

A Producer's response to the growing metallurgical coal demand in South America



Colin Olivieri

Regional Marketing Manager, Carbon Steel Materials

Coaltrans Brazil, Rio de Janeiro, Brazil

Tuesday, 16 May 2006

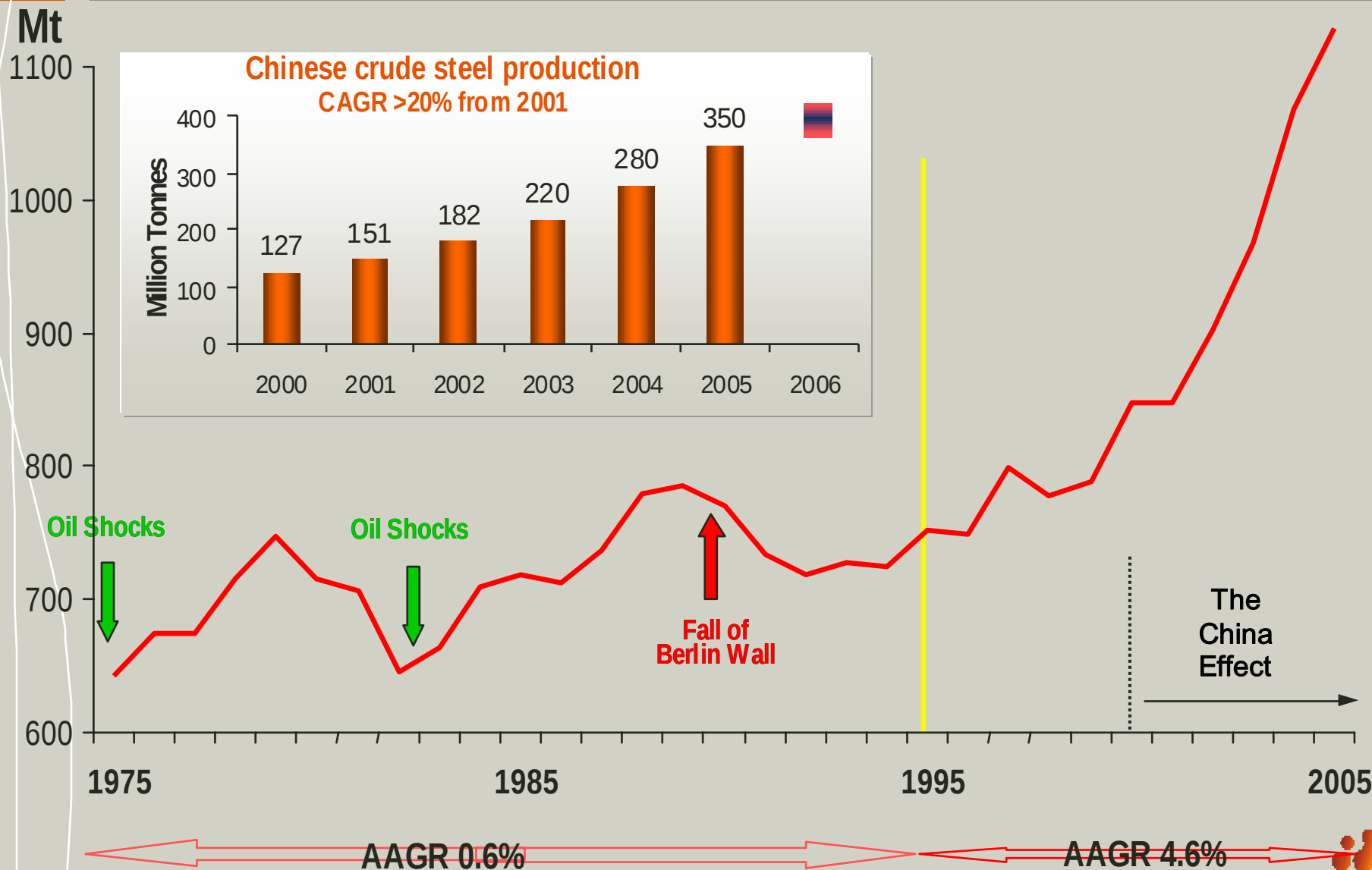


Disclaimer

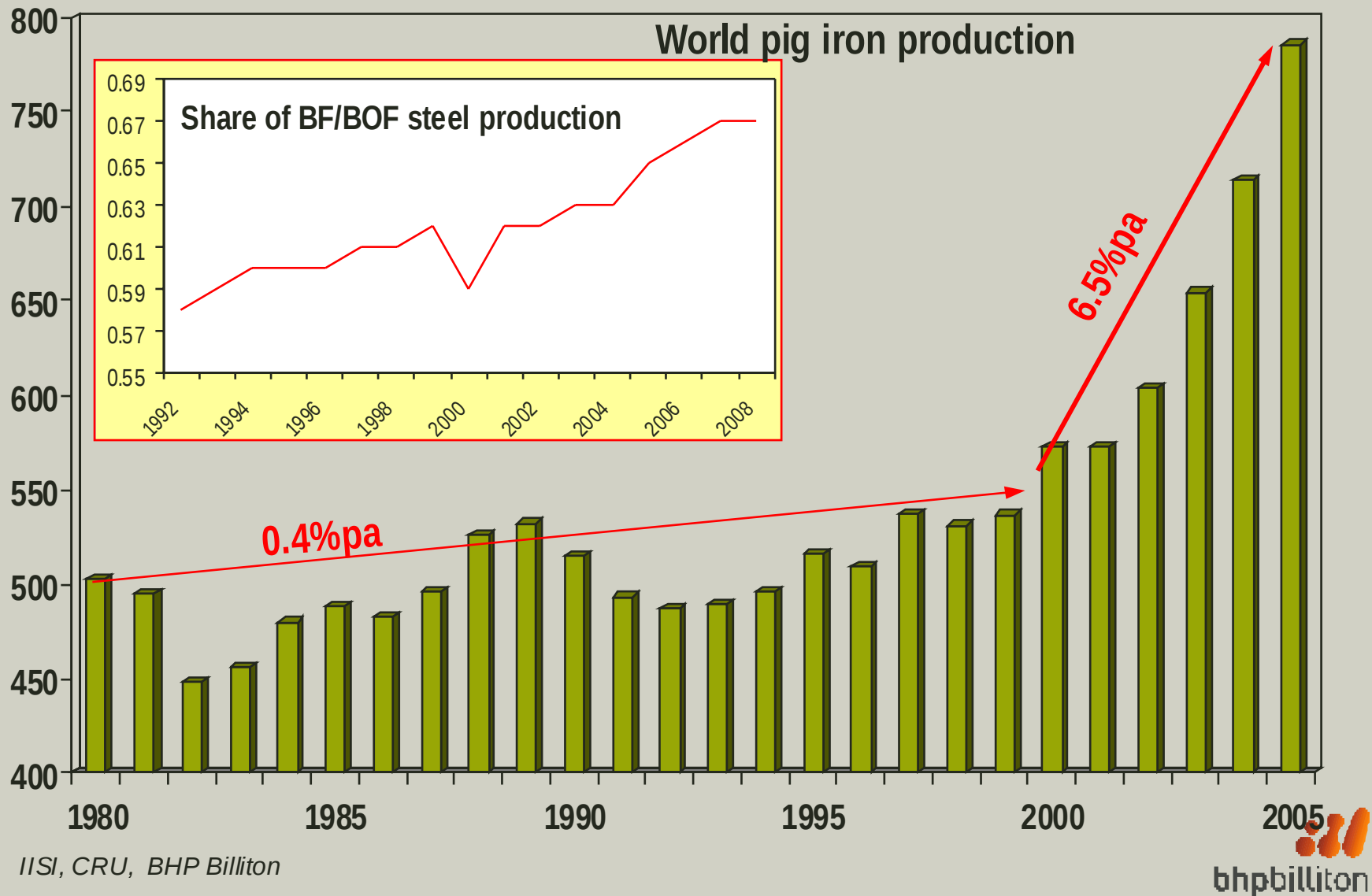
The views expressed here contain information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. Any forward looking information in this presentation has been prepared on the basis of a number of assumptions which may prove to be incorrect. This presentation should not be relied upon as a recommendation or forecast by BHP Billiton.

