

Review of the Market for Metallurgical Coal



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McCloskey Coal Conference, Nice, France
Tuesday, 23 May 2006



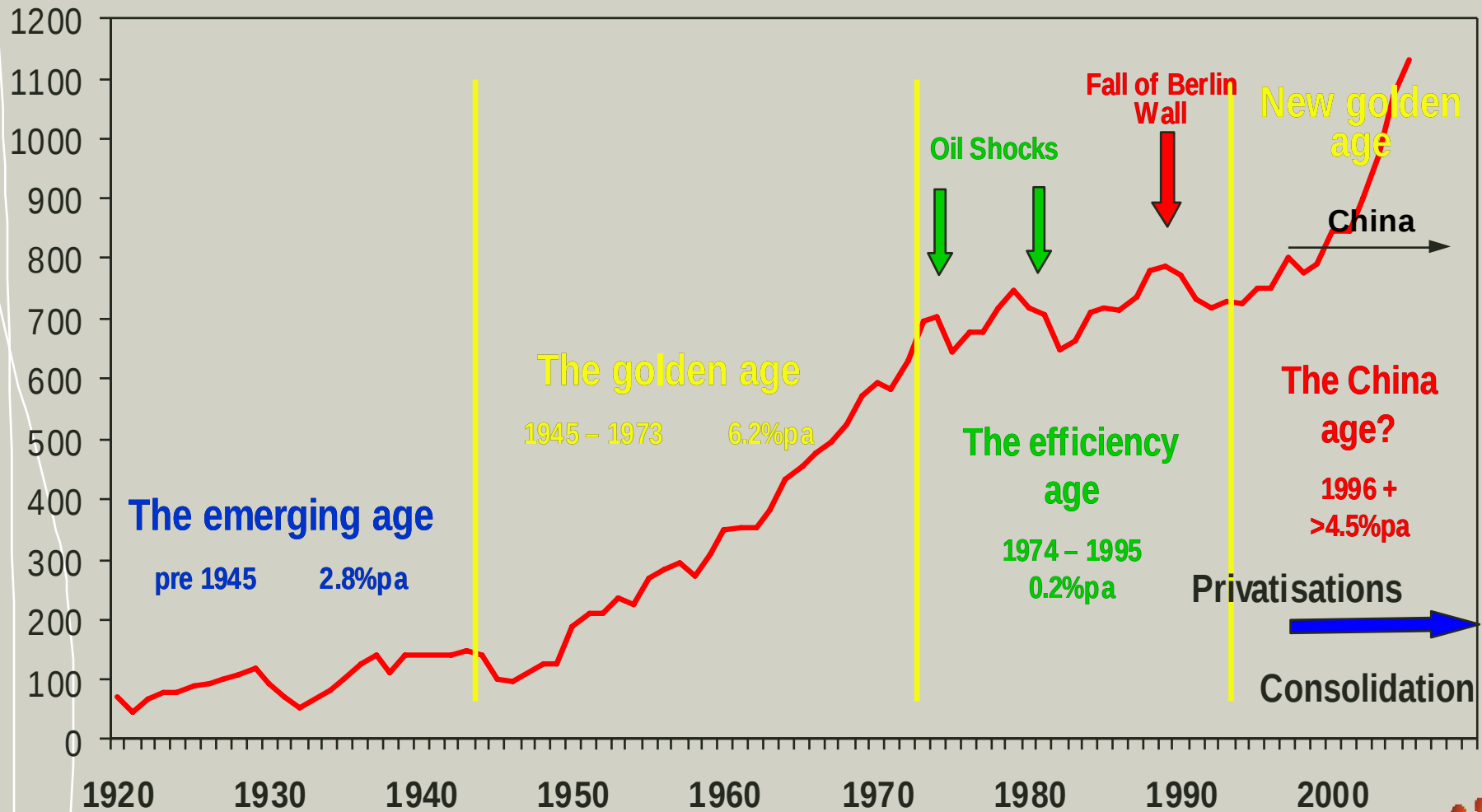
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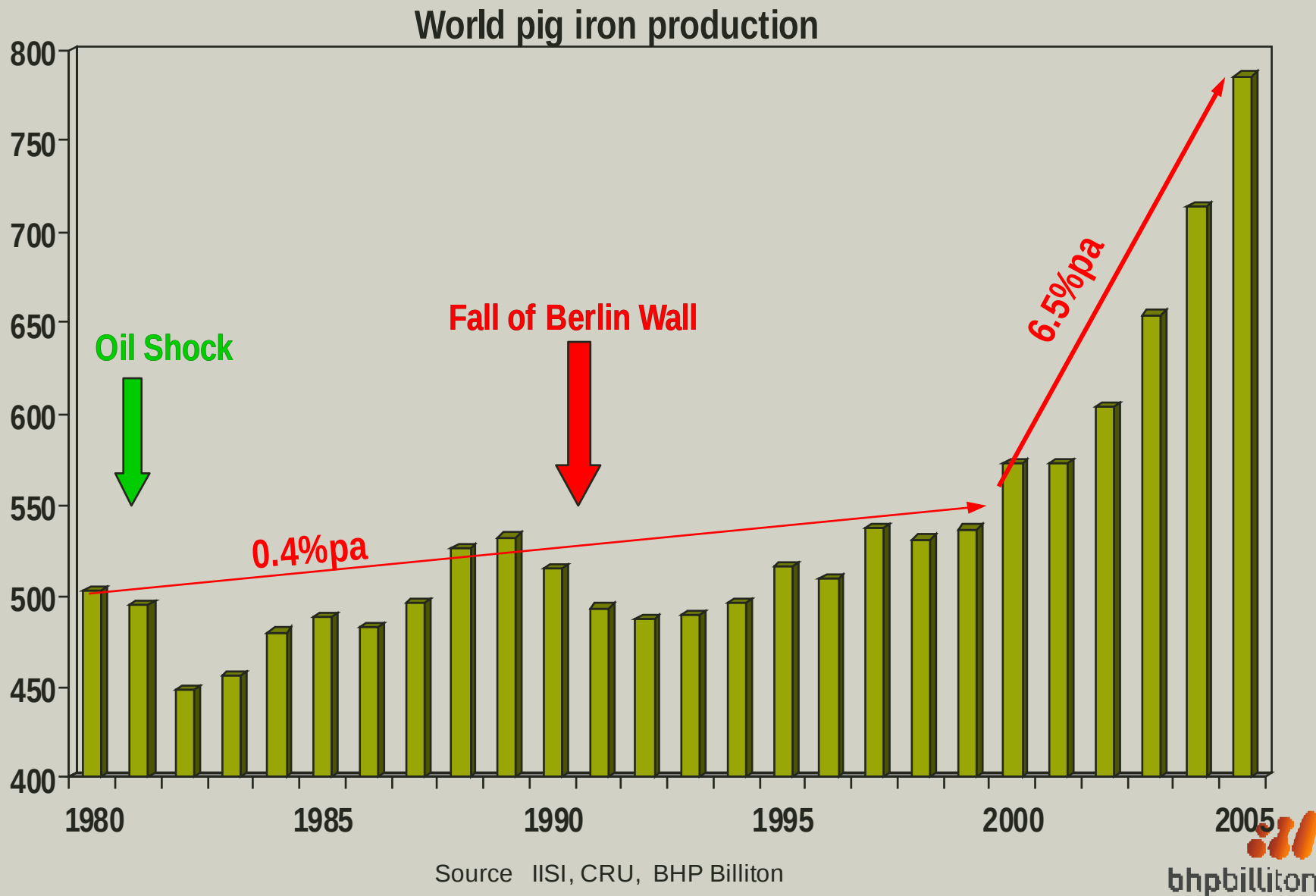
Global steel production has entered the 4th age

