



CHINA IRON ORE PRODUCTION REPORT

Operating Rate Summary

According to Custeel survey on 204 domestic ore mining companies whose finished ore capacity accounts for 61.5% of the total, national average operating rate stood at 63.98% in February, dipping by 0.02% versus the last survey of 63.4%. By the number of mines, the average operating rate stayed at 37.43%, versus the previous figure of 37.87%, falling by 0.44%.

Operation Situation Updated on Mar 15, 2017

Operation Situation by Capacity (Unit: MT=million tonnes)

Sample	Sample Size	Feb Operating Rate	Jan Operating Rate	Change
Nationwide	204	63.98%	63.4%	-0.02%
Capacity above 1 MT	59	74.78%	73.59%	+1.19%
Capacity at 0.3-1 MT	99	41.31%	41.81%	-0.5%
Capacity at 0.1-0.3 MT	46	28.07%	29.84%	-1.77%
State-owned Mines	34	85.38%	84.85%	+0.53%
Private Mines	170	44.98%	44.35%	+0.63%
Mines in Hebei	64	61.91%	61.52%	+0.39%
Mines in Liaoning	43	75.25%	73.64%	+1.61%

Operation Situation by the Number of Mines (MT=million tonnes)

Sample	Sample Size	Feb Operating Rate	Jan Operating Rate	Change
Nationwide	204	37.43%	37.87%	-0.44%
Capacity above 1 MT	59	62.67%	60.87%	+1.8%
Capacity at 0.3-1 MT	99	33.1%	33.73%	-0.63%
Capacity at 0.1-0.3 MT	46	14.35%	16.20%	-1.85%
State-owned Mines	34	76.56%	77.88%	-1.32%
Private Mines	170	29.6%	29.86%	-0.26%

Sample	Sample Size	Feb Operating Rate	Jan Operating Rate	Change
Mines in Hebei	64	40.13%	39.89%	+0.24%
Mines in Liaoning	43	31.16%	32.16%	-1%

Iron Ore Stock

According to Custeel survey on 62 domestic mining companies whose capacity accounts for 28.5% (with 3.9% of them in suspension) of the total showed that average iron ore concentrate stocks of the sampling companies reached 2.141 million tonnes, decreasing by 289,000 tonnes from Jan.

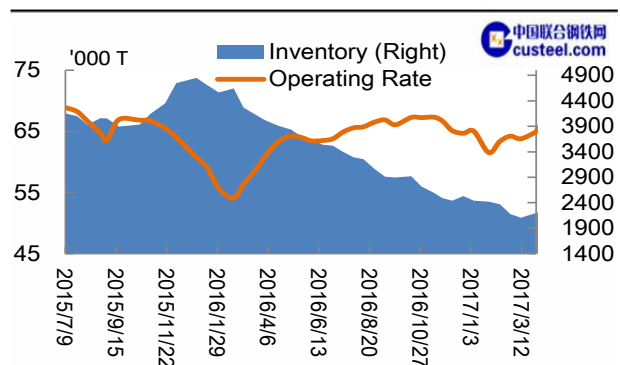
Brief Analysis

Based on the latest survey, the decline in the average operating rate in Feb compared with Jan is mainly attributable to the following main factors:

--Production resumption slowed after the Spring Festival and miners began to restore operation gradually after the Lantern Festival.

--Production was reduced in partial areas due to environmental policies and the two sessions.

Graph 1-Iron Ore Inventory & Operating Rate



Based on the latest survey, the fall in the average stocks of sampling miners in February is mainly attributable to the following main factors:

--Steel mills resumed operation earlier than miners in February and thus the market faced a short supply for a short time. Under the circumstances, market stocks decreased to some extent.

--Iron ore market prices grew constantly in February with an upside momentum and miners took chance to boost sales. Miners focused on de-stocking at that time, leaving a decline in stocks.

Iron Ore Concentrate Production Situation

According to statistics jointly issued by Custeel and Metallurgical Mines' Association of China (MMAC), China iron ore concentrate production totaled 17.6413 million tonnes in February, slipping by 1.4039 million tonnes or 7.37% MoM and up by 24.24% YoY.

China's Output of Iron Ore Concentrates by City in Feb, 2017 ('000 tonnes)

City	Feb 2017	YoY Change	Jan-Feb 2017	YoY Change	Accumulative YoY Change
Total	17,641	3,442	36,687	5,609	18.05%
Beijing	97	97	199	97	94.80%
Hebei	4,595	926	9,812	1,831	22.94%
Shanxi	1,483	233	3,020	412	15.81%

