Strong materials-intensive economic growth in China and other Asian countries continued to have a positive impact on global commodity demand and prices in 2005. In addition, supply bottlenecks in many commodities supported high price levels. The base metals price cycle was reminiscent of that of the late 1980s and internationally-traded bulk commodity prices generally increased to record levels.

Projections of global steel production indicate that crude output increased by 60Mt, or about 7%, to 1 131Mt in 2005. However, output increased by some 66Mt in China, indicating declining aggregate production in the rest of the world. Production was cut back particularly in North America and Europe to maintain a balanced market in those regions.

Due to a very tight iron ore market in 2005, resulting from significant barriers to entry in the industry and long development lead times, benchmark contract iron ore prices were negotiated at 71,5% higher than 2004. These tight market conditions are expected to continue in 2006, as indicated by the fact that spot prices in China were appreciably above contract prices during 2005, leading to expectations of additional price increases for iron ore. This will be counteracted to an extent by the spectre of significant overproduction of steel in China and lower profitability in the steel industry. Contract iron ore prices are thus expected to increase more moderately.

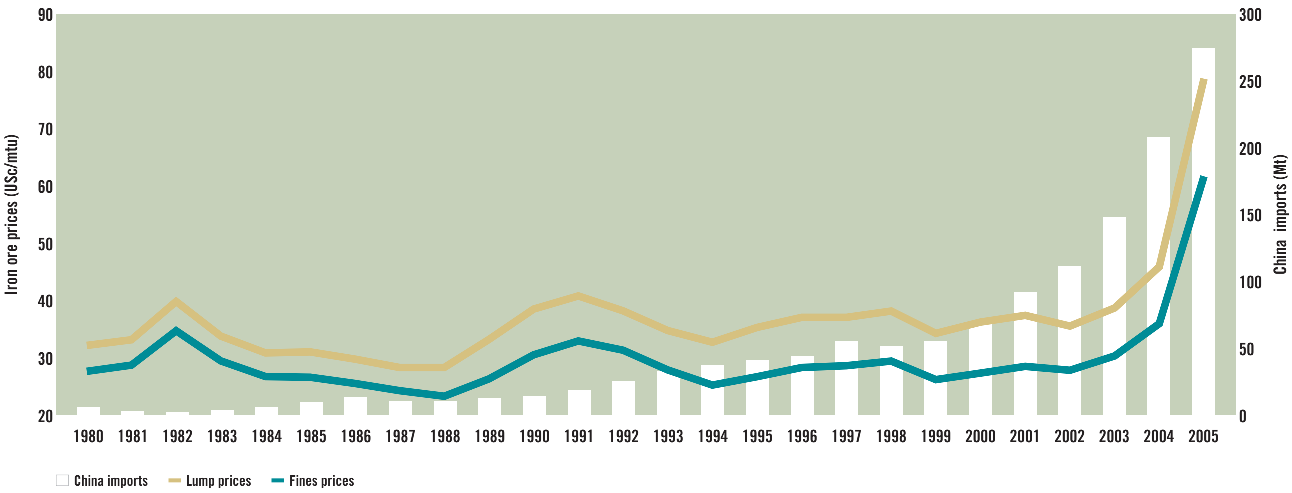
Prices for contract hard coking, semi-soft coking and steam coal increased in 2005 by 127%, 85% and 20%, respectively. Extremely tight market conditions at the beginning of 2005 for all metallurgical coals have since eased considerably as supply caught up with demand and infrastructure constraints lessened, especially for the lower-ranked coals, like semi-soft and PCI coals. A decrease of about 10% for 2006 in the hard coking coal mine price has been negotiated, while larger declines are anticipated for semi-soft and PCI coals (about 30%). Spot steam coal prices declined during 2005 from about US$52/t to below US$40/t, leading to expectations that contract thermal coal prices will decline in 2006 and be settled about 15% lower. Spot steam coal prices, however, have started increasing again and are expected, on average, to attain levels similar to 2005.

The LME cash zinc price rose from US$1 214/t at the beginning to US$1 915/t at the end of 2005 (p22). The average zinc price in 2005 was US$1 382/t, some 31,8% higher than the average in 2004. This was driven by good market fundamentals, reflected in a refined zinc supply deficit of about 500kt, and investment fund-based activity. LME zinc stocks declined 37% during 2005. The supply deficit is expected to persist in 2006, resulting in forecasts that zinc could attain an average price as high as US$2 000 during the year – the early part of 2006 has already seen prices surge to US$2 300. The very tight market for zinc concentrates is also expected to continue in 2006. This will result in treatment charges falling even lower than the severely-depressed levels of recent years.

Titanium dioxide pigment prices increased in 2005 (up to 20% in certain regions), with the market remaining in near balance. However, titanium dioxide feedstock prices rose only moderately during the year, due primarily to oversupply in the chloride-grade feedstock market. This surplus in supply over demand is expected to increase in 2006, leading to forecasts of a flat trend in feedstock prices.

In contrast, a significant supply deficit in the zircon market resulted in prices increasing by more than 20%. Given that this deficit is expected to persist in 2006, more price increases are expected.

Historical Chinese iron ore imports and nominal iron ore prices



Source: IISI, BGS, AME and CRU

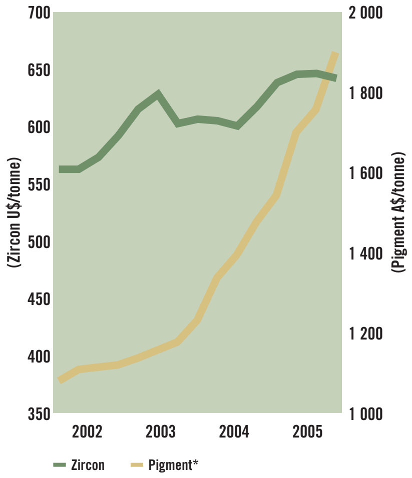
The US dollar generally weakened against the currencies of the major commodity-exporting countries in 2005. Commodity price increases in the currencies of these countries were thus lower than in dollar terms. For example, the 71,5% increase in iron ore prices in dollar terms in 2005 resulted in only a 66% increase in Australian dollar, a 43% increase in Brazilian real and 69% increase in rand terms. The US dollar is expected to weaken further against the currencies of most commodity-producing countries, again impacting negatively on local currency export receipts, although a weaker dollar tends to support commodity prices.

Another factor that should support commodity prices is the significant increase in mining costs and mining project capital costs experienced during 2005. The elevated commodity prices of 2004 and 2005 resulted in numerous new mining projects being initiated, both brownfield and greenfield. This, in turn, led to a shortage of capacity in contractors, equipment and mining professionals worldwide. High energy costs have added to the problem.

Global bulk freight rates increased significantly in 2003 and 2004, primarily due to growth in commodity import demand from China. These rates declined markedly during 2005, following an expansion of about 6% in the world bulk fleet capacity. Significant new capacity is also due to be delivered during the next few years.

Estimates of global exploration expenditure in 2005 indicate an increase of some 34% over 2004, as could be expected during a period of high commodity prices. This trend is anticipated to continue into 2006. In time, this will result in increased mineral supply and contribute to the downward progression of the commodity price cycle.

Heavy minerals markets



Above: *Iron ore operations at Sishen, which feeds a large portion of its production to the Chinese market.*

Below: *Growth in commodity import demand in China continued in 2005.*