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RAW MATERIAL MARKETS STILL TIGHT

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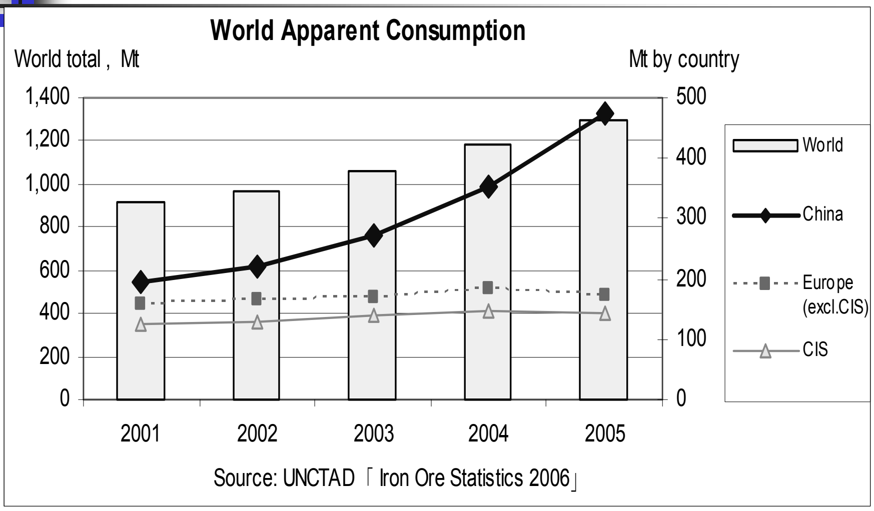
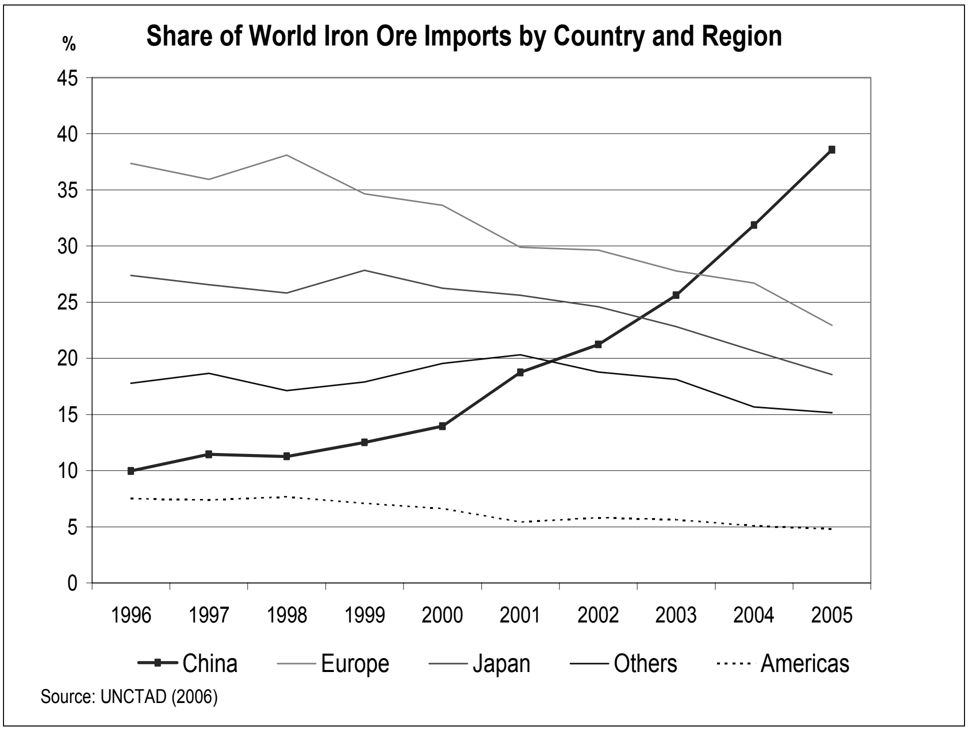
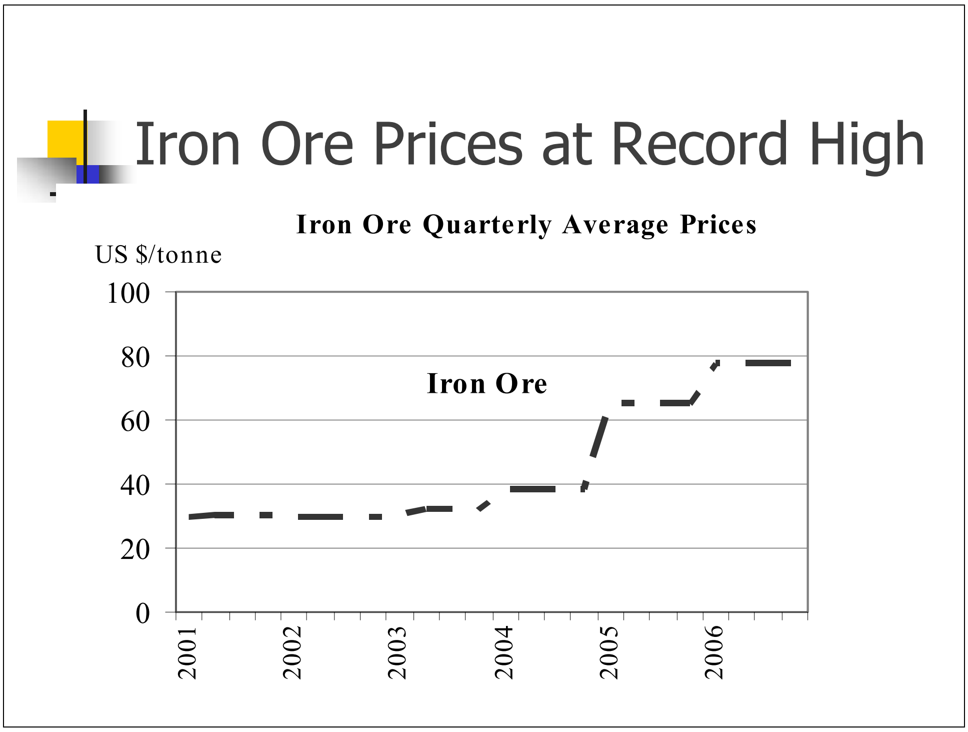
Raw Material Markets Still Tight