4th age of steel firmly established, parallels between post 1995 and post 1945, industrialisation of China, can it be continued with India? $\frac{3}{4}$ of population < world steel average consumption.



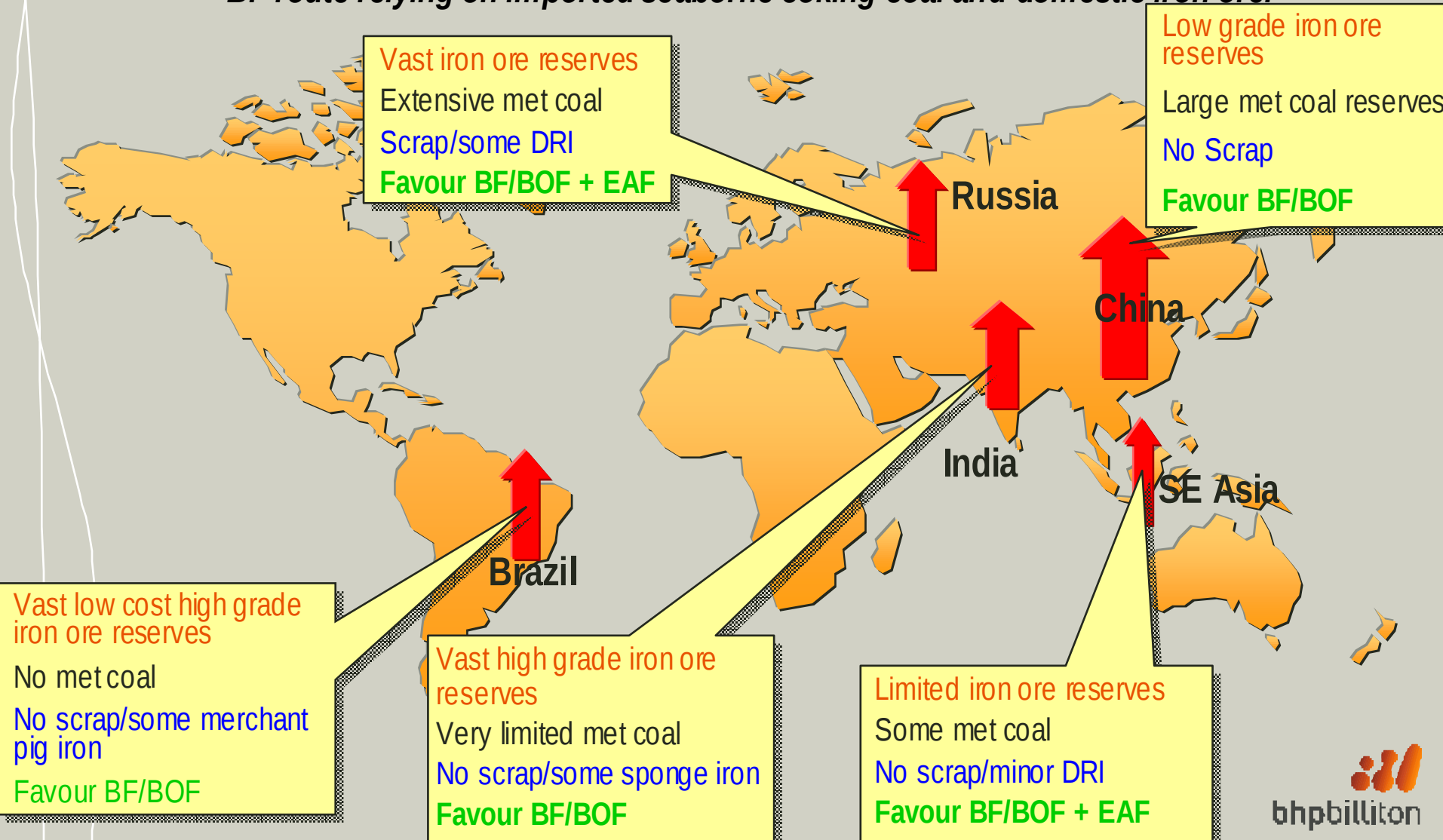
Source IISI, BHP Billiton

Metallurgical coal based steel production has followed steel growth



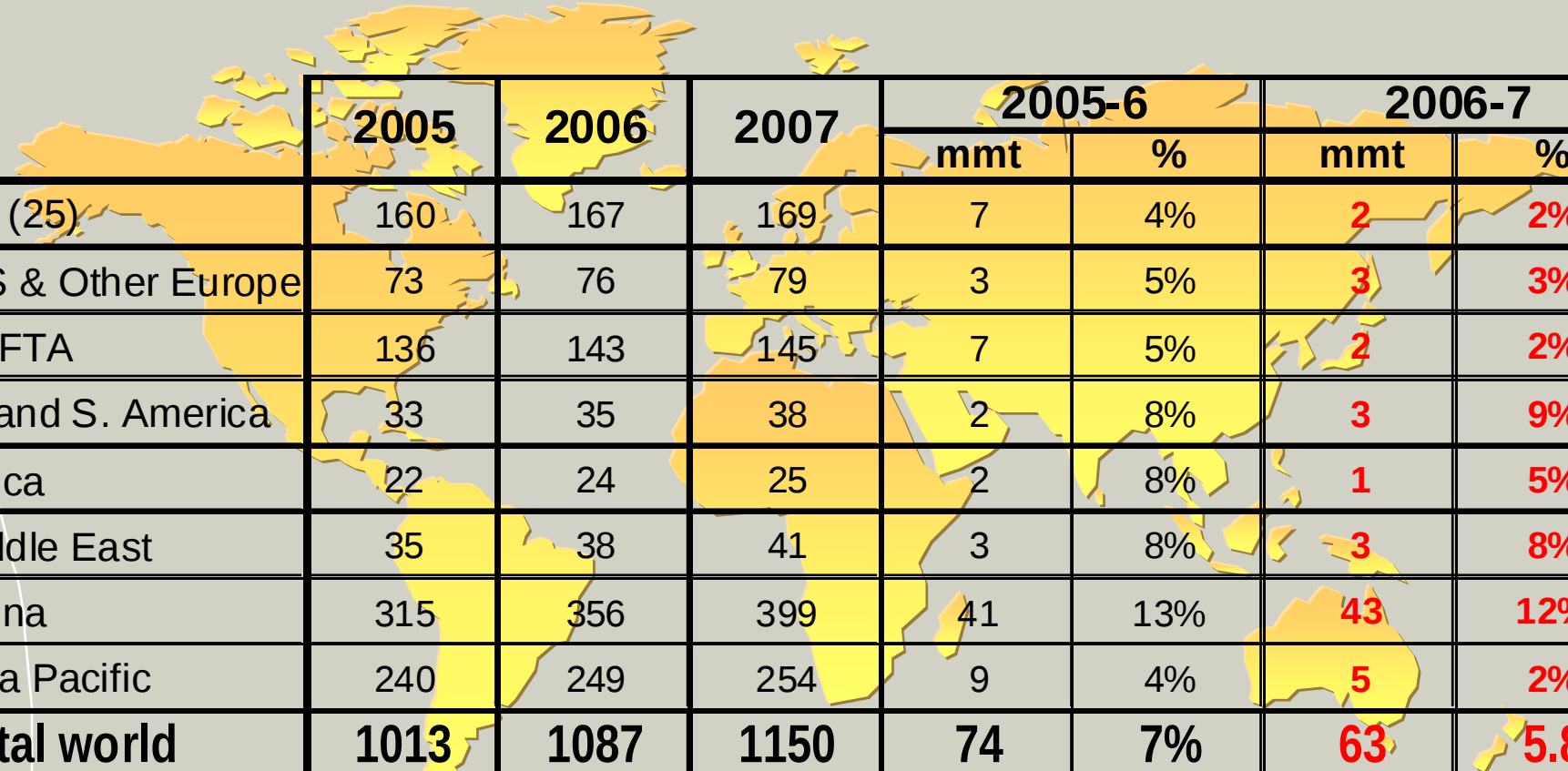
Future growth will be led by BRICS

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.