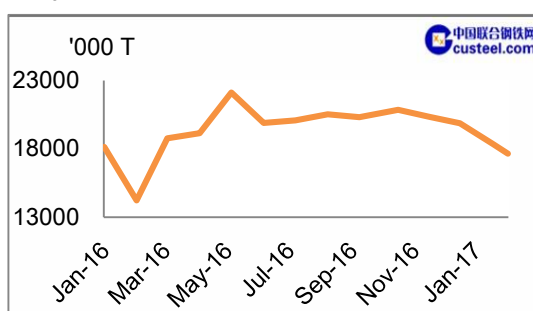
City	Feb 2017	YoY Change	Jan-Feb 2017	YoY Change	Accumulative YoY Change
Inner Mongolia	712	-65	1,712	-22	-1.25%
Liaoning	3,548	766	7,296	1,497	25.81%
Jilin	67	-100	142	-239	-62.73%
Heilongjiang	8	8	16	-64	-80.00%
Jiangsu	284	184	551	251	83.67%
Zhejiang	30	30	49	49	-
Anhui	1,031	680	2,186	1,046	91.76%
Fujian	152	-48	360	-54	-12.94%
Jiangxi	149	22	285	20	7.38%
Shandong	836	652	1,555	979	169.91%
Henan	124	94	270	169	166.63%
Hubei	457	38	945	76	8.69%
Hunan	19	-15	47	-24	-33.62%
Guangdong	169	142	361	193	114.88%
Guangxi	201	1	415	-35	-7.80%
Hainan	106	98	236	181	329.45%
Sichuan	1,911	18	3,768	-9	-0.24%
Guizhou	50	7	109	-25	-18.78%
Yunnan	543	-464	1,262	-827	-39.58%
Shaanxi	165	-10	345	-14	-3.82%
Gansu	430	-97	876	-260	-22.86%
Qinghai	0	0	0	-10	-100%
Xinjiang	474	242	870	390	81.14%

Brief Analysis

The month-on-month decline was mainly attributable to the production suspension during the China New Year holiday at the beginning of February. Additionally, the production was restricted by the cold weather and miners saw a slow pace in production resumption after the holiday. Miners' production was also reduced at the end of February influenced by the two sessions in Beijing. Detailed changes of mines' production are concluded as follows:

- North China: Local production fell obviously on a monthly basis on account of the holidays and environmental investigation. Steel mills' production was reduced in some areas and market demand dropped. Their subordinate miners suffered small production pressures and thus production decreased.
- Northwest China: Miners those stopped operation previously due to cold weather saw unfavorable production in Feb, some miners hadn't start operation until late Feb. However, the production moved slowly on account of

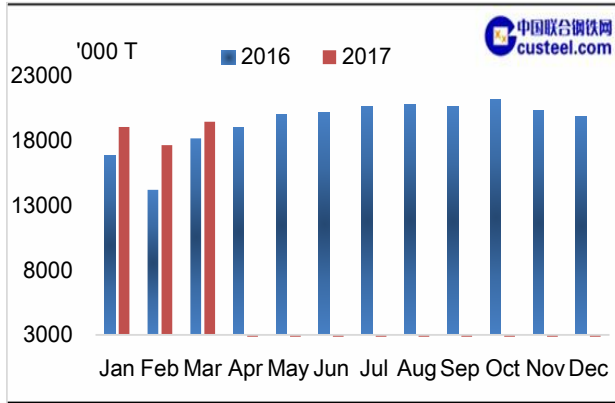
Graph 2-Iron Ore Concentrate Production



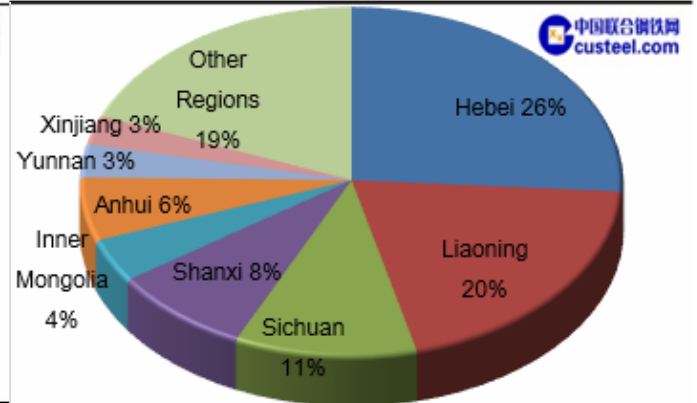
equipment failure and difficulties in crude ore exploration. Production grew slightly in February.

- East China: Partial miners said that they would expand production this year. Some miners lifted their output as planned in February and thus overall production increased as compared with Jan.
- Southwest China: The production of a local large miner dropped by 30% MoM on account of equipment maintenance problem.

