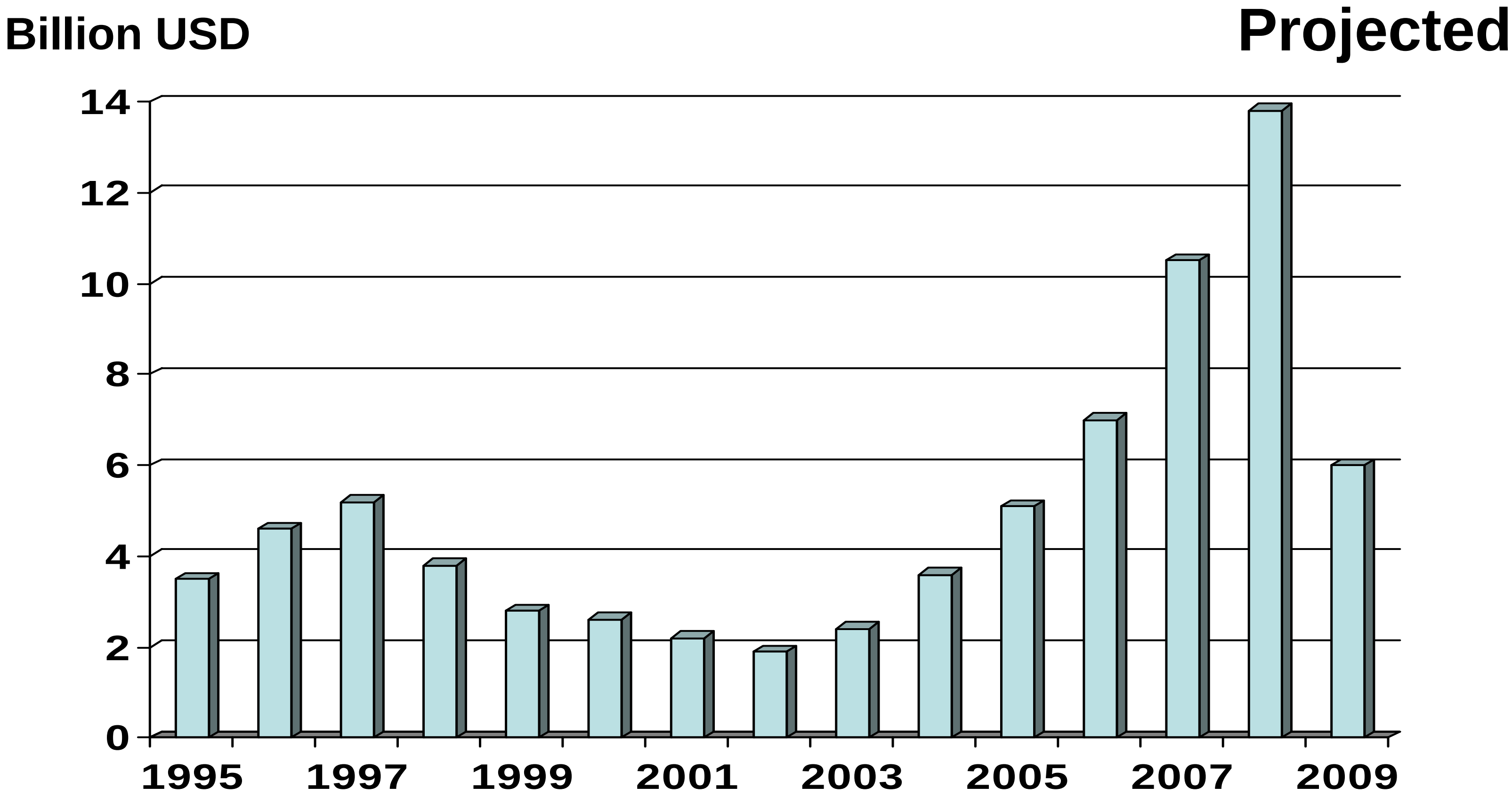
Gold prices

Raw Materials Group

Copper prices

Raw Materials Group