Short term steel demand outlook is very positive

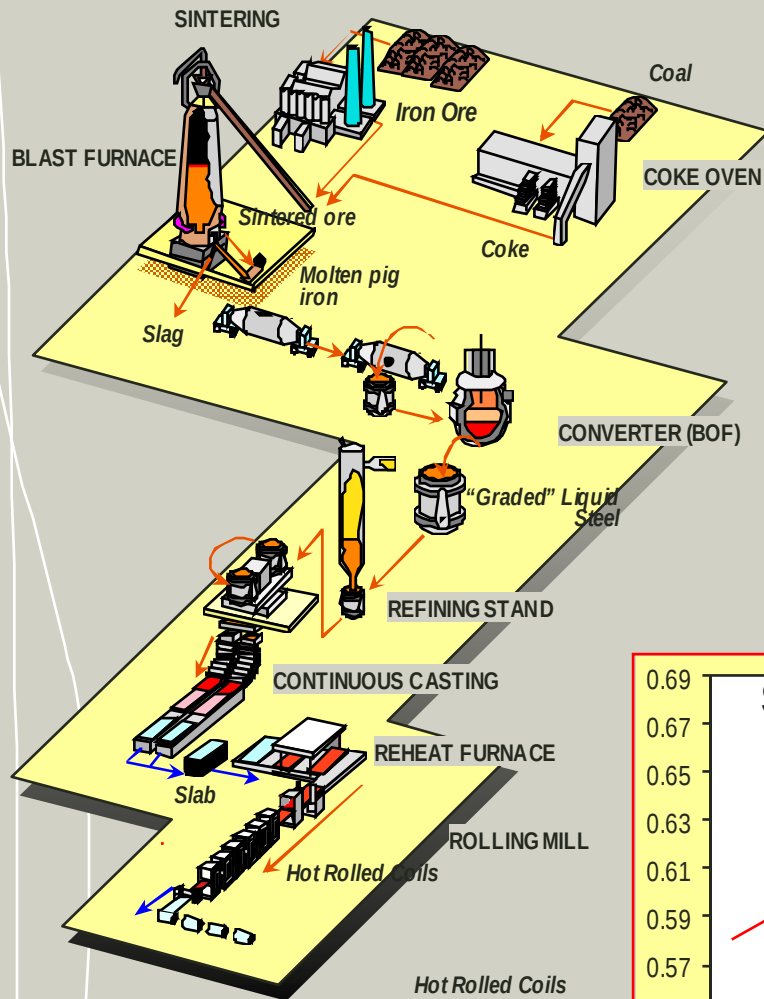
Predictions for steel consumption growth are more positive for 2006/7 than for 2005; ROW expected to see significant growth to complement China – the majority of growth in 2005.



	2005	2006	2007	2005-6		2006-7	
				mmt	%	mmt	%
EU (25)	160	167	169	7	4%	2	2%
CIS & Other Europe	73	76	79	3	5%	3	3%
NAFTA	136	143	145	7	5%	2	2%
C. and S. America	33	35	38	2	8%	3	9%
Africa	22	24	25	2	8%	1	5%
Middle East	35	38	41	3	8%	3	8%
China	315	356	399	41	13%	43	12%
Asia Pacific	240	249	254	9	4%	5	2%
Total world	1013	1087	1150	74	7%	63	5.8

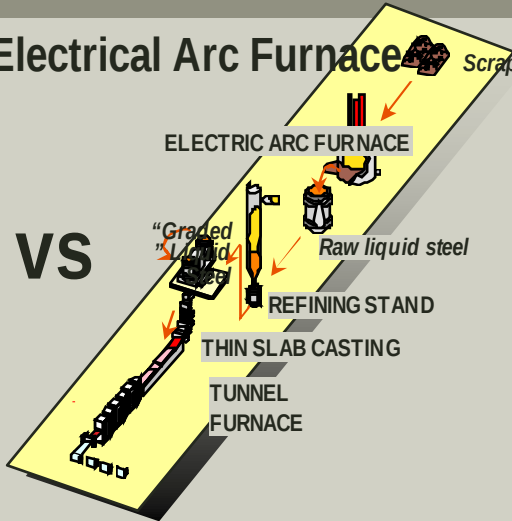
Steelmaking continues to favour coke based BF route

