A Perspective on the Mining Industry

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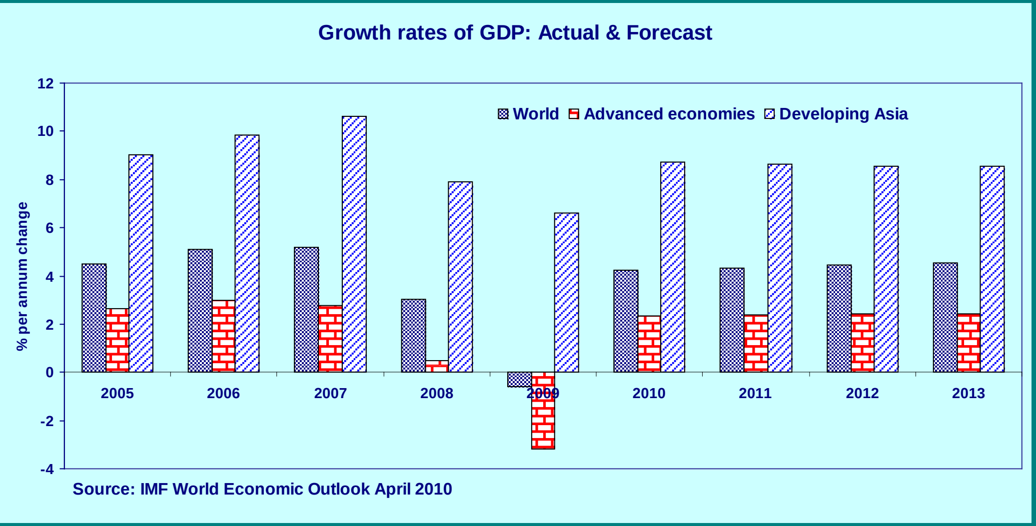
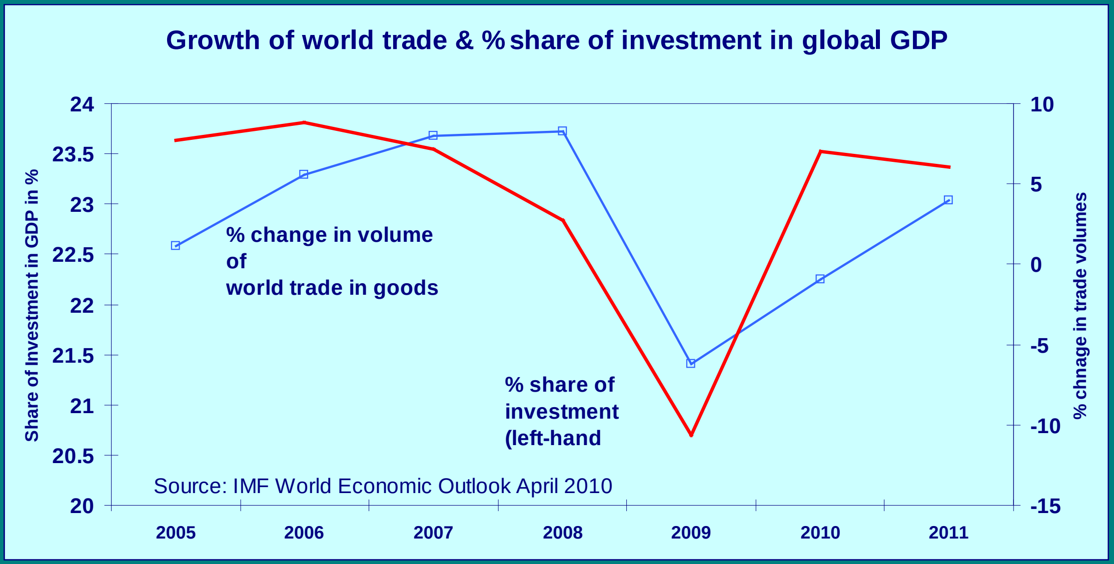
Global Economic Activity



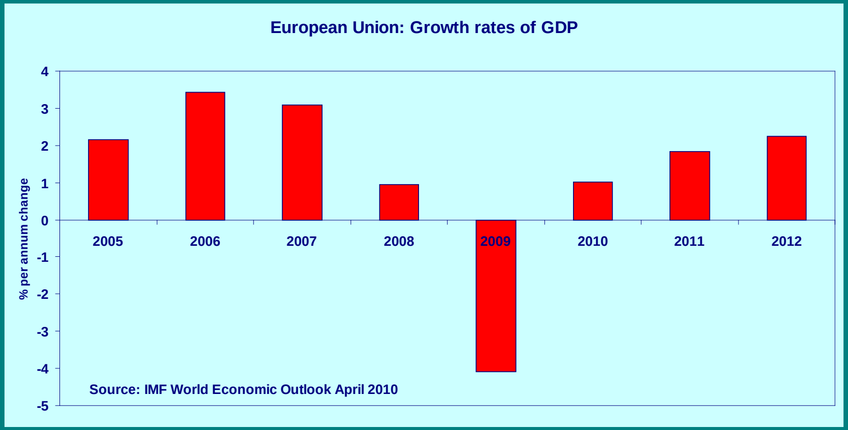
- Global GDP fell back in the second half of 2008 and into 2009, with the heaviest declines in the advanced economies.
- Global growth in 2010-13 is forecast in the 4.2% to 4.5% p.a. range.
- The disparity between the sluggish advanced economies (2.4%p.a.), and the developing world will persist. Developing Asia is expected to record annual increases of some 8.6% p.a..
- These forecasts are suspiciously smooth and the outturn will undoubtedly be far more volatile.