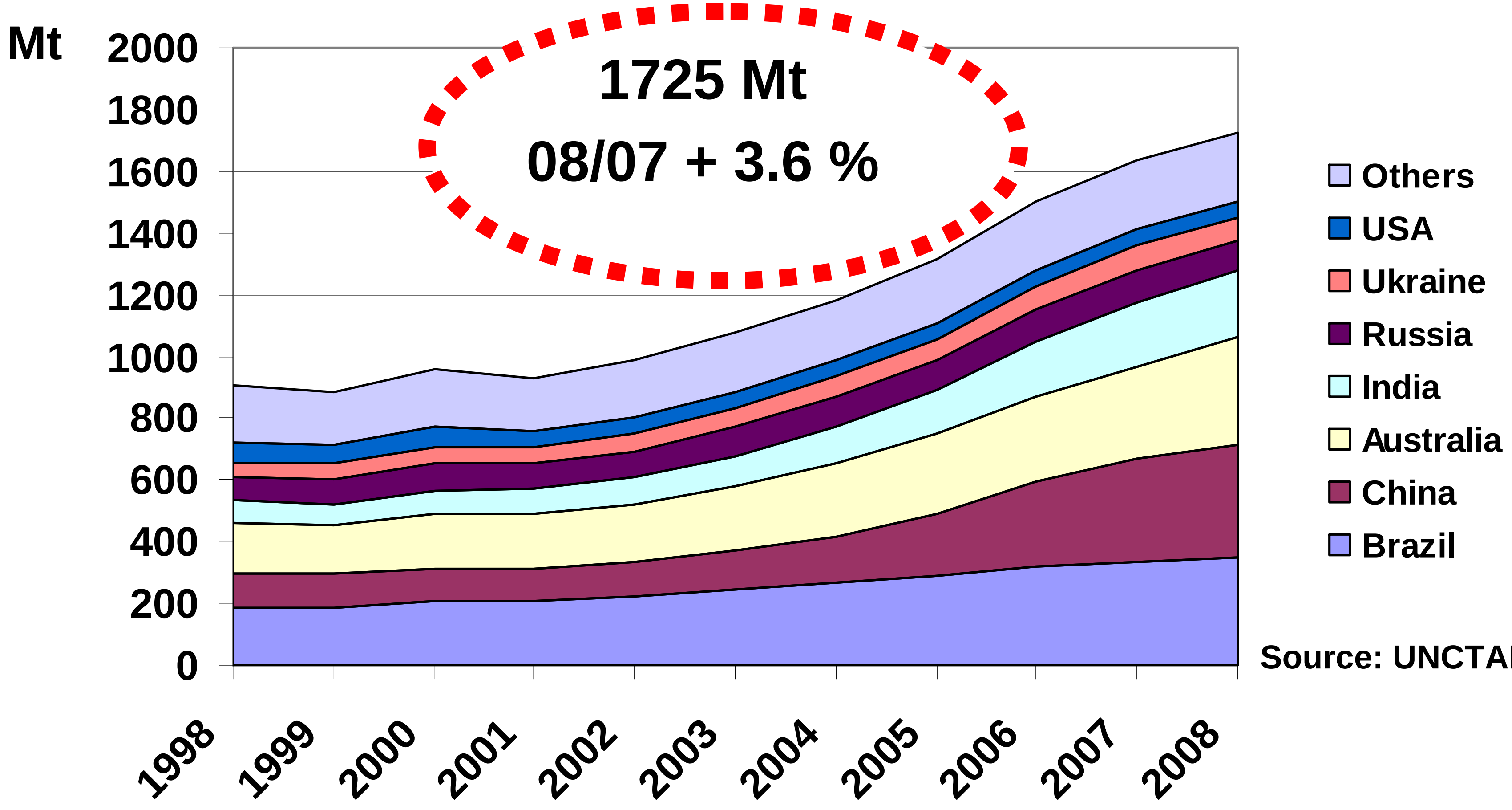
Global commercial exploration 1995 - 2009



Sources: 1995-2008 MEG; 2009 RMG.

