

# **Steel Raw Materials Focus**

**SBB Conference Presentation** 

Mike Henry President, Marketing September 30, 2010



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# Agenda



## BHP Billiton in Context

- Long Term Demand Drivers
- Our Supply Response
- Progress on Shorter Term Pricing

# Major supplier of all four steelmaking raw materials

**Base Metals** Petroleum Aluminium A significant oil and gas exploration A global producer of bauxite, alumina and A leading global producer of copper, and production business aluminium based on net third party sales silver and lead **Energy Coal** Stainless Steel Materials **Diamonds & Specialty Products** One of the world's largest producers and Major global nickel ore and refined nickel EKATI Diamond Mine is one of the world's largest gem quality diamond producers producer marketers of export thermal coal **Metallurgical Coal** Manganese Iron Ore Operations produce a combination of ores, Produce and market high quality hard coking One of the world's premier suppliers of iron ore to the international steel industry alloys and metal coals for the international steel industry Aluminium Base Metals **Diamonds & Specialty Products** Energy Coal Iron Ore Manganese Metallurgical Coal Petroleum Stainless Steel Materials A Offices

Note: Ranking based on production volumes. Location of markers indicative only.

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# **BHP Billiton competitive position**



## **Asset Position**

- Large and meaningful to BHP Billiton
- Long Life
- Low Cost
- Export Orientated Markets

## **Market Dynamics**

- Maximise tonnes through the cycle
- Compete on our cost curve position
- Sell at market price every day

# **Basin strength - Iron ore, Pilbara**





#### **Indicative Resource Distribution**

- 3.4bt Ore Reserve, 16.1bt of high quality Mineral Resource (100% basis).
- 7 open cut mines
- More than 1000km rail and extensive fleet
- 2 major ports, currently being expanded
- Large tonnages of Marra Mamba and Brockman ores, available for blending, at both Central and East Pilbara hubs
- Benefits of concentrated resources
  - Infrastructure scale efficiencies
  - More resource unlocked by local blending
  - Smaller environmental footprint

Source: Resource base: BHP Billiton 2010 Annual Report.

Equity basis: The Mineral Resource of 16.1bt in 100% terms translates to an attributable Mineral Resource of 14.3bt. The Potential Mineralisation range of 23 to 39 Bt in 100% terms translates to an attributable Potential Mineralisation Range of 20 to 35 Bt. The Potential Mineralisation (Exploration Target) is based on probabilistic assessment of areas across the Pilbara using surface mapping, geophysics, known regional geology and some limited drill results acquired over the last 40 years of exploration. The target range is conceptual in nature, there has not been sufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource. The measures "Resources," "potential mineralisation" and "targeted mineralisation" are not defined in the SEC's Industry Guide 7 and the material denoted by such terms is not Proven or Probable Reserves as defined therein. There can be no assurance that we will be able to convert all such material to Proven or Probable Reserves or to extract it econonically. This BHP Billiton Mineral Resource information was sourced from and should be read together with and subject to the notes set out in the BHP Billiton 2010 Annual Report. This document can be viewed at: <u>http://bhpbilliton.com</u>. The mineral resource information in this slide was compiled by Heath Arvidson, a Member of the AusIMM and full time employee of BHP Billiton who has sufficient experience to qualify as a Competent Person and who consents to publication of the form and context in which they appear above.

## Australia is the natural supplier to Asia: Iron Ore



2009 Major Trade Flows (Mt) – Iron Ore



Source: Trade statistics, AME, BHP Billiton Analysis. All data is for the year ended 2009. Location of the arrows are indicative. \* Freight rates are spot 23/09/2010

# Basin strength – Met coal, Bowen Basin





- (a) Bubble size depicts relative coal resource size on a 100% basis. On an equity basis, as at end June 2010, BMA's Marketable coal reserves total 1,041mt, plus an additional 3,750mt coal resources (310mt measured, 1457 indicated and 1983mt inferred). FY10 production was 26.7mt on BHP Billiton share basis.
  (b) 'Mine Life' is calculated on the basis of current mining rate.
- (c) The resource and reserve information in this slide was compiled from the BHP Billiton 2010 Annual Report by Douglas Dunn, a Member of the AusIMM and full time employee of BMA who has sufficient experience to qualify as a Competent Person and who consents to publication of the estimates in the form and context in which they appear above.