Basic Oxygen Furnace



Source: IISI

Electrical Arc Furnace

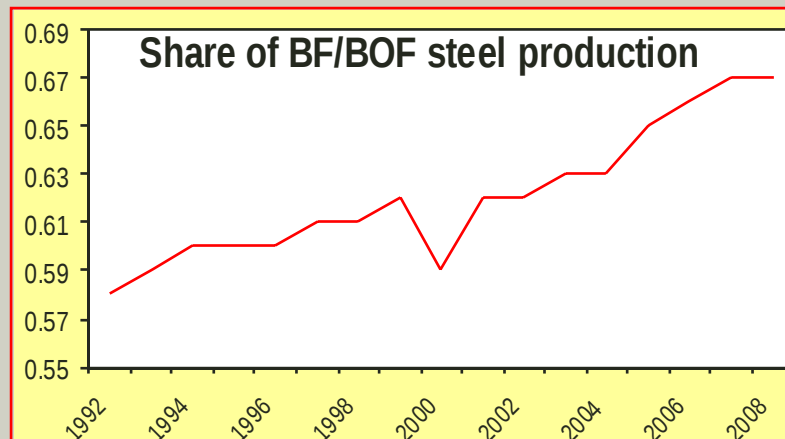


VS

Major steelmaking route for high quality steels



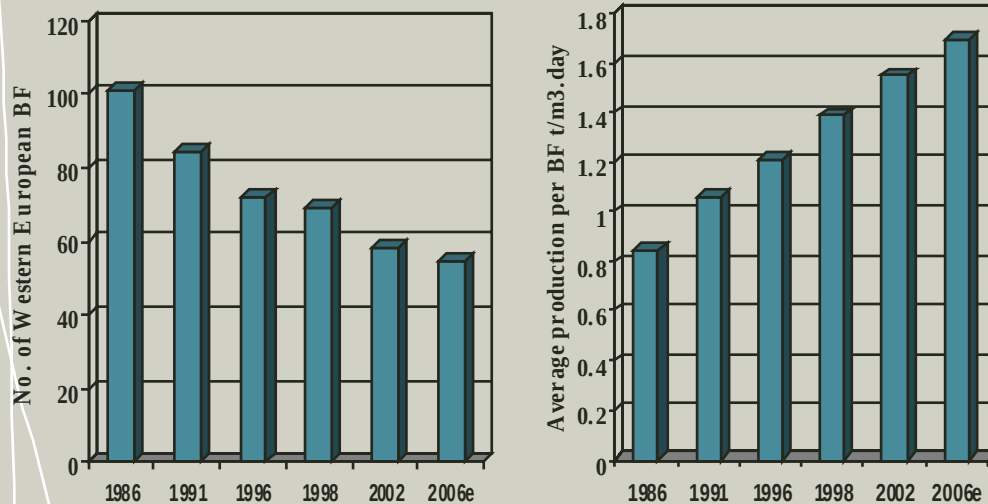
↓ Liquid iron
↑ Gas flow (CO₂)



Trends in Blast Furnace coke quality favour use of HQHCC

- Changes to fewer, larger more productive BF's

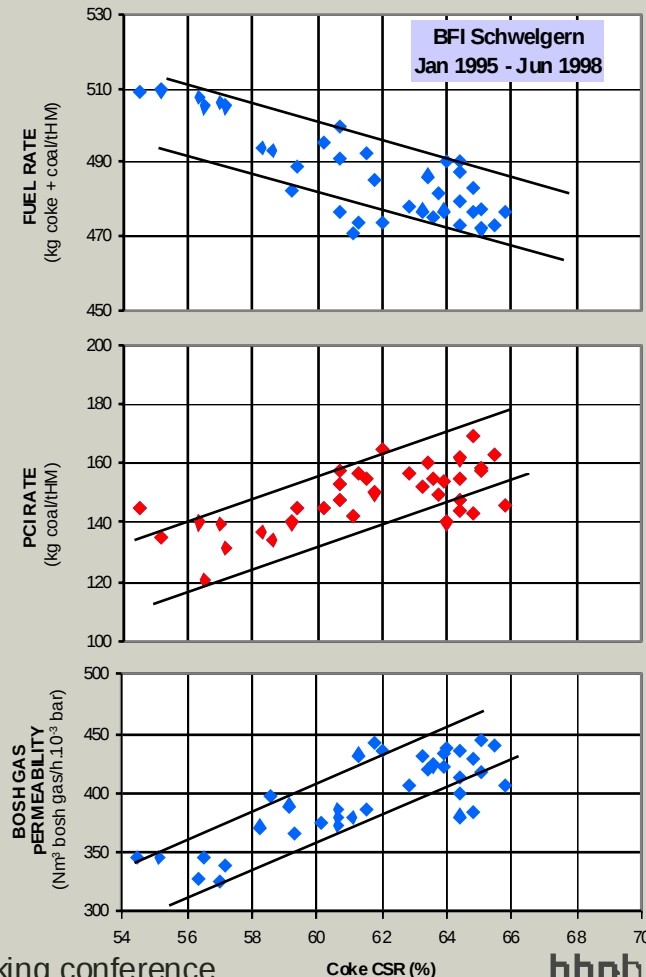
European Blast Furnace Changes



- HQHCC coals have excellent CSR properties
 - Produce excellent high quality coke for large BF's
 - Selected plants 70% of coal requirements
