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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? ¾ of population < world steel average consumption.

Source: IISI, BHP Billiton
Metallurgical coal based steel production has followed steel growth.

**World pig iron production**

- **0.4%pa**
- **Fall of Berlin Wall**
- **Oil Shock**
- **6.5%pa**

Source: IISI, CRU, BHP Billiton
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.

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2005-6</th>
<th>2006-7</th>
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<tr>
<td></td>
<td>mmt</td>
<td>%</td>
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<td>%</td>
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<tr>
<td>EU (25)</td>
<td>160</td>
<td>167</td>
<td>169</td>
<td>7</td>
<td>4%</td>
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<tr>
<td>CIS &amp; Other Europe</td>
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<td>76</td>
<td>79</td>
<td>3</td>
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<tr>
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<td>7</td>
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<tr>
<td>C. and S. America</td>
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<td>38</td>
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</tr>
<tr>
<td>Africa</td>
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<td>24</td>
<td>25</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Middle East</td>
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<td>8%</td>
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<tr>
<td>China</td>
<td>315</td>
<td>356</td>
<td>399</td>
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<td>13%</td>
</tr>
<tr>
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<td>9</td>
<td>4%</td>
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<tr>
<td><strong>Total world</strong></td>
<td><strong>1013</strong></td>
<td><strong>1087</strong></td>
<td><strong>1150</strong></td>
<td><strong>74</strong></td>
<td><strong>7%</strong></td>
</tr>
</tbody>
</table>

Source: IISI, BHP Billiton
Steelmaking continues to favour coke based BF route vs electrical arc furnace. Major steelmaking route for high quality steels.

Share of BF/BOF steel production from 1992 to 2008. Source: IISI.
Trends in Blast Furnace coke quality favour use of HQHCC

- Changes to fewer, larger more productive BF's

**European Blast Furnace Changes**

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

- 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

Source: Europe ironmaking committee, 4th International ironmaking conference
Advantages of coke based BF steelmaking

• Can make full range of steels
  – Construction to Advanced High Strength steels

• Economies of scale
  – Small MBF to >5,000m³

• 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)

- **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)

Source: Industry analysts, industry sources, BHP Billiton
New coke capacity is under construction/being planned

- Japan new battery for JFE and NSC
- South Africa battery rebuilds Newcastl
- US new capacity in Ohio further planned
- Brazil CST new HRCO at Vittoria
- India numerous new batteries, inc NRCO
- Russia, Ukraine, new capacity proposed
- Malaysia/Thailand: Possible new batteries as part of new steel capacity
- Korea new battery at Pohang, planned with INI steel
- Brazil various new projects
- S. Africa battery rebuilds Newcastle
- Germany expansion at HKM
- Italy rebuilds at Taranto
- UK possible new battery at Port Talbot
- France expansion at Fos
- UK possible new battery at Port Talbot
- Russia, Ukraine, new capacity proposed
- Malaysia/Thailand: Possible new batteries as part of new steel capacity

Source: Market sources and announcements
Major high quality global met coal producing regions

- Australia – Bowen Basin
- Canada - Elk Valley
- USA - Appalachia
- China – Shanxi Province
- Russia - Kuzbass
- Australia – Bowen Basin

Legend:
- Predominantly export
- Predominantly domestic
### Met Coal Supply Outlook to 2007

- **Australia** (>60% of global total)
  - Exports up strongly
  - Further additional supply from Hail Creek, Dendrobiurn, 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 freight 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

Source: McCloskey, Barlow Jonker, industry sources
Queensland selected new projects

Australia and Canada
Majority of new projects are WCC/SSCC and PCI coals

Source: Public announcements
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.

- 75% hard coking coal
- 12% semi soft coking coal
- 13% thermal coal
- Majority brownfields

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 2\textsuperscript{nd} 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 2\textsuperscript{nd} half 2006 – underway
  - Phase 2 to 44 MTPA by 1\textsuperscript{st} 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

Poitrel – under construction

Crushing station

Dendrobium
– commenced production April 2005

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