Nothing in this release should be construed as either an offer to sell or a solicitation of an offer to buy or sell shares in any jurisdiction.

The global steel industry continues to power on led by China

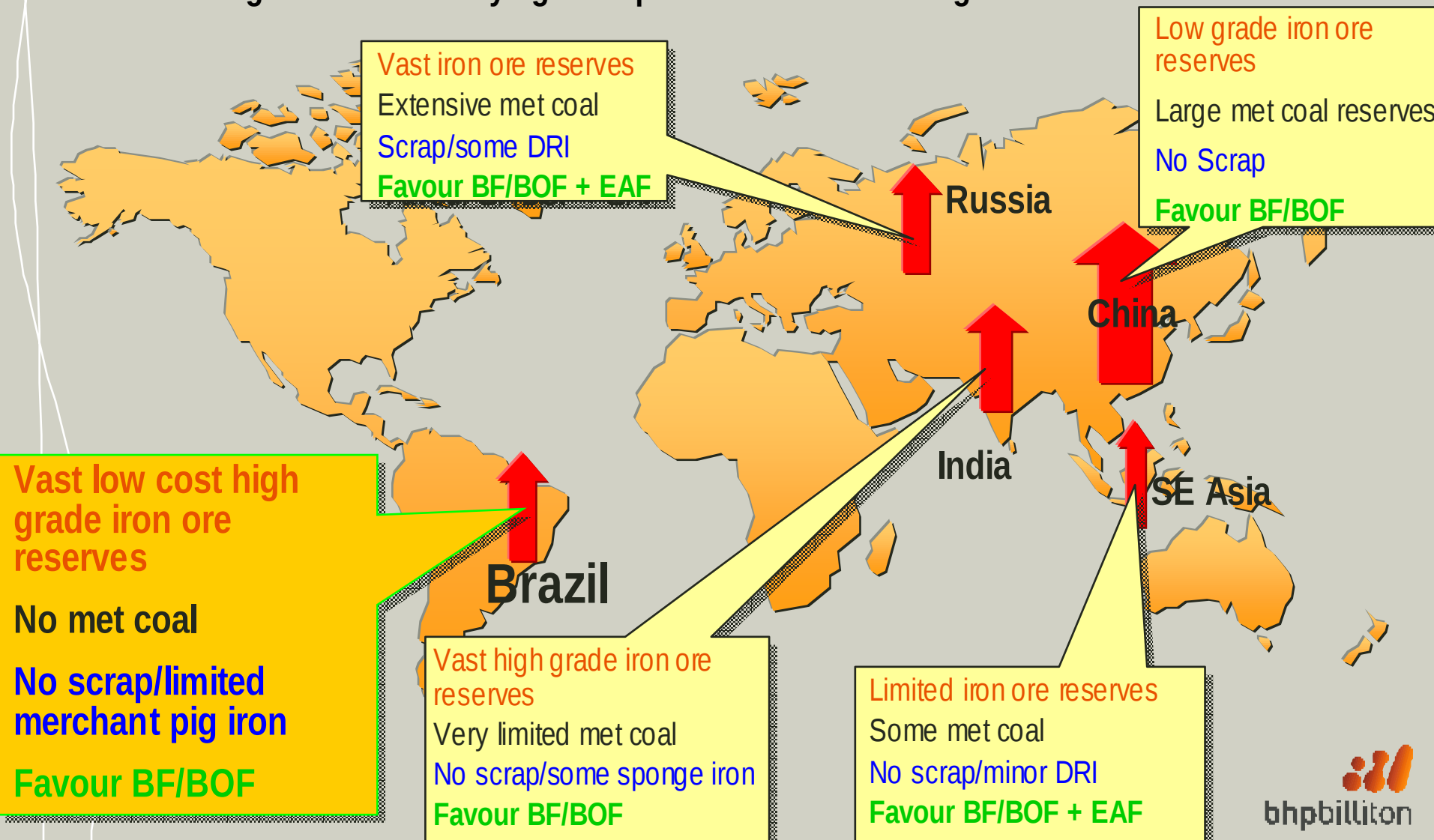


Metallurgical coal based steel production has entered a new growth phase



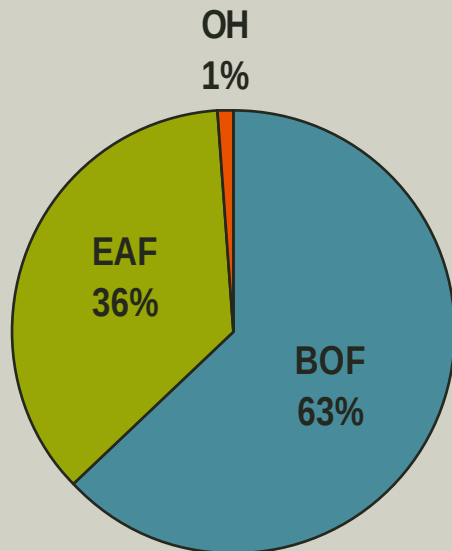
Future growth will be led by BRICS

In addition to China steel growth will be driven by other countries, with a majority favouring the BF route relying on imported seaborne coking coal and domestic iron ore.