- Use of high quality coking coals lead to improved coke properties and quality

- Improved Coke Quality

- Marked improvement in coke strength CSR
- CSR leads to improved BF performance



Advantages of coke based BF steelmaking

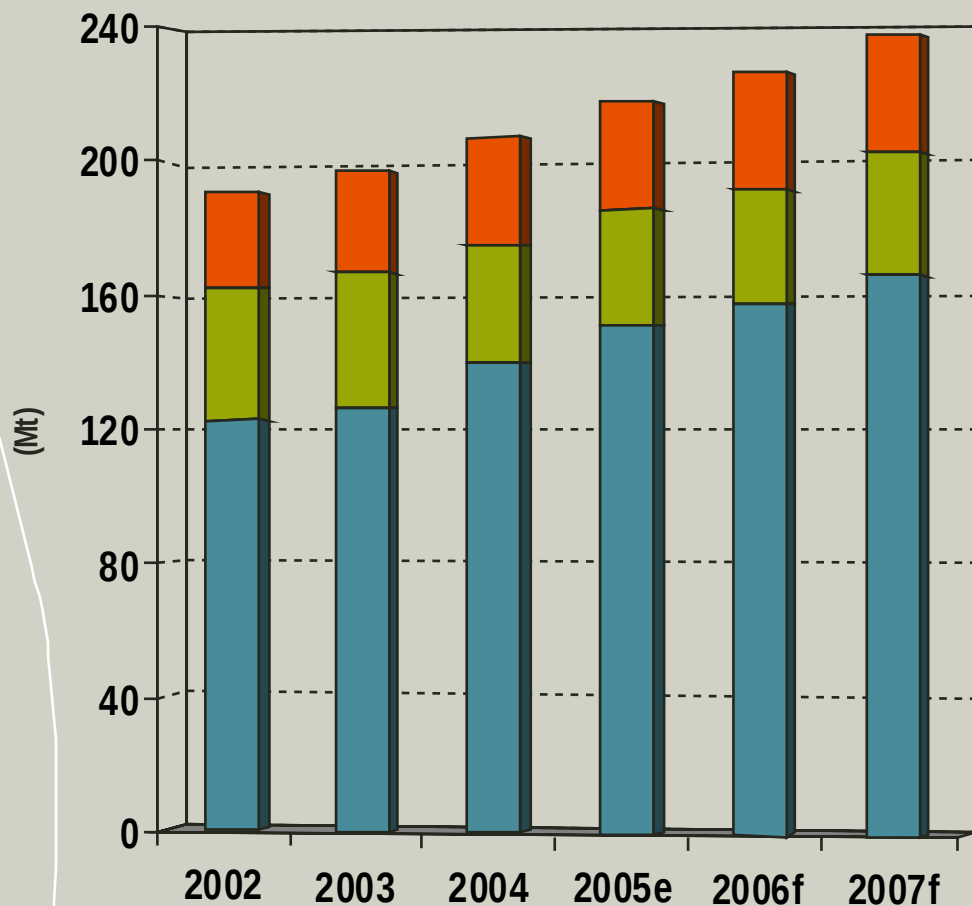
- Can make full range of steels
 - Construction to Advanced High Strength steels
- Economies of scale
 - Small MBF to $>5,000\text{m}^3$
- Energy efficiency
 - Significant efficiency gains, greenhouse benefits
- World has large experience with BF technology
- Ability to utilise wide range of raw materials
 - Domestic and imported

