Iron Ore at a Glance – July 2008

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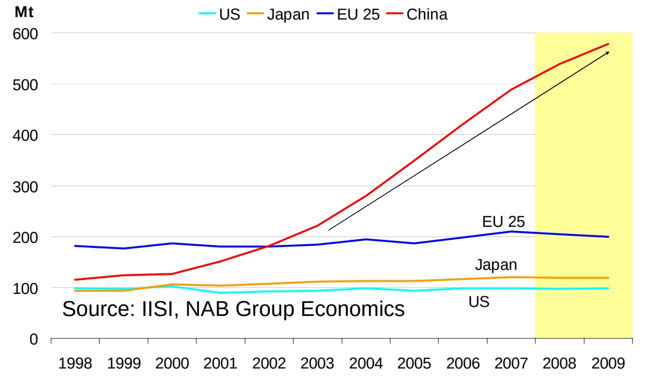
Summary – major producers remain unable to meet China's steel demand

- The surging growth in China's steel production has underpinned global demand for iron ore. China has recorded double digit growth in steel production for the past seven years – requiring increasing volumes of imported iron ore.
- Major iron ore producers in Australia and Brazil have struggled to expand output sufficiently to meet China's demand. That said, we expect strong growth in exports in 2008 – with Australia's exports rising by around 20 per cent year on year in the first four months of the year.
- Despite the increase in iron ore production, spot prices remain substantially above the recently settled contract price. The reduction in Indian spot exports has been a major driver in pushing up spot prices.
- Reflecting this market position, we expect contract prices for iron ore to rise further in 2009, increasing by around 20 per cent.

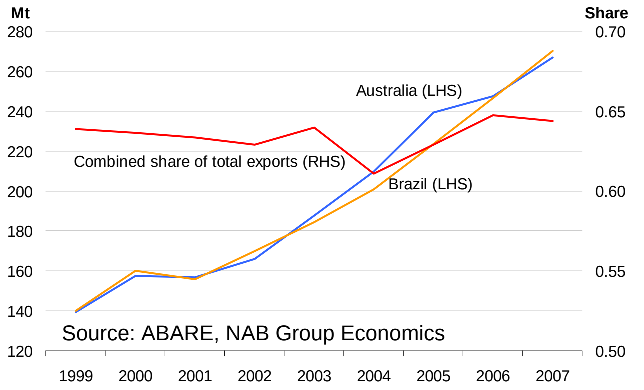
Surging steel production in China is driving the growth in iron ore demand, with developed majors relatively static



China's steel production increased by 16 per cent in 2007 to 489 million tonnes – the seventh straight year of double digit growth in output. In the same year, steel output outside of China increased by 6.3 per cent, the strongest rate of growth since 2000. The main contributors to this increase were India and other Asian producers, as well as the Commonwealth of Independent States.

Global steel production is forecast to rise further in 2008 and 2009 – with China contributing the majority of this increase. That said, we expect the rate of growth to slow, with China's production increases falling below 10 per cent in 2009.

As major producers in Australia and Brazil try to step up exports



Infrastructure constraints have delayed the growth in iron ore supply from the world's leading exporters – Australia and Brazil. Brazil's Vale plan to increase output by around 10 per cent in 2008 to 325 million tonnes. However, the country's growing steel industry may restrict the growth in exports.

In Australia, export growth is likely from a range of projects – most notably from Fortescue's Cloud Break project, which recently shipped its first ore to China. The completion of Rio Tinto's Hope Downs project and expansion at Yandicoogina will also boost exports, while BHP Billiton's Rapid Growth Project 3 will establish further growth potential. Australia's iron ore exports rose to 267 million tonnes in 2007, an increase of 7.7 per cent – but could exceed 20 per cent in 2008 in the absence of disruptions. In the first four months of the year, Australia's exports rose by 20 per cent (ABS).

India's growing steel demand – and growth in the country's steel industry – may limit it's iron ore exports. India has been a key spot market exporter to China, and any pullback in exports will offset some of the growth from Australia and Brazil.

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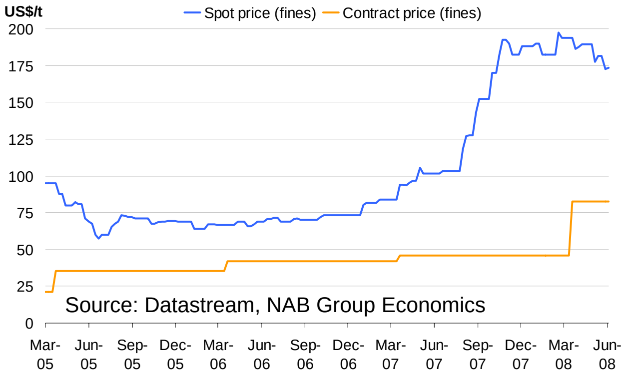
Price pressure remains weighted to the upside



Despite the growing output of iron ore in Australia and Brazil – as well as domestic production in China – we believe there remains upward pressure to iron ore prices. Spot market prices for ore have traditionally traded at a premium to contract volumes, however the spot price accelerated sharply in the second half of 2007 – and remain over twice the level of iron ore contract prices.

In late June, Rio Tinto successfully negotiated a freight rate premium over Brazilian ore – with contract prices rising by 85 per cent (79.9 per cent for fines, 96.5 per cent for lump), compared with around 71 per cent for Vale. With considerable upside potential – as indicated by spot market prices – and a demonstrated capacity to pass on costs to consumers via higher steel prices, we expect iron ore prices to increase by a further 20 per cent in the 2009 financial year.

Contract price outlook

USc/DLTU	2004	2005	2006	2007	2008	2009	2010
Fines	36.57	62.72	74.64	81.73	140.57	168.69	168.69
Lump	46.67	80.03	95.24	104.28	179.37	215.24	215.24

National Australia Bank