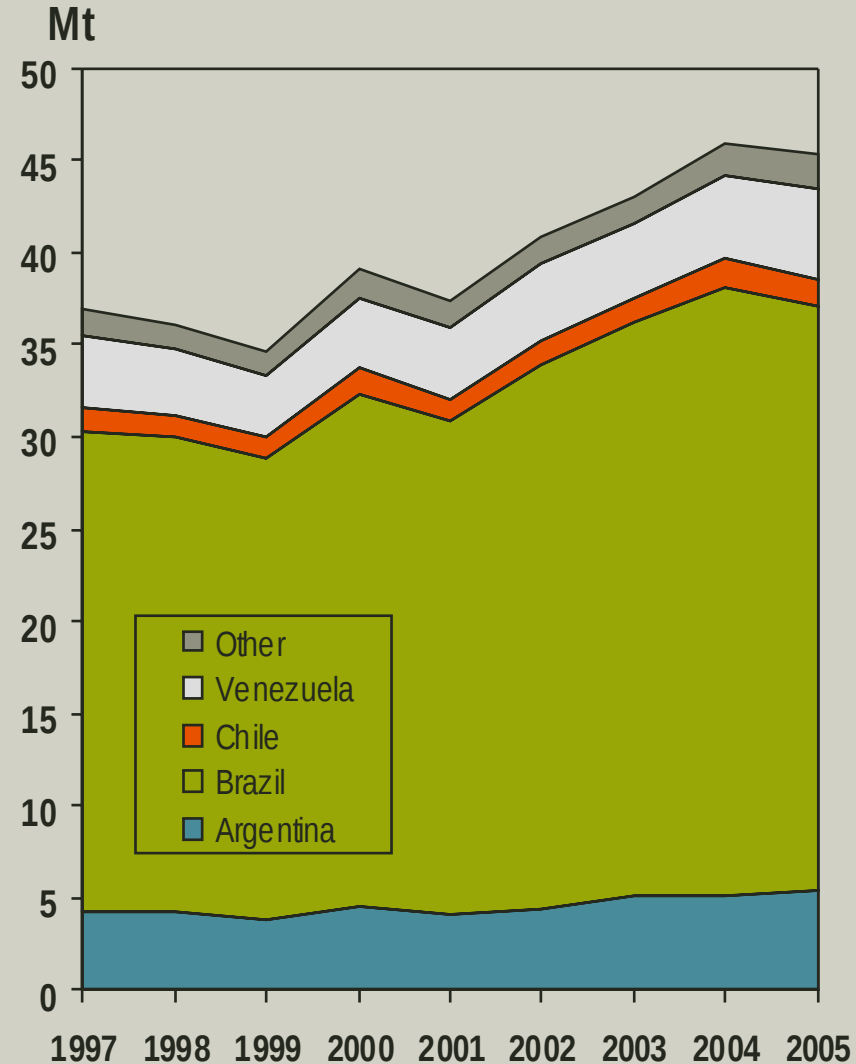


South American steel trends

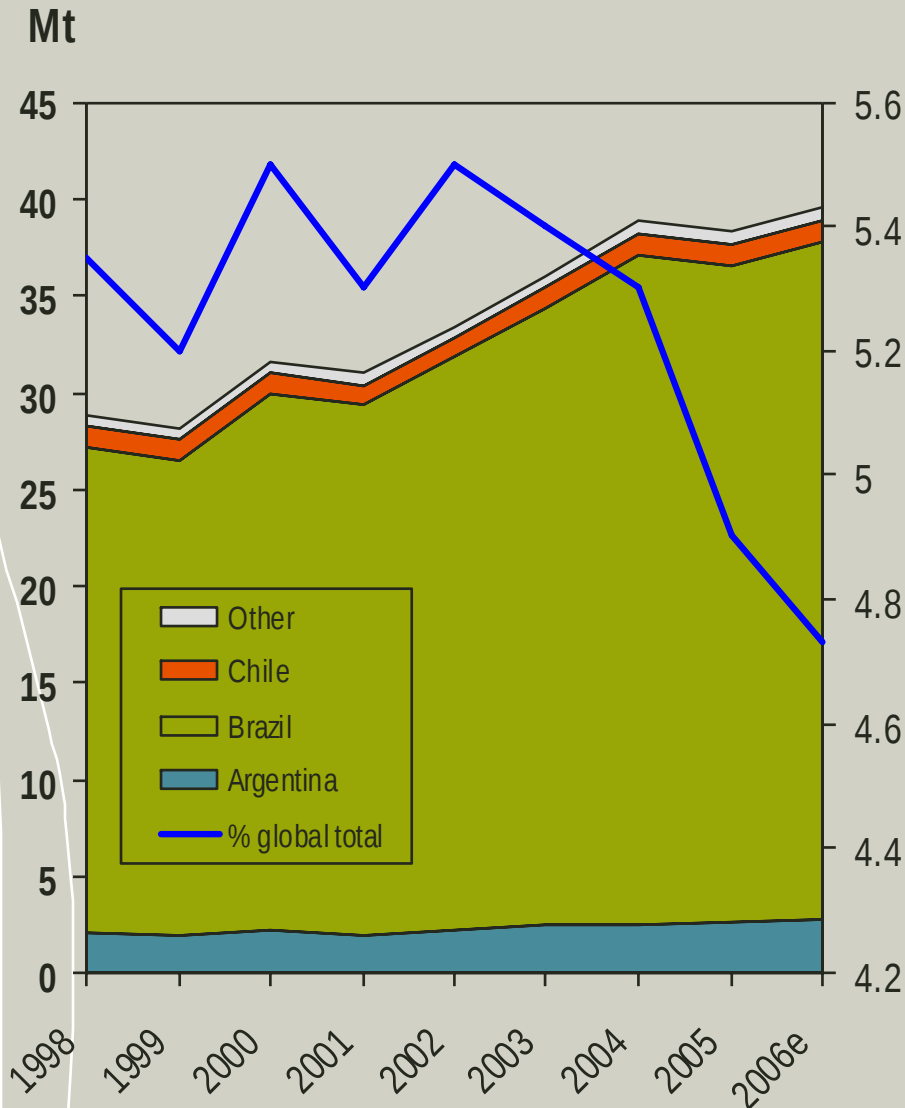
- Growth ~2.5% CAGR from 97
- Global share has declined by 1% due to growth in Asia
- Brazil major share ~70-72%
- Brazilian growth 2.3%pa



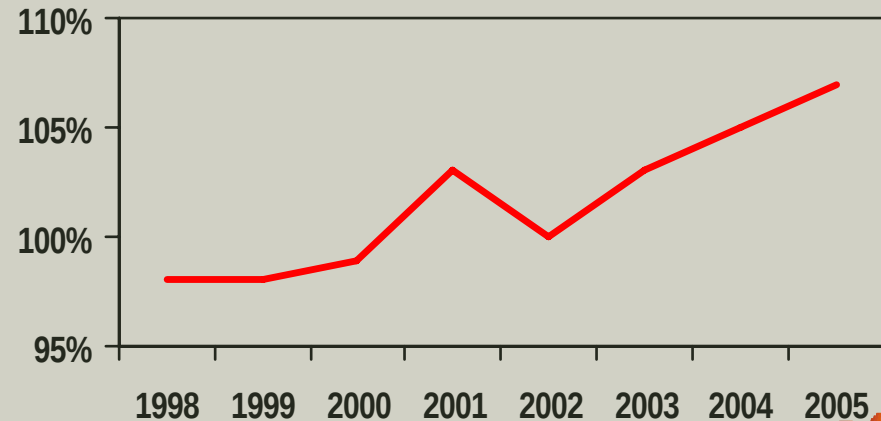
Steel by Process 2005



South American pig iron trends

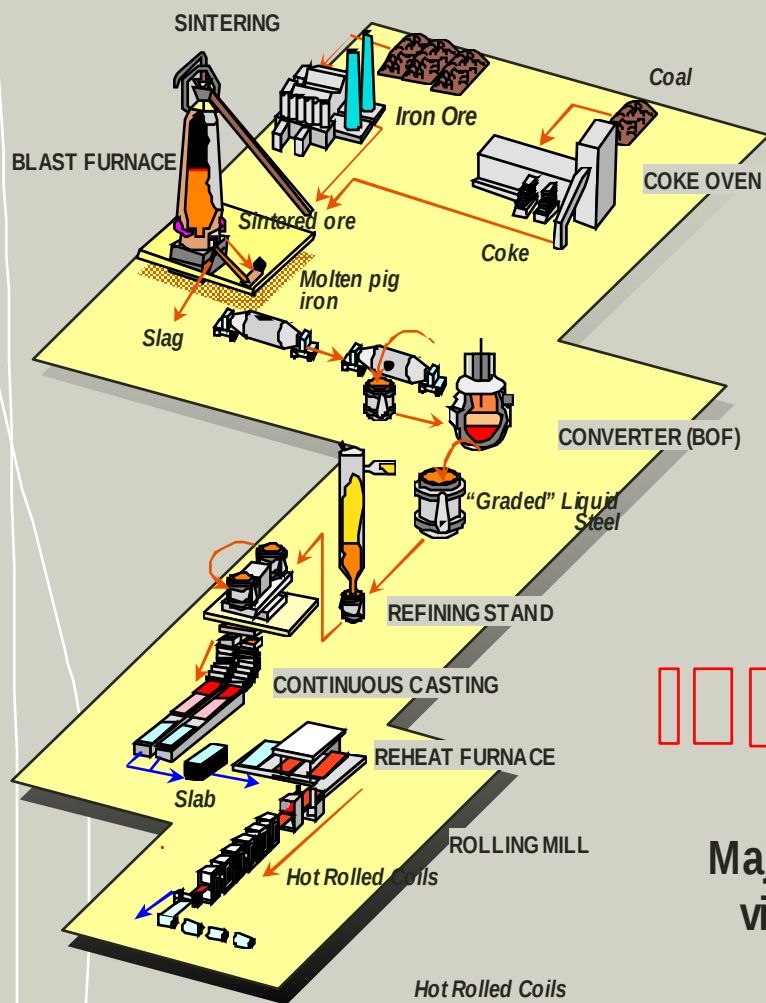


- Growth >4% CAGR
- Pig iron production dominated by Brazil ~87-89%
- Decline in global share due to rise in China
- Strong growth in PI/CS ratio due to rising merchant pig iron