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, Eastern Europe
 - USA, esp. low volatile HCC
- Rise of China as an important met coal importer in the 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
 - Rising PCI levels will require higher quality coke = more HCC
 - Kyoto supporting moves to lower fuel rates = move away from SSCC to HCC

Global Increase in met coal demand 2006 - 2007

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



2004-2007 increases:

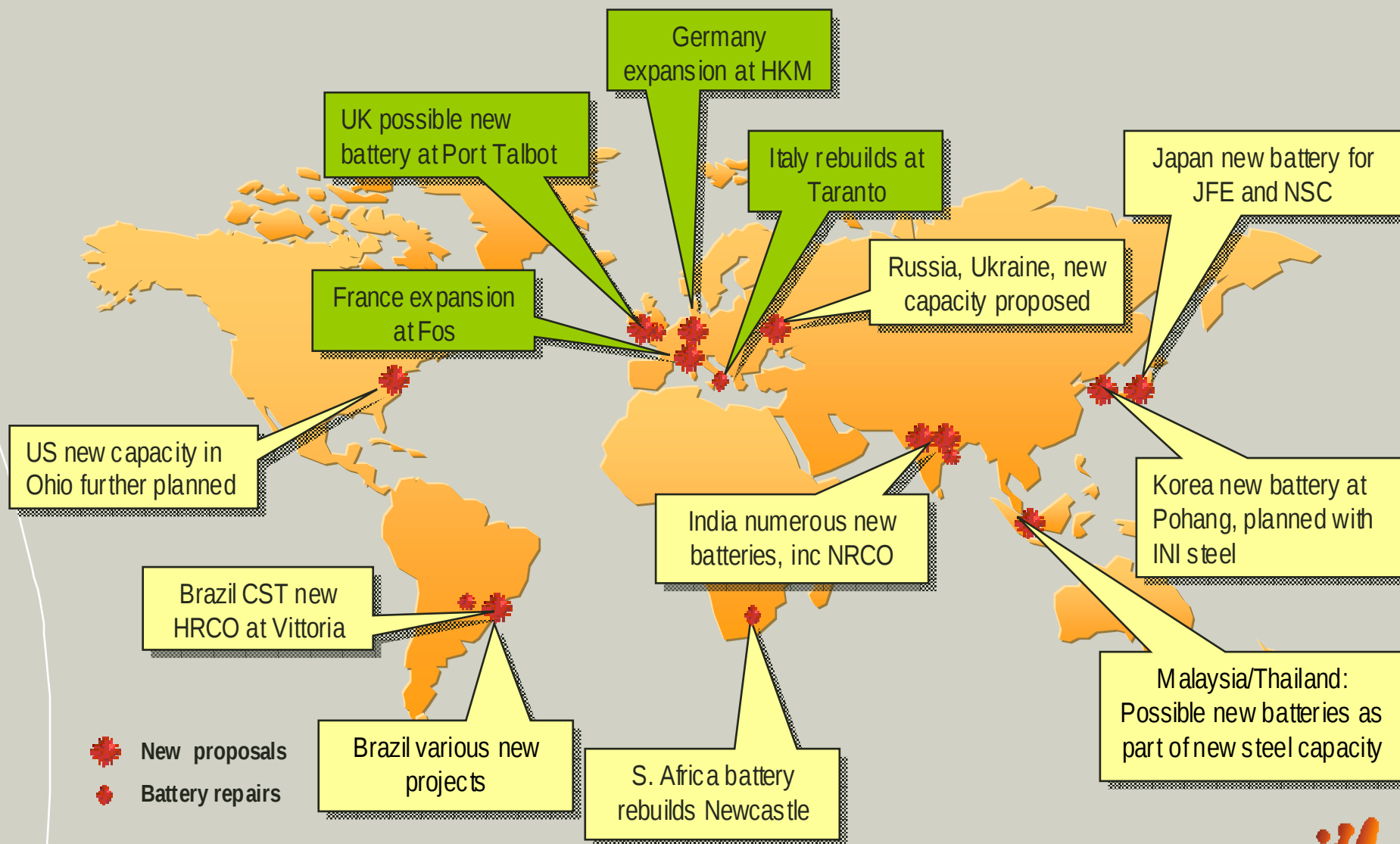
PCI increase +3Mt, (3% pa)