## Australia a global supplier, bias to-wards Asia: Met Coal





Source: Trade statistics and BHP Billiton estimates.

Note: Production and trade flow figures are in million tonnes per year. All data is for the year ended 2009. Location of the arrows are indicative.

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## Urbanisation and industrialisation driving Asian commodity demand in longer term





# China's urban population to reach one billion within 20 years



# China's urban population by city size (Millions of people)

#### 926 Chinese cities will have over one million 221 people living in them – Europe has 35 today Mega 120 (10m+)Big 5 104 square metres of road will be paved (5m - 10m)billion 572 170 mass-transit systems could be built Midsized 34 316 (1.5m-5m)86 square metres of floor space will be built - in **40** five million buildings 160 billion Small 233 of these buildings could be skyscrapers -(0.5m - 1.5m)50,000 the equivalent to constructing up to ten 149 New York cities **Big town** 153 143 - the number of times which GDP will have (<0.5m) 5 multiplied by 2025 2005 2025

China's expected urbanisation in 2025

Source: McKinsey Global Institute, March 2009, "Preparing for China's Urban Billion".

# Steel intensity per capita grows strongly as a nation becomes wealthier





Source: CISA, WMM, Global Insight, BHP Billiton.

# China will account for the bulk of global steel production growth to 2025



Global Crude Steel production (Mtpa)



Source: BHP Billiton analysis.

# China will account for the bulk of global iron ore demand growth to 2025



**Global Iron Ore Demand** (Mtpa)



# China and India will account for the bulk of global met coal demand growth to 2025

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**Global Metallurgical Coal Demand** (Mtpa)



Source: BHP Billiton analysis.

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# BHP Billiton has a deep, diversified inventory of growth options





<sup>(</sup>a) Placement of Future Options not indicative of project schedule.

# **Conveyor belt of WA Iron Ore growth** projects



#### **BHP Billiton WA Iron Ore Production History**



(Mt, Year ended June 2000 - 2009)

Notes: 100% share; Ramp up towards RGP4 installed capacity of 155Mtpa is currently underway.

All studies and estimated capacity remain under review until they are approved for execution. Forecast production in the first full year at capacity.

# Wide range of Bowen Basin met coal growth options ...and beyond



#### **BMA/BMC** growth potential



## Multiple "Tier One" projects

- Daunia (4 Mtpa)
- Caval Ridge (8 Mtpa includes Peak Downs Expansion)
- Hay Point coal terminal expansion (44 Mtpa staged to 75 Mtpa)

## Deep inventory of growth options

- Goonyella
- Peak Downs
- Saraji
- Wards Well
- Blackwater
- Indonesian met coal

Note: Estimated production capacity based on 100% basis.

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# Why we prefer shorter term price mechanisms



## Benefits of a shorter term price mechanism

- Market players can enjoy prices truly reflective of supply and demand conditions
- No "dead-lock" on pricing when there are major disparate views on the market
- Mitigates non-performance on contracts when spot vs benchmark differentials are large

## Allows individual buyers and sellers to focus on other aspects of relationship

- Differentials for the specific commodities based around value-in-use
- Product quality and consistency
- Logistics

## **Customer / producer relationships are important**

- Either short or long term volume contracts available
- Customer focus continues
- Price risk management easily accessible for all counterparties

# Iron Ore leading steelmaking raw materials pricing evolution



**Stages of Pricing Mechanism Evolution** 



## **Iron Ore market evolution continues**





Source: BCG analysis, CRU, BHP Billiton.

Sources: BHP Billiton.

## **Risk management tools developing**



#### Shanghai Steel Futures Volumes

(Multiple of Total China Steel Production)

#### Iron Ore Swap Volumes Since Establishment (% of China Imports)



# Summary



- BHP Billiton is a major supplier or raw materials to the global steel industry, from large, long-life, low cost geographically diverse assets
- Longer term demand growth in steel is driven by urbanisation and industrialisation of emerging markets.
- BHP Billiton is expanding supply to meet longer term demand
- Shorter term pricing will continue to evolve for all steel raw materials



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