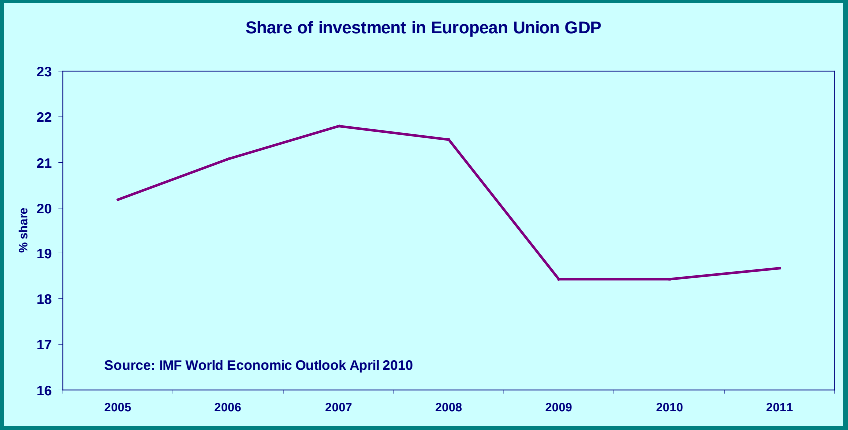
The pattern of demand

- Investment's share in total output will recover strongly this year, but ease back in 2011, remaining below its 2005-07 levels.
- This year's rise is driven by a replenishment of inventories and work in progress.
- The volume of world trade will fall less rapidly in 2010 than in 2009, and resume reasonable growth in 2011.
- Demand for passenger cars was boosted by scrappage schemes in 2009.This year car output outside China is unlikely to increase much above last year's level.



The European Union lags…





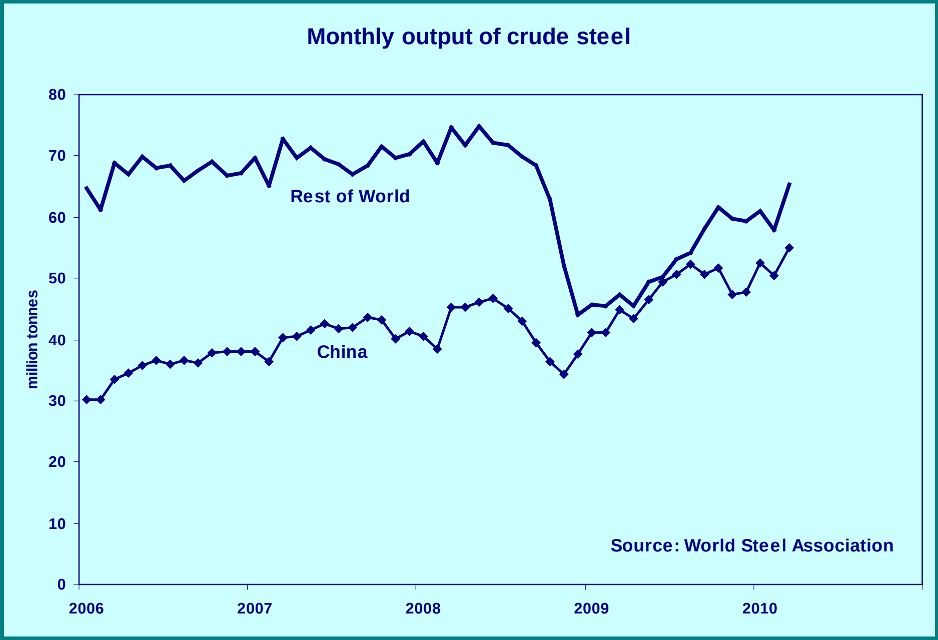
- Europe suffered a deep recession and its real output will not regain its 2008 level until 2012.
- Investment will account for a lower share of the EU's GDP than at any time in the past 20 years.

The risks are on the downside…

- Public sector imbalances and mounting government debt.
- Withdrawal of monetary and fiscal supports.
- Inflationary concerns (e.g. in China).
- Currency fluctuations.
- Social tensions.
- ‘Unknown unknowns’.