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

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

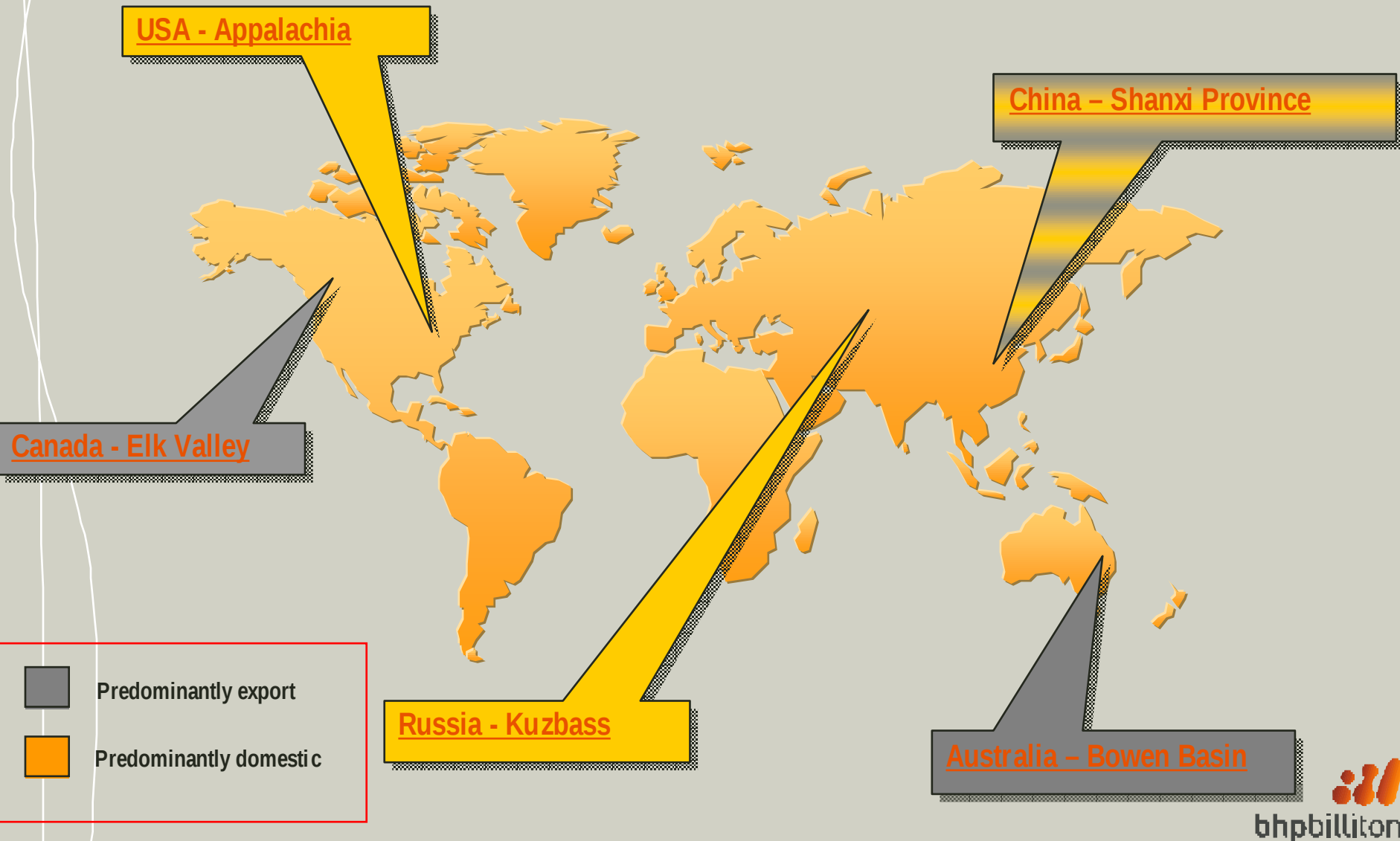
Source Industry analysts, industry sources, BHP Billiton

New coke capacity is under construction/being planned



Source: Market sources and announcements

Major high quality global met coal producing regions



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 2005
- 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

