International Perspectives on the Iron Ore Industry

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Presentation Outline

- Global dynamics and future demand
- Current cycle reality
- Beyond a growing oligopoly

International Perspectives on the Iron Ore Industry
An amazing century: China’s industrial revolution drives dramatic transformation of the global steel industry

In Million Tonnes (Mt) per year
Source: World Steel Association, CISA, Century
The latest World Economic Outlook by International Monetary Fund estimated China's gross domestic product is worth $17.6 trillion, on a PPP basis, compared with $17.4 trillion for the U.S.

Major Challenges during these years . . . .

- Early stage reform
  - No capital
  - No market
- Most Favored Nation
- Asian Financial Crisis
- SARS Epidemic
- Global Financial Crisis
US data suggest peak per-capita consumption comes at 65-70% urbanization, which China aims to achieve.

China’s urbanization is at ~50% (apparent steel consumption = 515kg/head in 2013)

In 2013 South Korea consumed 1,057kg/head

In 2013 India consumed 58kg/head

In 2013 Japan consumed 516kg/head

Data: CRU
Much room for China to catch up with its Asian neighbours; India has not even started

Apparent Steel Consumption Per Capita (2007 - 2013)
Kilograms Finished Steel Products

Source: Worldsteel
A tale of two countries: Almost 40% of the world’s population in two countries drives steel demand

China (1992) & India (2013) at ~80Mtpa

India grew by >8 times over last ~20 years

Source: IMF, Worldsteel
**Two sequential development patterns lead to sustainable long-term growth: China - policy pulls growth; India - growth follows income**
Developing Asian economies dominate a solid growing global steel market

- Developing Asian economies are producing more steel than the rest of the world
- India and Asia-Pacific developing economies are catching up quickly

### 2013 (Total: 1,575Mt)
- China: 715, 45%
- Asia-Pac, developing: 779, 48%
- India: 81, 5%
- ROW: 28, 2%

### 2035 (Total: 2,268Mt)
- China: 1070, 47%
- Asia-Pac, developing: 812, 36%
- India: 274, 12%
- ROW: 112, 5%

Source: CRU
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International Perspectives on the Iron Ore Industry
The trajectory of iron ore economics: a capital-intensive industry with a long development cycle in the context of China’s gigantic economic fire power and policies

![Iron ore spot price trend chart](chart.png)

- **Global financial crisis**
  - China’s US$600B stimulus
  - A stronger Chinese real estate sector
  - China deepens economic reform with quality
  - Decisions and start of major expansions

Major expansions start to ship

Iron Ore Spot Price (TSI (CFR China) Fe62% spot since ~2009)

Source: TSI, World Bank, Century
Beginning a new phase of over-supply (~100Mtpa) before fully absorbing production from major expansions

Previous expansion decisions: Big Four ~500Mtpa, >60% in ~5-6 years; market share growing from ~68% (2012) to 76% (2018)

Source: Crédit Suisse, World Steel Association, Century
Low-cost major expansions are flattening the cost curve, driving down the spot market and squeezing out marginal-cost producers before the market can fully absorb the new supply.

2013
Total seaborne demand: 1236Mtpa
Supply: 1260Mtpa
4 Majors = 856Mtpa (2013)

Cumulative production

2018
Total seaborne demand: 1659Mtpa
Supply: 1690Mtpa
4 Majors = 1214Mtpa (2018)

Some high-cost producers (~100-200Mtpa) will be squeezed out.
A reflection on the cycle: New industry dynamics

Challenges:
- The world, including China, relies increasingly on a shrinking number of supplier jurisdictions
- As a result, oligopoly power will strengthen
- Diversification of supply will become more difficult
- Emerging projects will have trouble raising development capital
- Jurisdictions with a vested interest will become more protectionist

Opportunities
- China is still growing strongly albeit more slowly; other economies will recover to absorb new supplies
- The current expansion by the majors should end in a few years
- **Shortage** of capital for new projects will cause a **shortage** of new supply in the future → opportunity for well-timed, disciplined new projects
- Consensus points to a supply/demand inflection point and price recovery around **2017-8** – which is shifting from contango to backwardation, as BHP confirmed its 290Mtpa expansion,
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"Not all cost curves are equal"

2018 Product Class vs. Cost Curve Conceptual Rendering (not based on actual data compilation)

1st Quartile 2nd Quartile 3rd Quartile 4th Quartile

Australia

Brazil

China

Low (lump/fine) Medium (concentrates) High (pellets)

Processing value of Fe product

Conceptual seaborne cost curve

Major Australian producers
Vale (Brazil)
Canadian producers
Other established producers
Chinese producers
**Pellet/Pellet Feed: A 400Mtpa market becoming 700Mtpa**

- Positioned to grow by >300Mtpa over the next 20 years
- Half that growth will come from China

**World Pellet Demand**

- 2012: 236.40 Mtpa
- 2013: 222.19 Mtpa
- 2014: 255.60 Mtpa
- 2015: 285.55 Mtpa
- 2016: 356.28 Mtpa
- 2017: 369.37 Mtpa
- 2018: 382.09 Mtpa
- 2019: 407.49 Mtpa
- 2020: 420.13 Mtpa
- 2021: 463.42 Mtpa
- 2022: 487.87 Mtpa

**Chinese Pellet Demand**

- 2012: 0.00 Mtpa
- 2013: 0.00 Mtpa
- 2014: 0.00 Mtpa
- 2015: 0.00 Mtpa
- 2020: 2.00 Mtpa
- 2021: 2.00 Mtpa
- 2022: 2.00 Mtpa
- 2023: 2.00 Mtpa
- 2024: 2.00 Mtpa
- 2025: 2.00 Mtpa
- 2030: 2.00 Mtpa
- 2035: 2.00 Mtpa

**Source:** CRU, Century
Fewer players in the global pellet market
Even fewer in the seaborne market
Canada is a key player

Exports (+ve) / Import (-ve) of Pellets by Country

- Africa
- Middle East
- India
- Asia-Pacific, developing
- China
- CIS
- Latin America
- Asia-Pacific, advanced
- Europe
- North America

Source: CRU, Century
A faster-growing pellet feed market
China is a major buyer

Pellet Feed Import by Country

Source: CRU, Century
Canada, a reliable producer

- Diversity of supply = healthier market
- Stable government + stable supply = stable return on investment
- Decent grade and quality
- Competitive costs compensate for distance:
  - Water and power for beneficiation
  - Existing logistical infrastructure
- Iron ore is a non-homogenous commodity – product niches do exist . . . e.g. pellets
A long-standing history of consistent supply, throughout all cycles in the last 60 years

Operated by major mining companies and steel mills from around the world

Canadian Iron Ore Production and Exports 1990 - 2013

Mt

15 20 25 30 35 40 45

Production  Export
Comparative advantages that make Canadian operations competitive

**Canadian suppliers**

- **Mining**
  - Abundant fresh water supply for beneficiation
  - Low hydro power cost

- **Processing (water/power)**

- **Land transport**
  - Existing rail available
  - New cape-sized wharf to be completed in 2014

- **G&A**

- **Ocean freight**
  - Farther away from China
  - But new wharf can handle Chinamax

**Other suppliers**

- **Mining**

- **Processing (water/power)**

- **Land transport**

- **G&A**

- **Ocean freight**
Multi-user rail/port shipping Canadian iron ore exports since 1954

New multi-user port to be completed in 2014

Port of Sept-Îles

October 2013

May 2014
Thank you!