Pilbara Ports: Expansion Approaches to Ensure Tomorrow’s Exports

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BHP Billiton WA iron ore operations

- Seven mines producing ~ 106 Mtpa;
- Total productive movement ~ 300 Mt;
- Integrated mine, port and rail operations;
- More than 7,000 permanent and contract employees in WA
- Multiplier effect: 21,400 jobs
- 8.7% of WA employees Indigenous (Jan 07)
Chinese urbanisation likely to lead to major city development

China’s tiered city structure:

Today: 45 tier 1-3 cities

Total Urban Population (millions): 532

2010: 86 tier 1-3 cities

Total Urban Population (millions): 658

2020: 147 tier 1-3 cities

Total Urban Population (millions): 970

Chinese urbanisation likely to lead to major city development.
Which in turn will increase demand for steel…

Steel Intensity per Capita

GDP/Capita (PPP, Jan. 2006 US$'000)

Kg Steel/Capita

USA (1900-2005)
Japan (1950-2005)
S. Korea (1970-2005)
Taiwan (1970-2005)
China (1970-2005)
India (2005)

= 600 kg x 1.4 billion

Source: World Bank, OECD (GDP at Purchasing Power Parity); IISI
And for iron ore...

Chinese iron ore demand and % share of world demand

Source: IISI, China Customs, CRU, Tex, Clarksons & BHP Billiton
BHP Billiton has been growing to meet demand

<table>
<thead>
<tr>
<th>Approved</th>
<th>Project</th>
<th>Cost (US$M)</th>
<th>Tonnes (Mt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Area C &amp; PACE</td>
<td>564</td>
<td>15</td>
</tr>
<tr>
<td>2003</td>
<td>Accel. Expansion</td>
<td>50</td>
<td>7</td>
</tr>
<tr>
<td>2004</td>
<td>RGP1</td>
<td>111</td>
<td>10</td>
</tr>
<tr>
<td>2004</td>
<td>RGP2</td>
<td>575</td>
<td>8</td>
</tr>
<tr>
<td>2005</td>
<td>RGP3</td>
<td>1,529</td>
<td>20</td>
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<tr>
<td>2007</td>
<td>RGP4</td>
<td>2,100</td>
<td>26</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>4,929</td>
<td>77(2)</td>
</tr>
</tbody>
</table>

- Studying expansion options beyond 155Mtpa
- Potential to grow beyond 300Mtpa in next 10–20 years

(1) 100% basis
(2) Includes suspension of Goldsworthy Northern Area production (9Mtpa) as part of RGP3
WA is well placed to continue supplying growing demand

- Close proximity to Asian markets
- Efficient, low cost operations
- Realising this opportunity will require:
  - Large, high quality resources
  - Continued expansion of mining activities and investment in rail infrastructure
  - Investment in additional port infrastructure
  - Regulatory environment to facilitate timely brownfields expansions and encourage new investments
Port Hedland will meet current requirements

- Port Hedland has sufficient capacity to accommodate BHP Billiton’s current expansions

- Increased exports from Port Hedland are also being evaluated

- Considerations include:
  - Cost of expansion
  - Dust
  - Noise
  - Tides
  - Stockyard space
Longer term a new port will be required

- A new port will mitigate single system risks and ease capacity constraints at Port Hedland

- Three possible options for a new port:
  - Mining company owner and user
  - Privately owned, multi-user port
  - Government owner

- Certainty around investment framework is required to underpin expenditure
Ownership structures affect timing of expansions

**PORT’S COAL BOTTLENECK**

*The Courier-Mail* 31 May 2007

**ACTION TO OVERCOME CRIPPLING PORT CRISIS**

Xstrata and Rio Tinto yesterday both pledged to devote more funds to infrastructure to try to ease the bottlenecks costing the Australian coal industry $2 billion a year through missed exports, jobs and increased costs...

**RAIL DELAYS FORCE GIANT BUYER OVERSEAS**

*The Australian* 30 May 2007

Australia faces the loss of multi-billion dollar coal export contracts to countries such as Indonesia and Mongolia unless the Queensland Government can clear a tightening bottleneck at its biggest coal port...

**C&A blames bottleneck on red tape**

*The Australian* 21 April 2007

The Howard Government moved yesterday to tackle a critical bottleneck at the nation’s biggest port, committing $45 million to upgrade the rail connection for freight entering and leaving the port of Melbourne...

**COAL SHIP QUEUE TO LAST FOR MONTHS**

*The Australian* 27 March 2007

A queue of nearly 70 giant coal ships waiting to be loaded off Australia’s largest coal port is unlikely to be cleared until the middle of the year and could cost coal producers up to $460 million...
Hay Point vs. DBCT – A case study

**Hay Point: +16% Capacity** (35 to 40 mtpa)

- Prime Infrastructure submits draft access undertaking to QCA
- 22 mth delay with regulator
- Ph 1 expansion approved
- Ph 1 commissioned

**DBCT: +13% Capacity** (60 to 68 mtpa)  

- QCA sets terminal user charge (at A$1.72/t)
- 1st stage commissioning expected
- Ph 2 commissioning to 44mtpa (+28% on current capacity)

**Effects of Delay at Dalrymple Bay Coal Terminal:**

Foregone sales of **A$1 billion pa** + demurrage

(1) Nameplate capacity – actual increase likely to be less

(2) Timing of expansion is under pressure

Source: Public announcements & BHP Billiton
Criteria for assessment of options

- Economic development
- Fiscal policy
- Competition
- Environment
- Safety
- Security and planning
Conclusion

• Longer term we believe that a new port will be required
  – Ronsard Island is a strong option however we are exploring others to reduce time, risk and cost
  – A second port will mitigate single system risks at Port Hedland

• Developing a greenfield port site requires:
  – Long lead times to secure relevant approvals
  – Certainty around the investment framework to underpin considerable expenditure

• Efficient development and management of port infrastructure will be critical to Western Australia’s ongoing export success