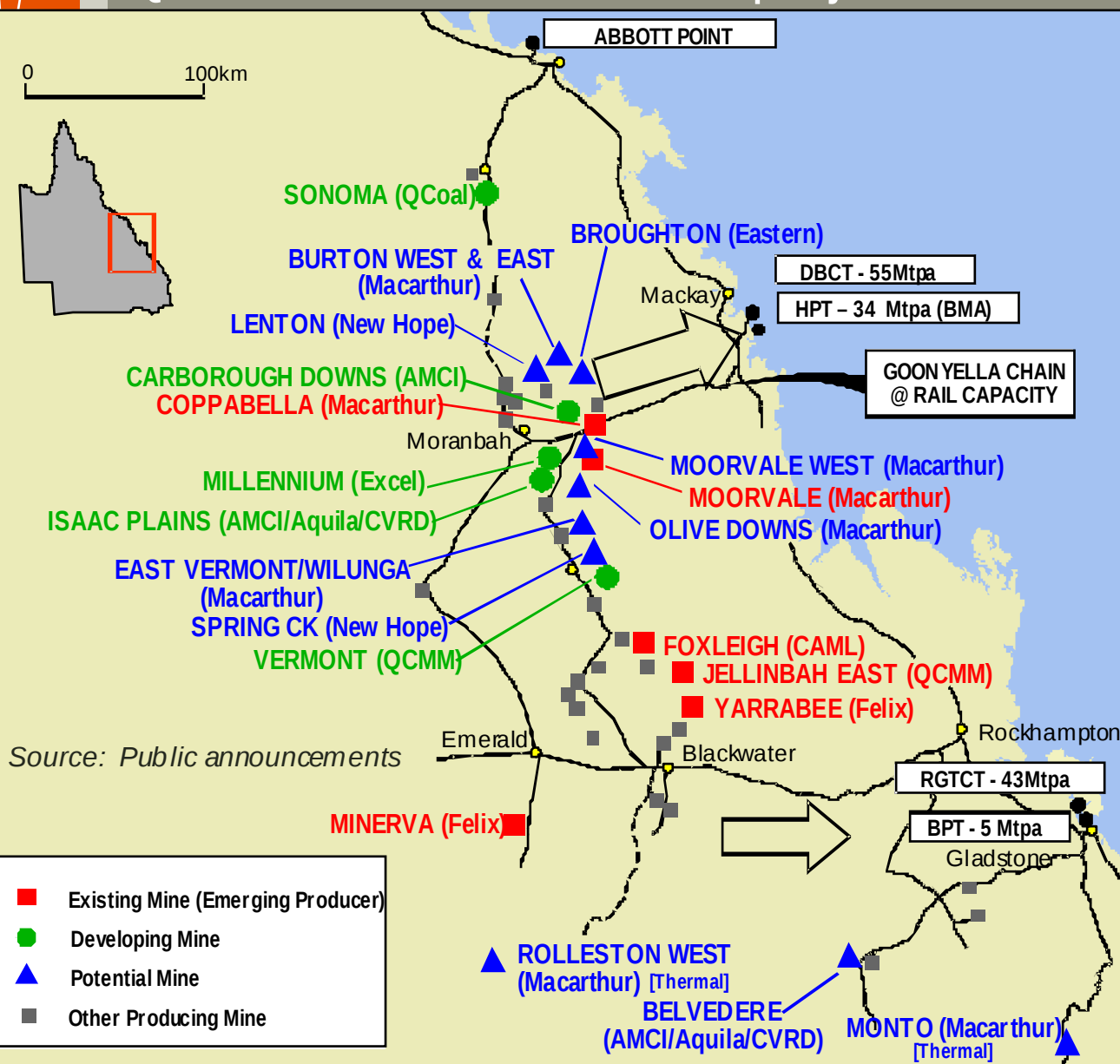
- **Russia**

- 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

Queensland selected new projects

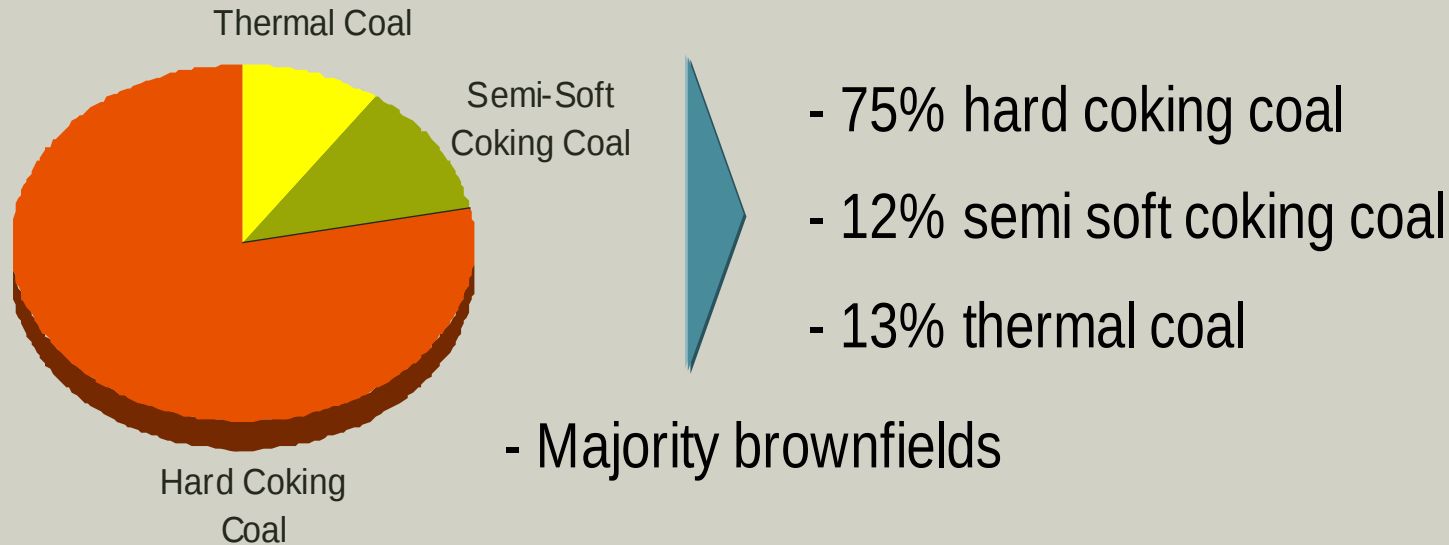


Australia and
Canada

Majority of new
projects are
WCC/SSCC and
PCI coals

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 longwall and potential expansions in Illawarra
- new coking coal basin in Kalimantan, Maruwai

BHP Billiton's expansion progress

- 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
- Dendrobium NSW in operation since April 2005
- Poitrel open cut approved and under construction
- Maruwai project moved into feasibility stage
- 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



Dendrobium

– commenced production April 2005



Poitrel – under construction



Crushing station



Ultra-fines microcell tanks

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



Concluding Remarks

- The global steel industry remains on a fast growth track
- Coke based BF steelmaking is forecast to remain the key process for the global steel industry requiring 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 market growth for coking coal, delivering global iron and cokemakers the confidence and assurance for their future requirements



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