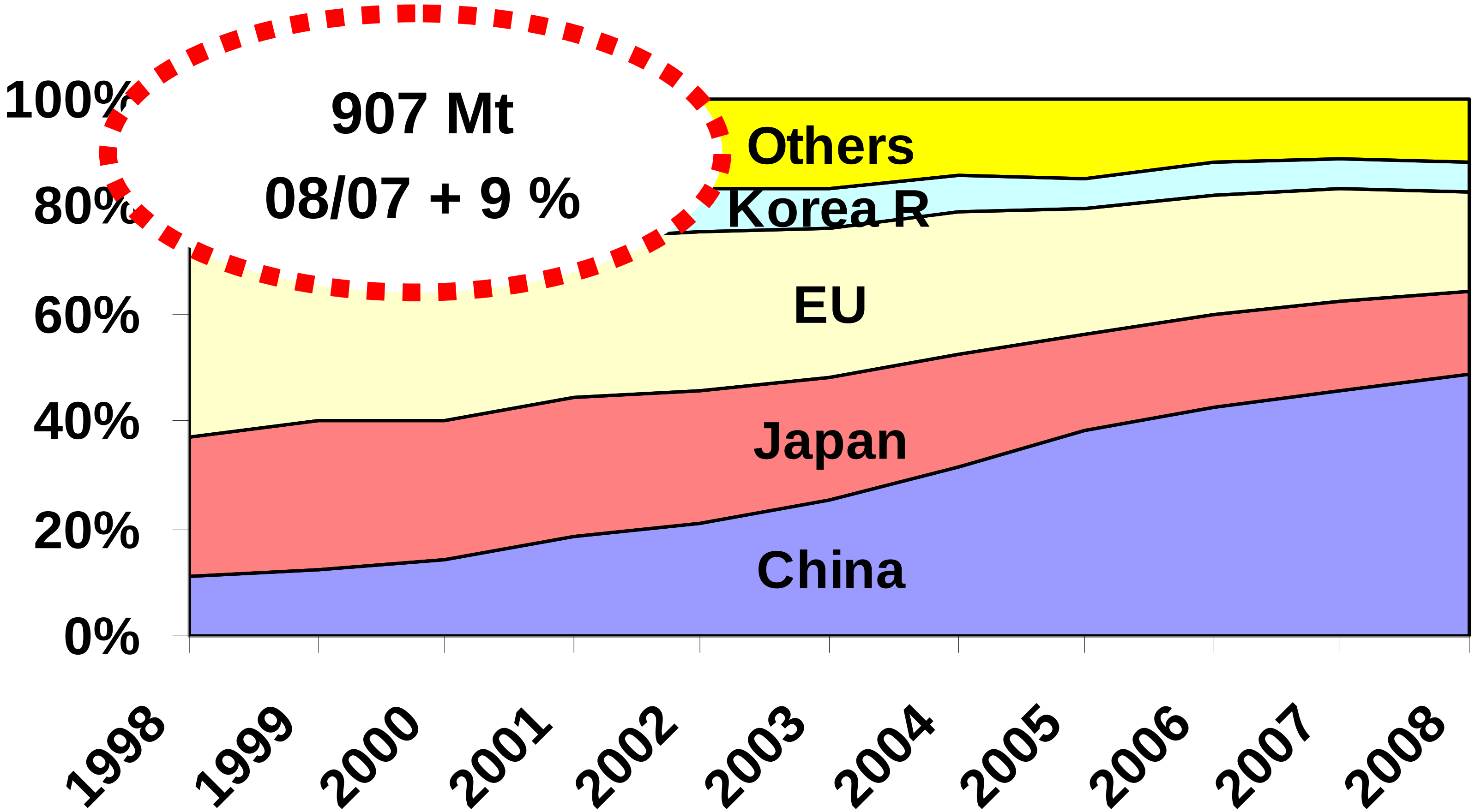
Raw Materials Group

Global iron ore production



Source: UNCTAD, 2009.

Global iron ore imports



Source: UNCTAD, 2009.