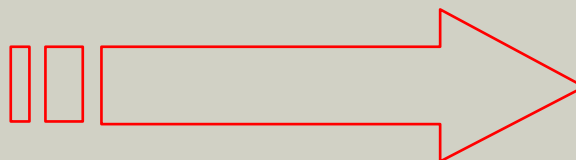
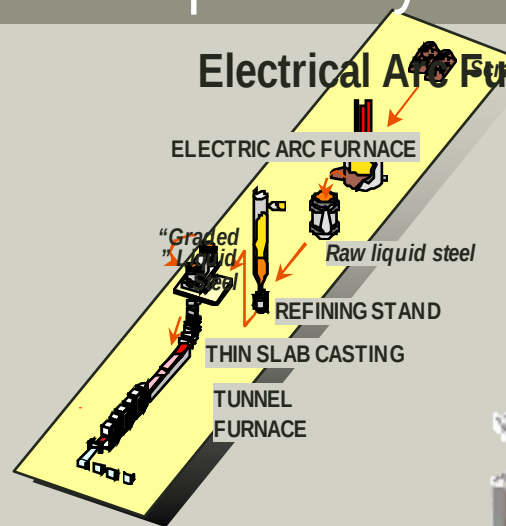


Steelmaking Processes – Brazil will probably favour BF route

Basic Oxygen Furnace



Electrical Arc Furnace



Major steelmaking route
via large high quality
iron ore reserves



Liquid flow



Gas flow (up)



bhpbilliton

Advantages of BF based steelmaking for Brazil

- Ability to utilise vast high grade domestic iron ore reserves
 - Lump and fines
- Can make full range of steels
 - Construction to Advanced High Strength steels
- Economies of scale
 - MBF to $>5,000\text{m}^3$
- Energy efficiency
 - Significant efficiency gains, greenhouse benefits
 - Further options can be developed
- Large experience with BF technology

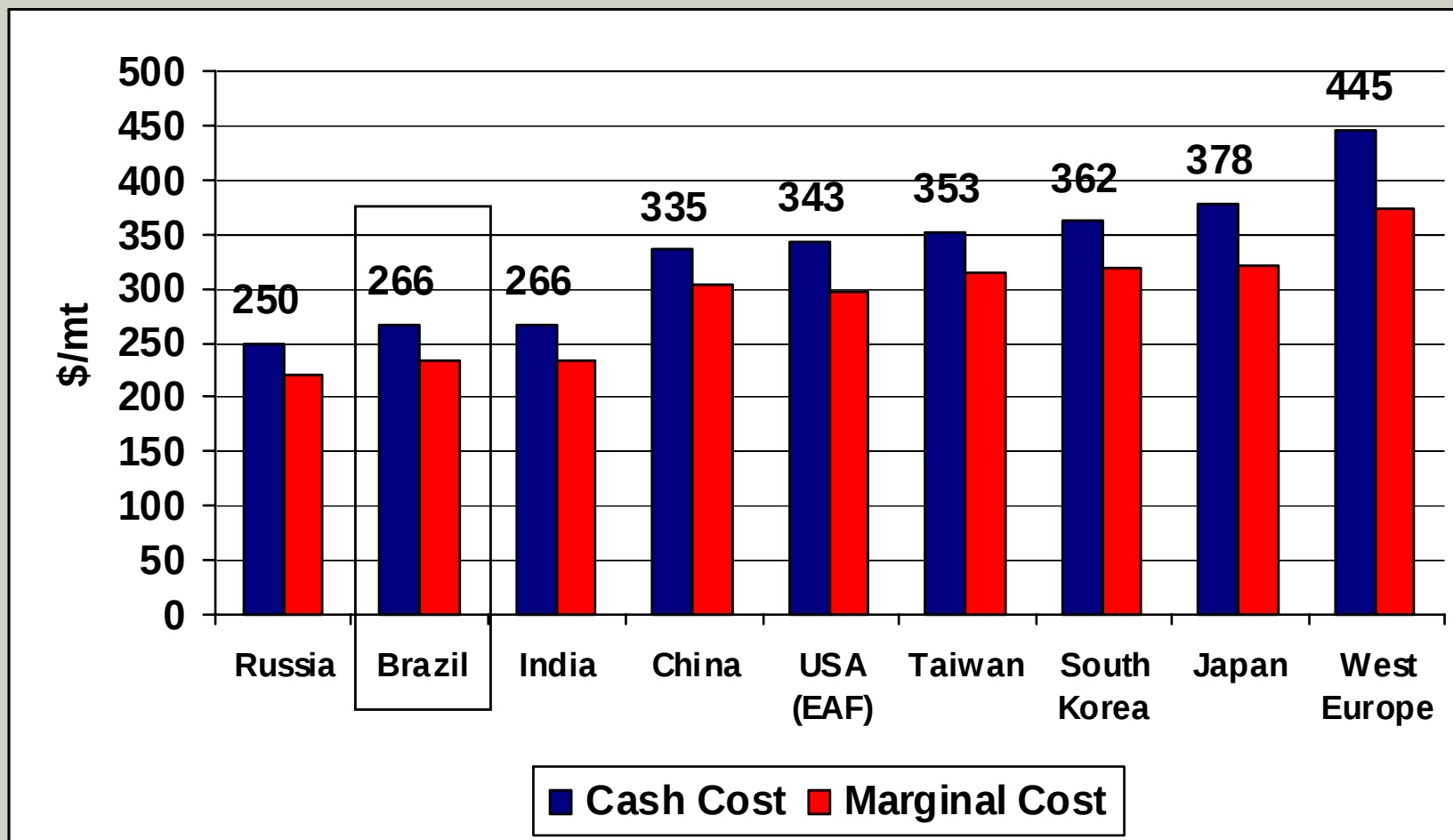
Meeting South America's future steel needs

Requirements

1. Vibrant local steel industry
2. World class domestic mining industry
3. Supplies of excellent hard coking and PCI coals

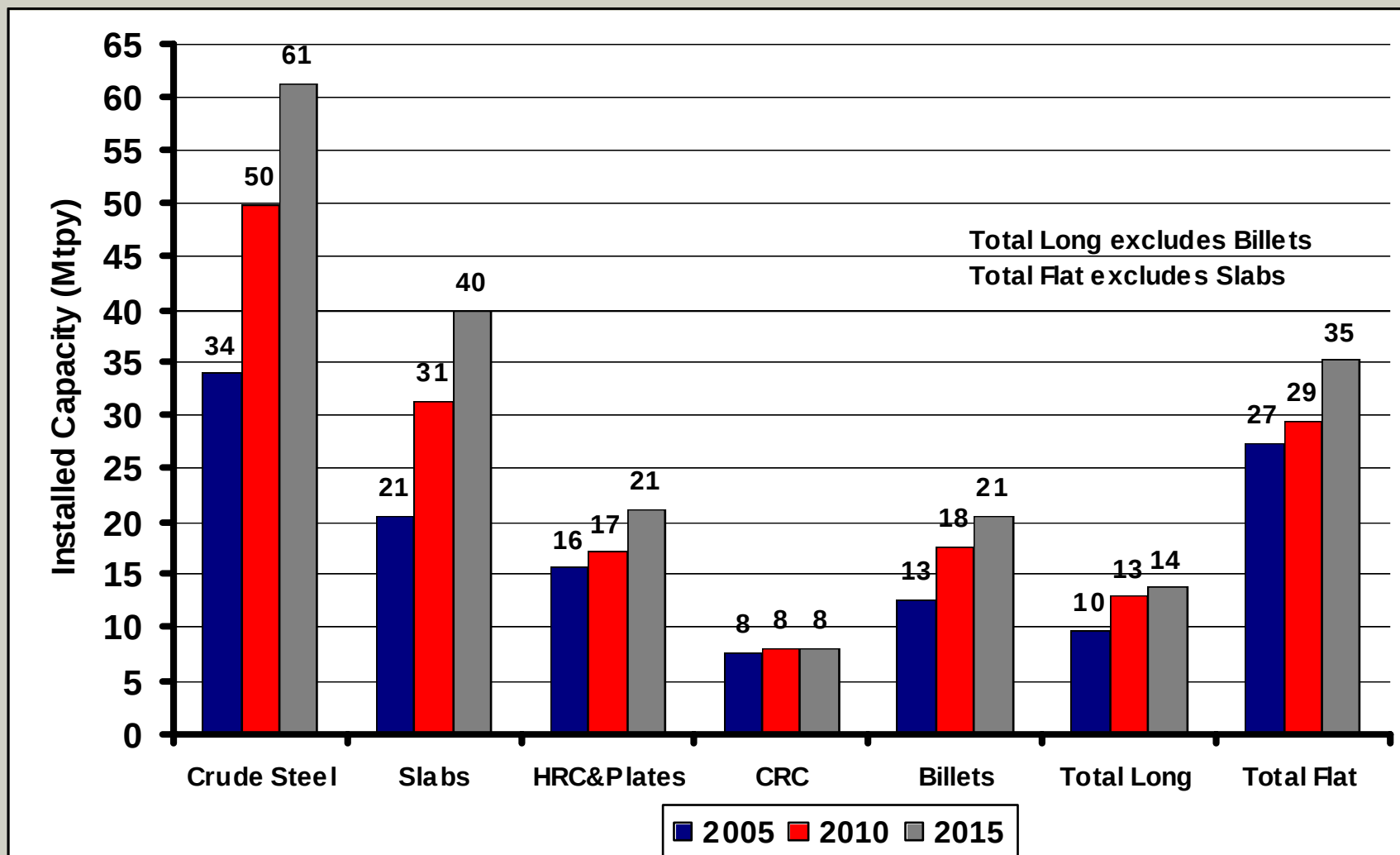
BHP Billiton can provide assistance with a range of met coals leading to the further development of a successful vibrant steel industry