Crude steel production

- The steel industry is a good indicator of demand for metals and minerals.
- Production of crude steel fell everywhere during 2008.
- Chinese output revived quickly and resumed its upward trend.
- Output has recovered in the rest of the world but remains well below pre-recession levels.



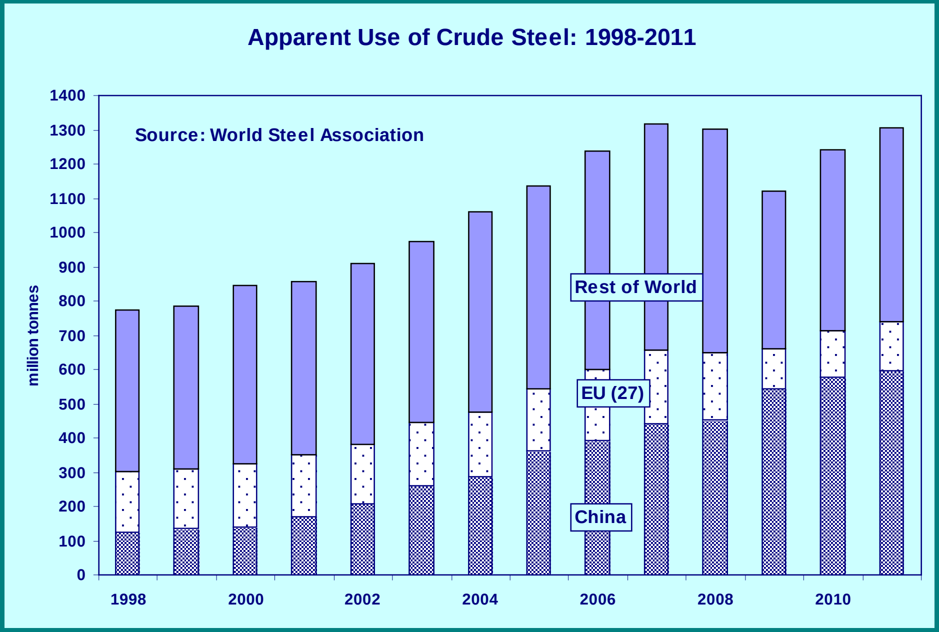
Apparent usage of metals

- Apparent usage jumped in China in 2009 and fell in the rest of the world.
- In some cases (e.g. copper) China's growth included stock building.
- This year's outturn will be more balanced, but with China still gaining share.

% changes in 2009	**China**	**Rest of World**
Aluminium	**+16**	**-15**
Copper	**+39**	**-14**
Lead	**+20**	**-10**
Nickel	**+77**	**-22**
Steel (crude)	**+20**	**-32**
Zinc	**+18**	**-18**

Crude steel usage

- Apparent usage of steel will not regain its 2007 peak until 2012.
- The contrast between China and the EU is marked.
- European steel usage is forecast to be 33% below its 2007 in 2011.



The supply side

- Output of most products exceeded usage in 2009, mainly in the first half.
- Mining companies gradually reversed their cutbacks of 2008. Utilization rates were raised and shuttered facilities re-opened.
- Capacity started during the boom years continued to come on stream.
- Constraints that had held back output in the boom were eased.
- Output of some products rose in 2009.

Future capacity

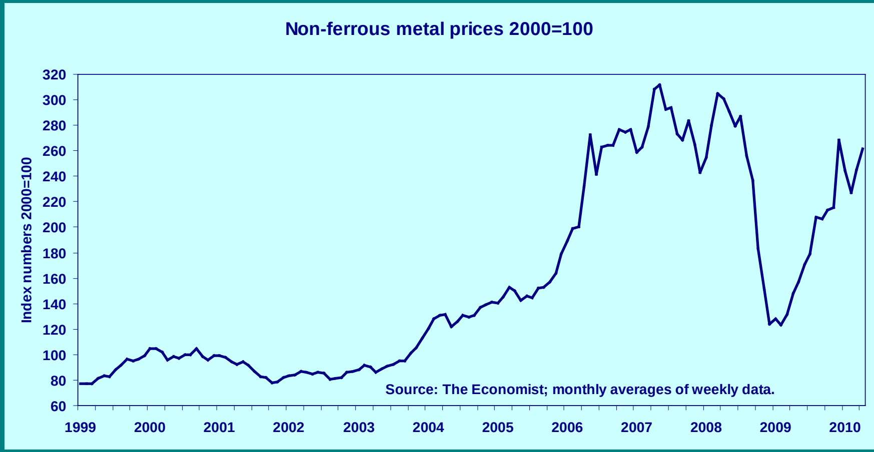
- Corporate cash flows have benefited from higher product prices.
- Capital spending was badly hit by the financial crises, but is reviving.
- Prices of most products are above their long-run marginal costs, even with rising oil prices.
- New capacity is both under construction, and in advanced planning stages, for all minerals.