- Strong growth in demand for raw materials – iron ore, scrap and coke
- Supply response not fast enough
- Government interventions in some raw material markets to support domestic steel industries
- Raw material prices have reached record highs

Surge in Demand for Iron Ore




Share of World Iron Ore Imports by Country and Region
%
45
40
35
30
25
20
15
10
5
0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
China
Europe
Japan
Others
Americas
Source: UNCTAD (2006)


Iron Ore Prices at Record High
Iron Ore Quarterly Average Prices
US $/tonne
100
80
60
40
20
0
Iron Ore
2001
2002
2003
2004
2005
2006

The outlook for iron ore

- Tight market situation in the near term – rollover in prices in 2007?
- Over the longer term, prices expected to fall
- Growth in global demand for ore should slow, as trends in steel production moderate
- At the same time, supply will expand significantly:
  - Massive capacity expansions coming on stream in 2006-2008
  - New entrants into the market
  - Capacity utilization rates high due to large fixed costs
- Iron ore prices should recede in 2008-2009 as the market balance moves towards oversupply.

Scrap Prices Are Peaking

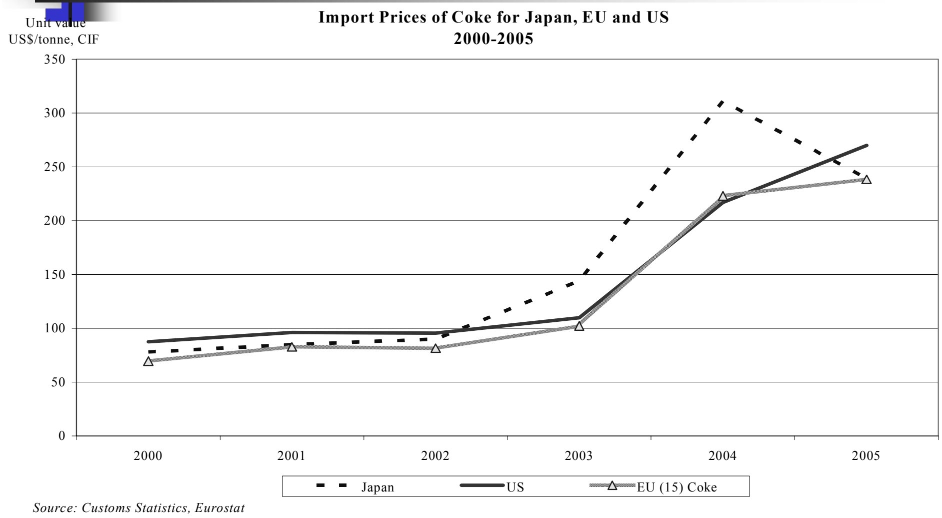
Scrap market should begin to ease and prices fall in 2007

- High scrap prices should spur more scrap collection
- Increase in number of ships scrapped
- More liberalized export policies in Russia and the Ukraine?
- Some substitution away from scrap due to lower prices of competing raw materials

Coke prices surged in 2003-2004

- Global demand strengthened
- Restrictions on Chinese exports
- Transport bottlenecks and rises in coking coal prices
- Falling coke production capacity in many developing economies
- Prices then fell sharply in mid-2004 and 2005 as Chinese coke capacities and production increased markedly

Import Price of Coke



Coke prices to recede further?

- Growth in pig iron production expected to slow
- Coke capacity expansions in some countries
  - 83 MT by 2008, especially Brazil and India
- Coking coal prices should fall noticeably in response to the wave of mine investments
- Chinese coke export restrictions to ease?

Some Points for Consideration

- Restrictions on raw material exports, for example:
  - Ceiling on high-grade iron ore exports from India
  - Scrap exports restricted in Russia, Ukraine, Venezuela and Vietnam
  - Coke exports restricted in China
- Some economies planning to phase out restrictions
- Should a common policy approach to eliminate export controls be explored?
- Will steel intensities continue to rise in key markets?
- Will improvements in steel plant efficiencies ease demand for raw materials?
- Will national steel policies be realized to their desired extents?