HRC: Cash and marginal costs



Source: WSD Q2 2005

Strong expansion of installed steelmaking capacity expected



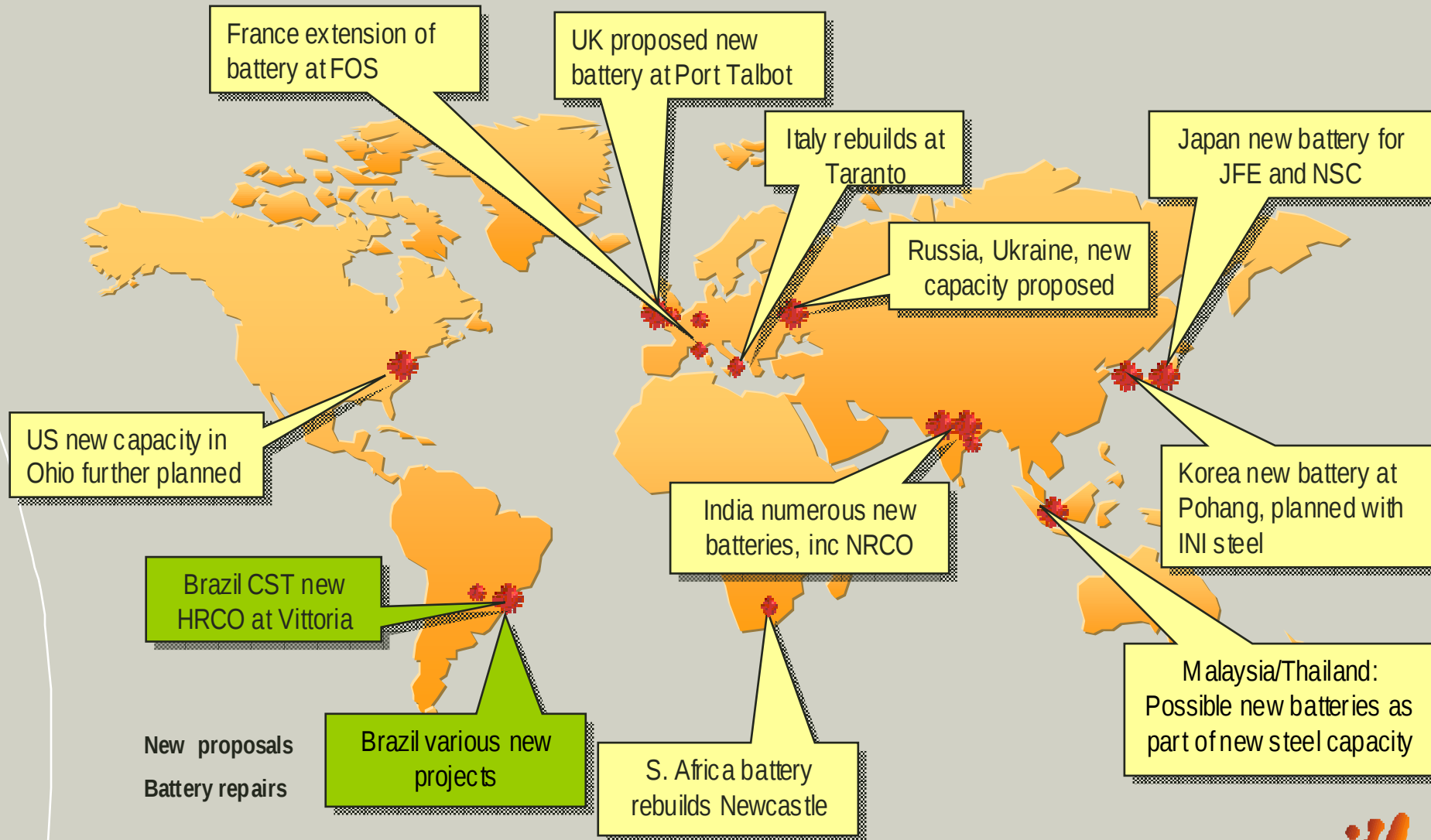
Summary of South American steel trends

- Steel demand and production is likely to accelerate
- Brazilian steel industry enjoys significant global advantages
- Major new capacity additions are planned in the next few years – growth in primary steelmaking/slabs
- Predicted robust growth in merchant pig iron sector to feed high quality “virgin” iron units to north American EAF’s
- BF based steelmaking will remain the technology of choice
- Continued growing need for high quality coking and PCI coals

Trends in global met coal demand

- **New BF capacity and associated coke capacity planned**
 - China, India, Brazil & new integrated steel capacity in Asia eg Korea, Thailand
 - Significant relined and enlarged BF capacity planned
 - New batteries Japan, Korea – remove reliance on merchant market
- **Changes to seaborne balance due to declines in domestic production**
 - Germany
 - USA, esp. low volatile HCC
- **Rise of China as an important met coal importer in medium term**
 - New coastal capacity favouring seaborne imports
- **Move away from SSCC to HCC**
 - Larger, and high BF productivity requiring increased levels of high quality HCC
 - Kyoto supporting moves to lower fuel rates = move away from SSCC to HCC

Traditional and new steelmakers are building / refurbishing and planning new coke capacity