Challenges to supplies

- Political risks
- Taxation
- Infrastructure
- Labour supplies
- Competition policy

The behaviour of prices

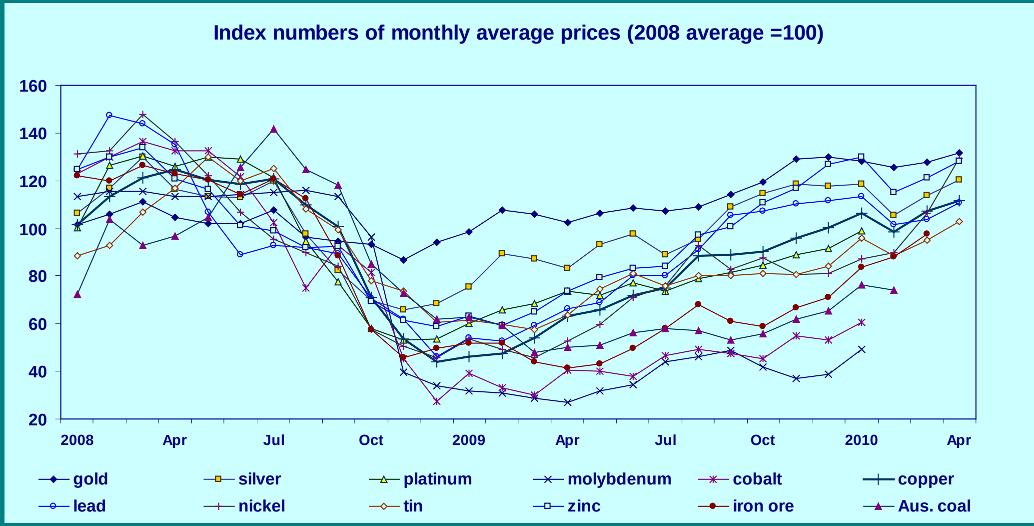
- The revival of demand was accompanied by a marked recovery in prices.
- Part of the dip and recovery reflected the US$.



- Prices reacted to the working through of a severe inventory cycle.
- Speculative investment has been an important factor, but by no means the sole influence.

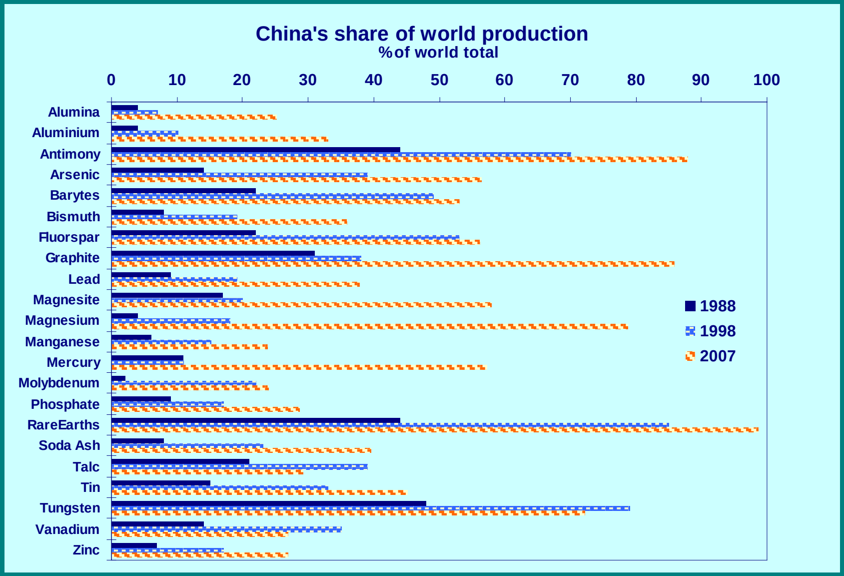
Prices of individual products

- Prices of most products followed a similar path.
- Some are back to their 2008 levels, even when not traded on terminal markets (e.g. iron ore).
- Where prices have been boosted by 'investment' buying, they may be giving false signals, but that can only be determined retrospectively.



Another Chinese dimension

- China is not only the major, and most rapidly expanding, market for minerals and metals, but it is also the leading producer of a wide range of mineral products.



Security of mineral supplies

- Security of supply is again becoming an issue.
- Concerns about growing concentration of supply.
- Chinese demand is pre-empting supplies and possibly raising prices?
- Chinese competition has led to the closure of competing mines in other countries.
- The US and EU have complained to the WTO that Chinese export taxes distort competition.
- Chinese exports are threatened by rising domestic demand, and by tightening environmental controls on small-scale mining.
- Opportunities exist for new entrants.

The mining industry cycle?