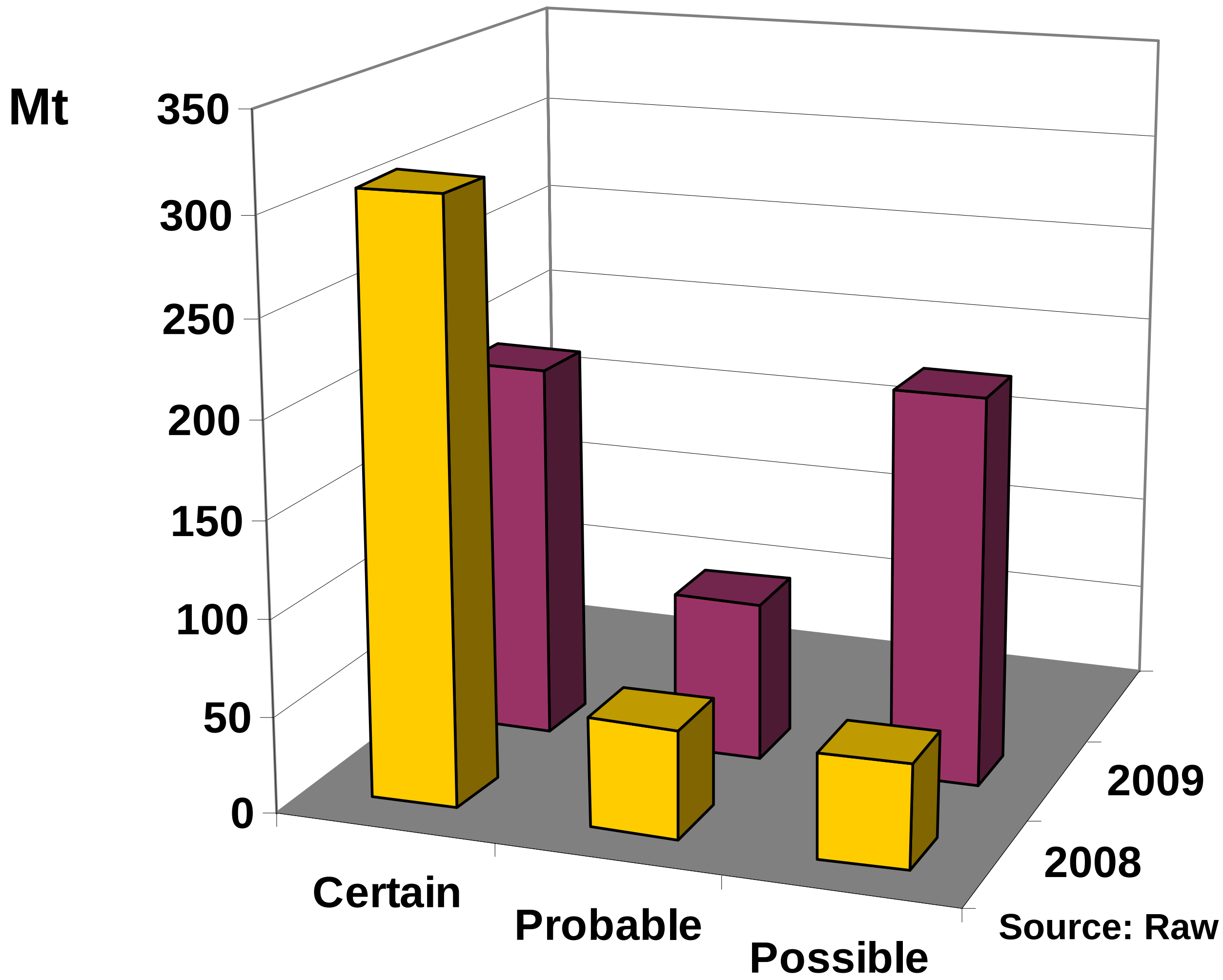
Raw Materials Group

Impact of falling demand

- Producers quick to reduce output
  both majors and others.
- Big unknown: viability of Chinese production.
- Changes in project pipeline.
- Changes in ownership.

Raw Materials Group

Project pipeline



Source: Raw Materials Data, 2009.

Project pipeline

- Few cancelled projects – will change H2 09.
- Large infrastructure projects first to cancel.
  - Canada Arctic, West Africa, Siberia problems
  - Brazil, South Africa, West Europe advantage.
- Projects already under way go on

  but slow ramp up.
- Large producers: capability to wait for market.

  Small/new producers: must sell to pay loans.

Ownership structure

- Winners:
  - The largest international producers.
  - Chinese international producers.
- Losers:
  - Chinese domestic miners
  - Juniors without funding
- Increased corporate concentration in future.

Medium-term outlook 2009/2010/2011

- World crude steel 2008 declined by - 1.2 %.

Assumption:

- Crude steel production 2009 – 15 %.
- 2-3 years to return to 2008 level.
- Further growth 3.3 %.

- Iron ore surplus 2010 300-400 Mt.

Medium-term outlook 2009/2010/2011

- 2009 iron ore production decline.

  2010 no growth or possibly small decline.

  2011 return to slow growth.
- Spot price may provide a floor for contract prices - freight rates remain low
- The market will return to fast growth in 2012. Structural factors – unchanged.
- Prices: 2009 – 25/35 %, 2010 flat, 2011 up?

For more information:

Raw Materials Group

PO Box 3127

SE-169 03 Solna, Sweden

Tel: +46-8-744 00 65

magnus.ericsson@rmg.se

www.rmg.se

Manganese drawing: Kaianders Sempler.