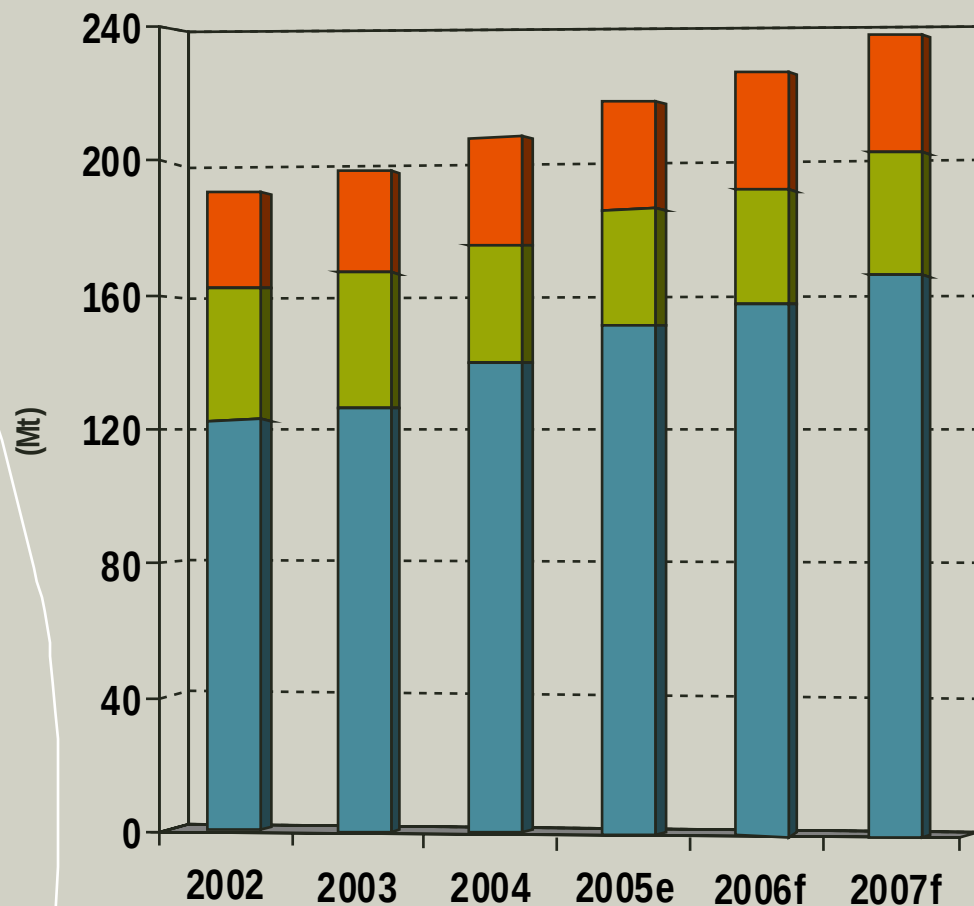


Source Market sources and announcements

Global Increase in met coal demand 2006 - 2007

Total met coal increase 2004 - 7 approx 29Mt or (5%pa)

■ Hard Coking Coal ■ Semi-soft ■ PCI



2004-2007 increases:

PCI increase +3Mt, (3% pa)

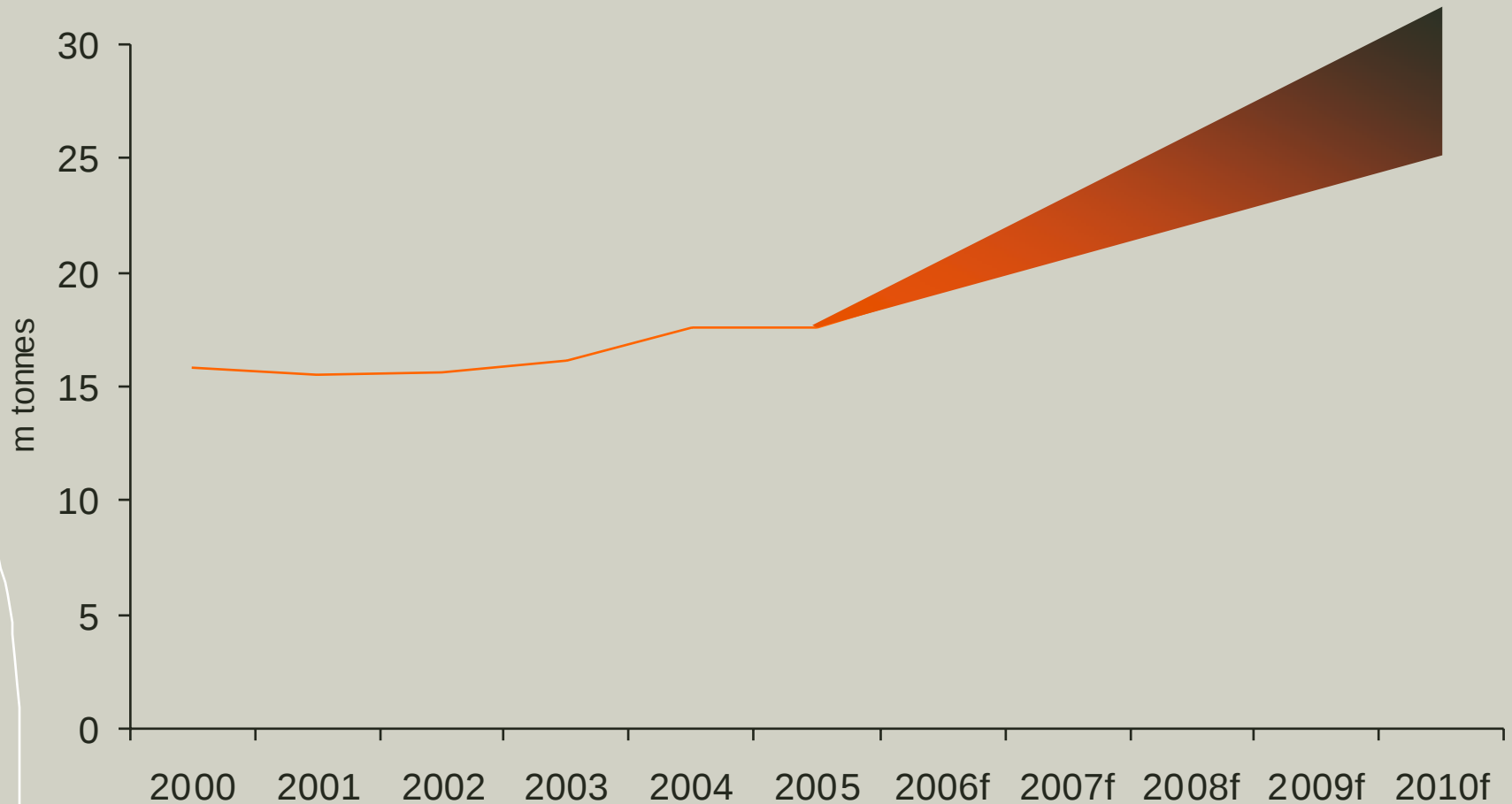
Semi-soft increase +0Mt (0% pa)

Hard coking coal increase + 28Mt (7%pa)

Major met coal issues for Brazil

- Need to import 100% because of no domestic supply
- New larger capacity BF's will require high quality coke
- Better coke needed in future due to
 - Increased PCI use
 - Increase in BF productivity
- New cokemaking technologies will still require hard coking coals
- Buying on price (short-term) vs. buying for quality, security of supply, etc. (long-term)

Latin America's met coal demand will rise strongly



Source: Trade statistics, industry analysts, BHP Billiton

Major high quality global met coal producing regions

USA - Appalachia

LV, MV, HV producer ~300km to coast
Reserve depletion, rising costs and logistics challenges

Canada - Elk Valley

LV, MV producer, 1200km to coast
Logistics complex and partially constrained, rising costs

China - Shanxi Province

LV, MV, HV producer, 800km to coast
Strong domestic demand, resource depletion, environmental, safety issues, skilled labour shortages, rising costs

Russia - Kuzbass

LV, MV, HV producer ~4000km to coast
Limitations on infrastructure, dependent on subsidised rail transportation
Strong domestic demand

Australia - Bowen Basin

LV, MV, HV producer ~300km to coast
Shortages of skilled labour, input costs rising, commissioning delays, port capacity