Graph 3-Iron Ore Concentrate Production Trend



Graph 4-Iron Ore Concentrate Production by Region



Overview of Partial Mines

A Large Private Mine in Hebei Province	A Small Private Mine in Liaoning Province
<p>Capacity: Annual output of concentrates is 1.5 million tonnes and the mine suspended production caused by the two sessions.</p> <p>Sales: It has no sales temporarily.</p> <p>Inventory: No inventory; production suspended since the Spring Festival</p> <p>Neighboring Market: Many neighboring mines suspended production caused by the two sessions but will resume production in the near future.</p> <p>Profits: Judging by current price, its profits are estimated at about RMB200/tonne.</p> <p>Concentrate Output: The mine has operated at low utilization rate since the Spring Festival holiday due to insufficient supply of resources, so output of iron ore concentrates in February was nearly 30 thousand tonnes less than that in January.</p> <p>Plan: The mine will restore production on March 20, but the production will not increase too much. The concentrates output will keep stable in March.</p>	<p>Capacity: Annual output of concentrates is 240,000 tonnes and the mine is out of production.</p> <p>Sales: It has no sales temporarily.</p> <p>Inventory: It keeps zero inventory due to smooth sales under tight supply.</p> <p>Neighboring Market: Neighboring mines hold high intention to resume production, which is restrained by various factors.</p> <p>Profits: In view of current local price, its profits are estimated to be around RMB180/tonne.</p> <p>Concentrate Output: The mine was forced to stop production after the Spring Festival holiday due to expiration of mining license, so there was no output in February.</p> <p>Plan: The mine is uncertain about the recovery time as many factors restrict mining license issuing.</p>

A Large Private Mine in East China	A Medium-Sized Private Mine in Shanxi
<p>Capacity: Annual output of concentrates is 1.5 million tonnes and the mine suspended production caused by the two sessions.</p> <p>Inventory: No inventory, production suspended since the Spring Festival</p> <p>Neighboring Market: Many neighboring mines suspended production caused by the two sessions but will resume production in the near future.</p> <p>Profits: Judging by current price, its profits are estimated at about RMB200/tonne.</p> <p>Concentrate Output: The mine has operated at low utilization rate since the Spring Festival holiday due to insufficient supply of resources, so output of iron ore concentrates in February was nearly 30 thousand tonnes less than that in January.</p> <p>Plan: The mine will restore production on March 20, but the production will not increase too much. The concentrates output will keep stable in March.</p>	<p>Capacity: Annual output of iron ore concentrate is 0.6 million tonnes and the mine operates at full capacity.</p> <p>Sales: The mine maintains normal sale condition and it also keeps balance between production and marketing.</p> <p>Inventory: No inventory.</p> <p>Neighboring Market: Few mines recover production.</p> <p>Concentrates Output: There was slowdown in work efficiency during the Spring Festival holiday, leading to production fall.</p> <p>Profits: Its profits are estimated to be around RMB100/tonne calculated by current price level.</p> <p>Plan: The mine has already operated in full capacity, which will continue in the near future.</p>
A Subsidiary Mine of a Medium-sized Steel Plant in Shanxi	A Medium-Sized Private Mine in Northwest China
<p>Capacity: Annual output of iron ore concentrate is 0.6 million tonnes and the mine operates in full capacity.</p> <p>Sales: No external sales.</p> <p>Inventory: No inventory.</p> <p>Neighboring Market: Few mines recover production.</p> <p>Concentrate Output: The mine's output decreased by 15 thousand tonnes in February comparing with the previous month caused by dull demand from steel plants and slow production.</p> <p>Profits: Internal settlement</p> <p>Plan: With increasing demand from steel plants, the mine will recover normal production in the future.</p>	<p>Capacity: Annual output of iron ore concentrate is 1.5 million tonnes and the mine operates at utilization rate of 20%.</p> <p>Sales: The mine maintains normal sales condition.</p> <p>Inventory: 40 thousand tonnes of concentrates.</p> <p>Neighboring Market: Mines in neighboring market may restore production at the end of March.</p> <p>Concentrate Output: The mine started production at the end of February and maintained slow production, with February output at 20 thousand tonnes.</p> <p>Profits: The mine sustains with thin profits under the current condition.</p> <p>Plan: It is difficult to exploit crude ores due to bad weather. The operating rate will rise with increasing supply of crude ores.</p>

Forecast

With spring and warm weather coming, mines that were out of production caused by seasonal factors are actively recovering production. Currently, mines become willing to resume production on profitability. However, other mines which were out of production all the year round face difficulties in operation recovery owing to complicated procedure and high start-up capital. Partial mines also encountered many problems in operation such as gradual resource exhaustion, maintenance due to aging of equipment, and hard handling of safety procedure on expiration, which will influence the future production. Therefore, the output will increase in the future, while the growth rate will be lower than expected.

Guide Note:

- Capacity: The Maximum productive capacity of national iron ore concentrate is calculated based on the miners' resources data released by China's Ministry of Land and Resources. Capacity of sampling companies means the maximum output that the companies have ever touched.
- Iron Ore Concentrate Production: Custeel has made the statistics on more than 500 sampling miners in China. Iron ore concentrate production in the statistics includes the iron ore concentrate output produced by all iron ore processing plants for sintering and pelletizing process, as well as output of high Fe content pyrite cinder during other ore beneficiation processes.
- Operating Rate: Operating rate by capacity means the ratio of the company's production to capacity; operating rate by the number of companies means the ratio of the number of companies in operation to total companies.
- Definition of Miners in Operation: The operating rate refers to iron ore concentrate production; if the processing plant of the mining company are in operation, the company will be counted; otherwise, the company will be considered as suspending production.
- Release Time: Operating rate on domestic mining companies will be counted every two weeks and the report will be published on the second Friday. Iron ore concentrate production data is released on the 15th day of every month.

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