Predominantly export

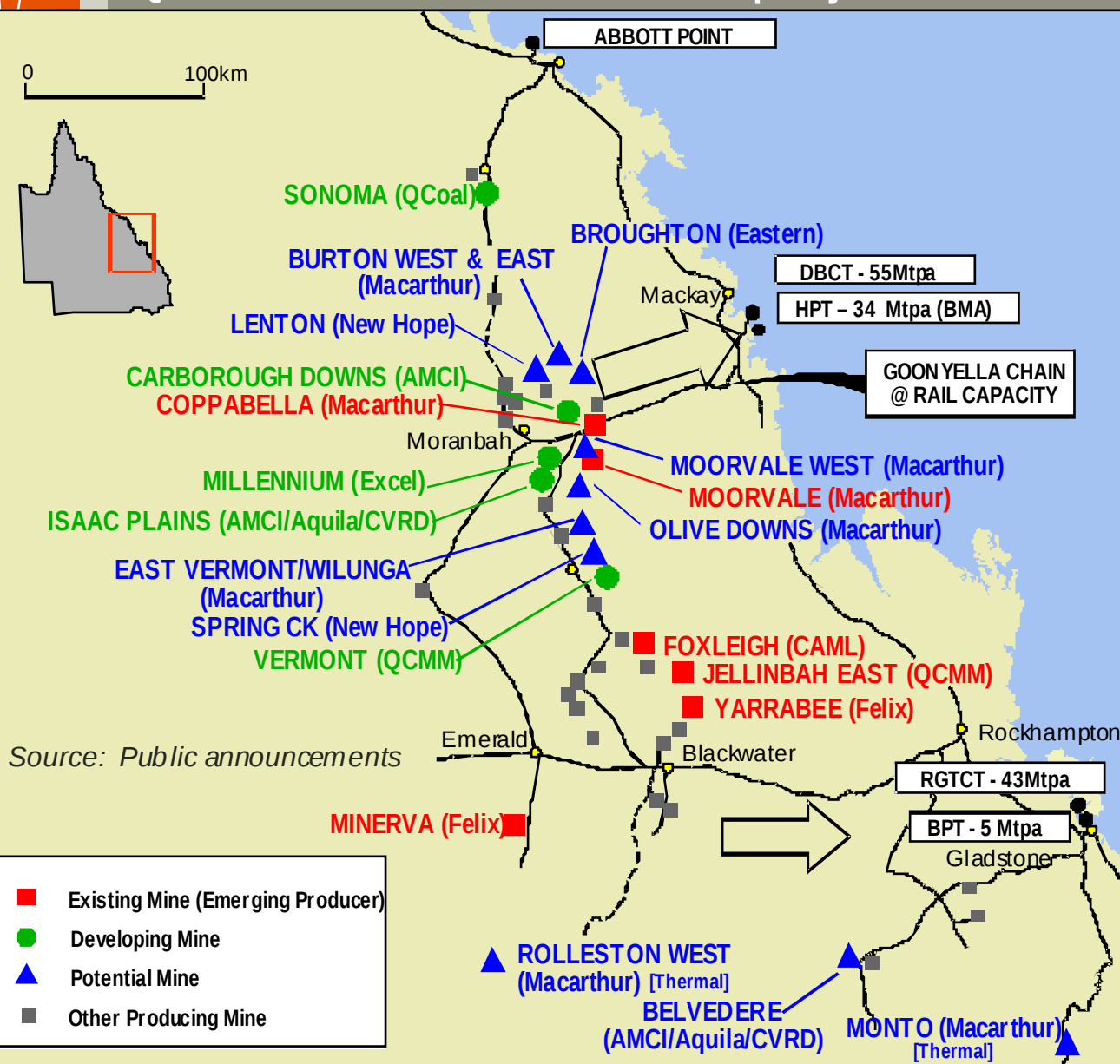


Predominantly domestic



billiton

Queensland selected new projects



Australia and
Canada

Majority of
new projects
are
WCC/SSCC
and PCI coals

Met Coal Supply Outlook to 2007

- **Australia** (>60% of global total)

- Exports up strongly
- Further additional supply from Hail Creek, Dendrobrium, Broadmeadow, other HCC
- Brownfield creep/expansions
- Delayed new capacity expansions

- **Canada** (13% of global total)

- Exports increasing from 2004/5
- New capacity NE British Columbia, but mainly PCI, WCC or poorer HCC
- Ramp up Alberta, Cheviot, Grande Cache
- Possible restarts - brownfield expansions

- **USA** (12% of global total)

- Difficult to predict after rise in 2004/5
- Outlook further decline, ~ 3-5Mt by 2007
- Possible decrease in HV – power linked
- High cost producer

- **China**

- Little HCC exported
- Probable shortage of domestic HCC in future
- Counterbalance high domestic demand with export desires – China first
- Shanxi Province key - hard to predict

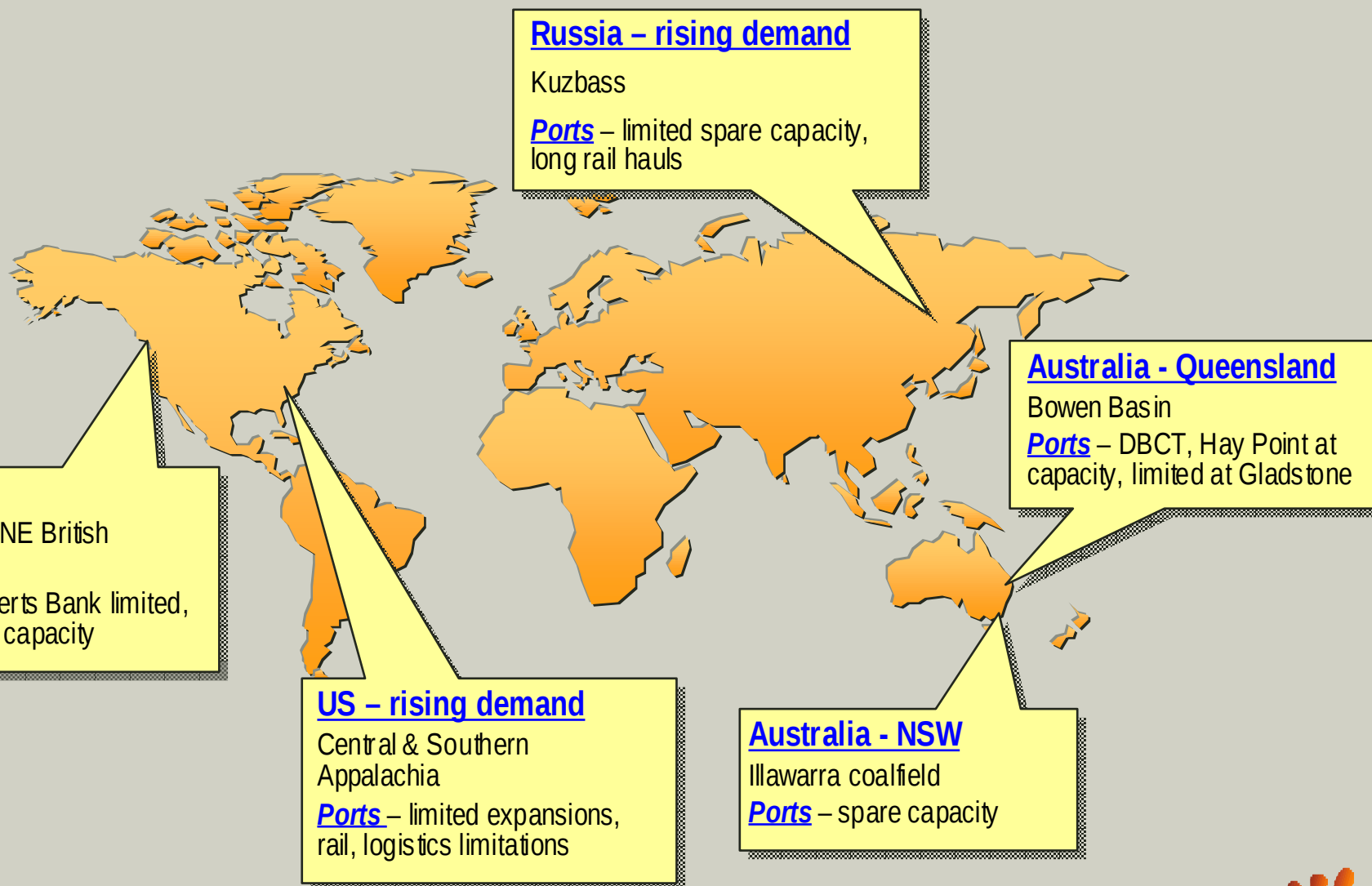
- **Russia**

- Exports predicted to rise slightly
- Domestic demand growth/supply tightening
- Most HCC owned by steelmakers
- Further potential, but domestic demand rising exports secondary – price sensitive
- Production costs low but very low rail freights vital

Key Takeaways

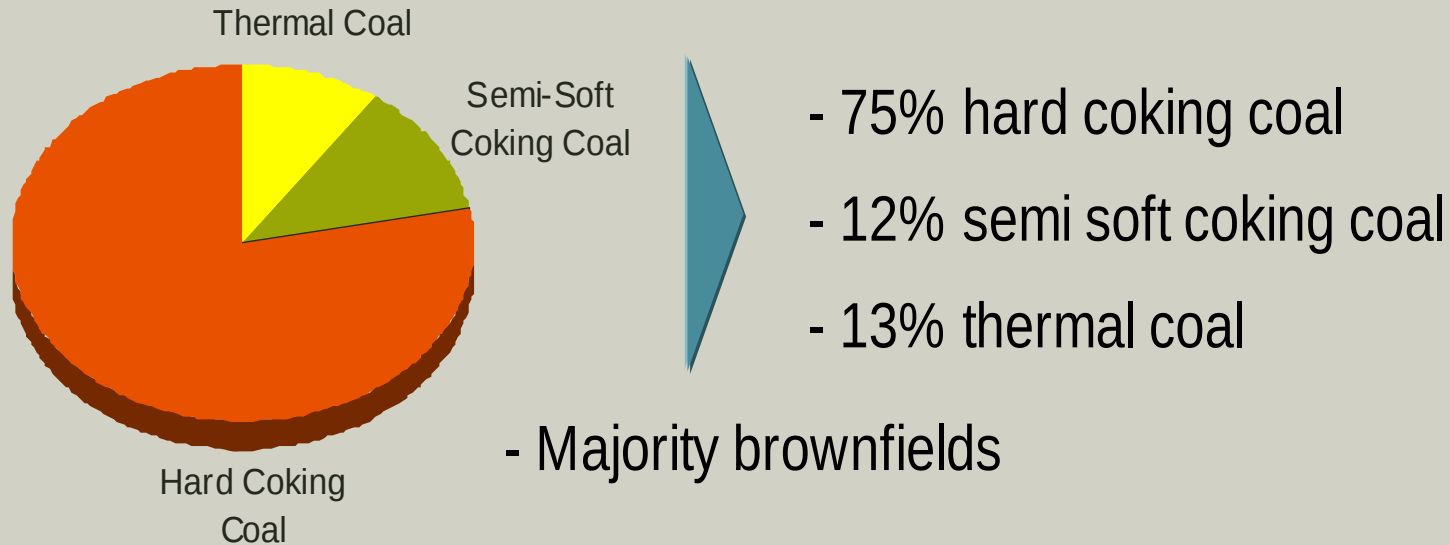
- Continued importance of Australia especially in better quality HCC
- Port throughput not mine production the key to export volumes in near term
- Supply becoming more volatile

Port and rail capacity is the key in the short term



BHP Billiton has numerous growth opportunities to meet market demand

BHP Billiton Bowen Basin expansions contribute the majority of the growth, predominantly high quality hard coking coal announced Q3 2004



Capacity growth based on:-

- brown & greenfield expansions in Bowen Basin
- replacement new longwall and potential expansions in Illawarra
- new coking coal basin in Kalimantan, Maruwai

BHP Billiton's expansion progress

Queensland – Bowen Basin

- Queensland Stage 1 expansion from 52 to 57 Mtpa completed
- Queensland Stage 2 (to 59 MTPA) underway & due by 2nd half 2006
- Broadmeadow long wall commenced production August 2005
- Poitrel open cut approved and under construction
- Expansion of capacity at Hay Point Coal Terminal on track :
 - Phase 1 to 40 MTPA (+6) by 2nd half 2006 – underway
 - Phase 2 to 44 MTPA by 1st qtr 2007 – announced
 - Phases 3&4 to 55-57 MTPA – being assessed & environ approvals sought.
- Currently evaluating range of further options for expansion subject to market demand and constraints imposed by the current environment
 - resource shortages, lack of skills people and significant cost pressures

BHP Billiton's expansion progress

Broadmeadow – commenced production August 2005



BHP Billiton's expansion progress Poitrel mine



Crushing station



Surge bin



Ultra-fines microcell tanks



Poitrel rail loop

Note: Poitrel mine has a JV for infrastructure sharing

BHP Billiton's expansion progress

Expansion of existing operations

Construction of new Blackwater CPP



Expansion of Saraji CPP



Expansion of Hay Point



Additional contract stripping



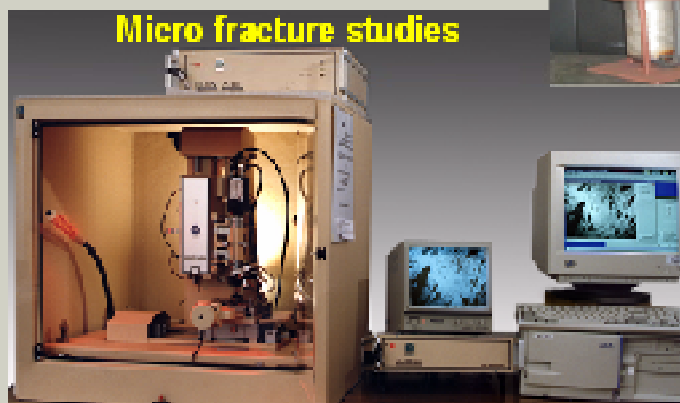
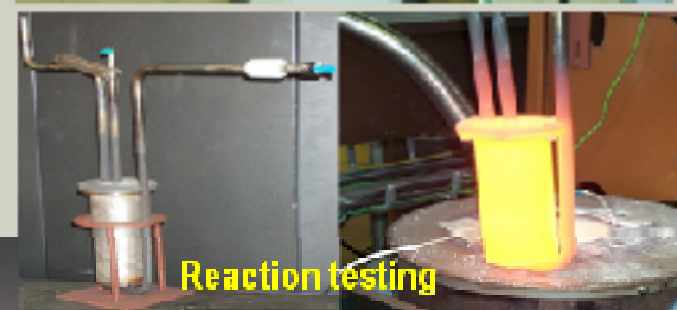
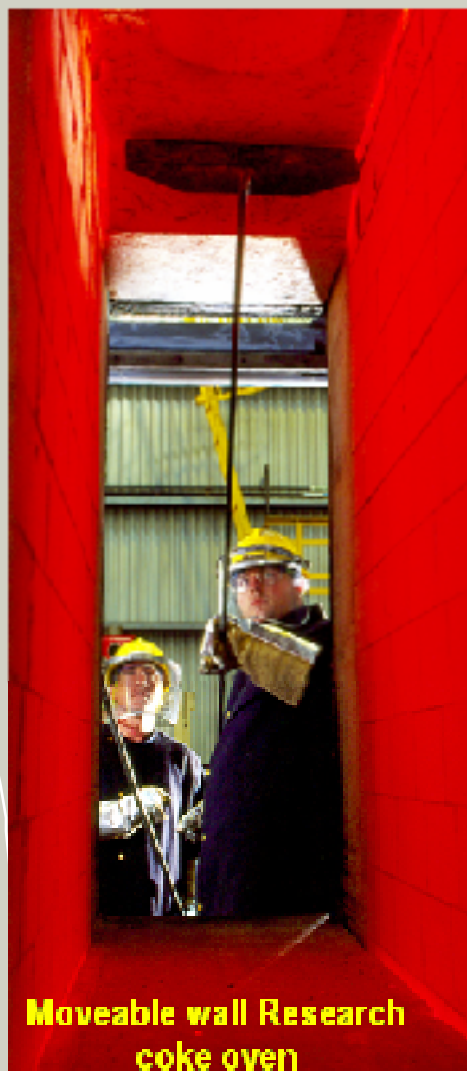
BHP Billiton's expansion progress Illawarra and Maruwai

- Dendrobium UG mine commenced production April 2005



- Further expansion options at Illawarra under feasibility study
- Maruwai moved into feasibility study stage.

BHP Billiton experience in optimising met coal understanding



Further development of research heat recovery coke oven underway

Concluding Remarks

- The global steel industry remains on a fast growth track
- Latin America has great potential to raise capacity and boost production, especially given the excellent iron ore resource position
- BF based steelmaking is the optimal solution for Brazil's steel industry and requires imported met coal
- The outlook for met coal esp. hard coking coal is strong and challenges to meet market demand are faced by all major producing regions
- BHP Billiton are fully committed to meeting the growth for coking coal, delivering Brazil and South America the confidence and assurance for its future steel needs



bhpbilliton