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## Questions and Answers

**BHP Billiton Ltd**

Annual General Meeting 2012

29 November 2012

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## Questions and Answers

*These topics were discussed at our 2012 Annual General Meeting of BHP Billiton Limited. The answers below provide more detail on them along with references to supporting material for interested stakeholders. We believe it is beneficial and important to listen to all questions on our performance and we welcome the opportunity to engage transparently on these matters.*

### 1. BMA, Queensland, Australia

#### **What is the current state and outlook for production at BMA?**

In FY12, production at our Queensland Coal operations remained constrained largely as a result of industrial action, weather related downtime and geotechnical issues at Gregory Crinum.

In response to the challenging external environment, the Group has chosen to delay the 2.5 million tonnes per annum (100 per cent basis) expansion of Peak Downs that is associated with the Caval Ridge mine development. The 5.5 million tonnes per annum (100 per cent basis) Caval Ridge mine remains on schedule to deliver first production in CY14. Following a review of the Norwich Park mine's profitability, we also announced the indefinite closure of this operation during the June 2012 quarter. The cessation of mining at the Gregory open-cut mine was announced during the September 2012 quarter. We continue to review the viability of other Metallurgical Coal operations.

Despite these actions, the capacity of our Queensland Coal business is expected to rise substantially by the end of CY14 as all other projects remain on schedule and budget (refer section 3.7.2 'Major projects' of 2012 Annual Report). Moreover, in October 2012, BMA finalised its 2012 Enterprise Agreement negotiations, which was subsequently approved by Fair Work Australia. BMA is now implementing the agreement and continues its focus on safe and productive performance.

### 2. Caroona Coal Project, New South Wales, Australia

#### **How will the Caroona Coal Project affect the water sources on the Liverpool Plains? When will the water data collected as part of the ongoing studies for the project be made publicly available?**

We recognise the importance of the region's aquifers to the farming and broader communities on the Liverpool Plains. We believe it is vital that any data collected by BHP Billiton is closely assessed to determine if mining will impact on the region's water resources. It is equally important that this data is considered in context of the proposed mine plan.

We are continuing our monitoring activities to better understand the likely impacts of an underground mine in the area. The data that we are collecting will be used to develop detailed hydrogeological models to help understand water movements and the potential impact of mining on surface water and the floodplain.

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In relation to access to our water monitoring records, we have undertaken to provide that data to individual landholders, but have made it clear that market sensitive or business critical information will not be released. Individual landholders have been provided data collected from their property upon request. Data has also been made available to the Namoi Catchment Water Study under a confidentiality agreement in order to protect the rights of the landholders.

Consistent with the conditions of BHP Billiton's exploration licence, additional groundwater monitoring data will be released once the environmental impact assessment is completed. This will ensure the community and government have all of the necessary information to consider the proposed project.

As part of our ongoing commitment to community engagement, we will also continue to share information and provide project updates to the Caroon Coal Project Community Consultative Committee, which includes representatives from the Caroon Coal Action Group. In addition, any information provided to the Committee will continue to be published on the Committee's website.

Importantly, we will only mine at Caroon if we can satisfy all of the environmental and regulatory safeguards required at the time a mine development proposal is lodged for planning approval. We also remain committed to no mining of any description outside the targeted exploration area, no open cut mining anywhere in the Caroon exploration licence area and no underground long-wall mining under the floodplains or deep alluvial aquifers.

### 3. Dividend Payout Ratio

#### **Why doesn't BHP Billiton seek to increase its current dividend payout ratio through a special dividend in 2013?**

We do not target a particular payout ratio. That being said, our most recent payout ratio for the second half earnings and our final dividend of FY12 was over 42 per cent. More broadly, over the last decade we have returned to our shareholders US\$54 billion through dividends and buy-backs, which represent approximately 50 per cent of underlying earnings over that period.

When thinking about the dividend and our broader capital allocation priorities, we always go back to our long stated capital management strategy. We invest in high return growth opportunities and balance this with our commitment to a solid A credit rating, our progressive dividend and returning excess capital to shareholders. The resources sector is a cyclical and long-term business and it is therefore important that we invest in high return growth opportunities through the cycle. The high margin volume growth from these investments enables us to maintain our progressive dividend in the longer-term. However, we must do this while maintaining a strong balance sheet and a commitment to our solid A credit rating. This allows us to allocate our capital in a way that sustainable.

### 4. Australian Carbon Tax

#### **How will the Australian carbon tax affect BHP Billiton?**

BHP Billiton has held the view for some time that tackling climate change requires a carbon price signal that can change behaviour and ensure choices are made that favour low carbon alternatives. Four commodities (Energy Coal, Iron Ore, Petroleum and Metallurgical Coal) will bear more than 90 per cent of the financial impact of the Australian carbon pricing scheme to BHP Billiton in FY13. The remaining commodities either have lower costs due to Jobs and Competitiveness Program assistance or are low emissions activities. The first payment will be made in June 2013.

### 5. Board Diversity

#### **What are you doing to ensure there is diversity at the Board level in terms of gender, experience and other relevant considerations?**

The Board has set an aspirational goal of increasing the number of women on the Board to at least three over the next two years. While this remains our medium-term target, the immediate business imperative in FY12 was to add additional expertise in the oil and gas sector. The appointment of Mr Pat Davies to the Board brings this experience as well as relevant broader skills and experience. We continue to work to identify future candidates for the Board. The ongoing aim is to enhance the diversity of Directors consistent with our five-year outlook of the attributes currently present, and of those required, on the Board.

### 6. Cerrejon Coal, Colombia

#### **What is BHP Billiton doing in relation to health issues raised by the Cerrejon Workers Union (SINTRACARBON) in 2009?**

Cerrejon commissioned a study by the Colombian Association of Occupational Hygienists in accordance with the collective labour agreement signed for the 2009 and 2010 period. The purpose of the study was to evaluate the occupational risks at Cerrejon. The union and their advisors actively participated in the study and their recommendations and suggestions were taken into account. The study concluded that Cerrejon workers are not exposed to high risk activities that can limit or decrease life expectancy. As a result there is no justification for lowering the retirement ages or altering pension plans that employees would be eligible for under Colombian law. It is also worth noting that Cerrejon's safety performance benchmarks very favourably with respect to other Colombian companies across a range of sectors.

### 7. Ravensthorpe Divestment

#### **What happened with the Ravensthorpe nickel program?**

In December 2009, BHP Billiton announced the sale of the Ravensthorpe Nickel Operation to First Quantum Minerals Australia Pty Ltd, a wholly owned subsidiary of First Quantum Minerals

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Ltd (“First Quantum”) for US\$340 million. First Quantum is listed on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

### 8. Additional Supply From Peers

#### **How will additional supply from peer companies in commodities such as iron ore and metallurgical coal affect BHP Billiton?**

Over the past decade we have experienced unsustainably high prices in some commodities such as iron ore and metallurgical coal, as growth in demand from China and other developing nations outweighed the pace of new low-cost supply additions. At the same time, we have experienced very significant cost escalation in the industry, compounded by a strengthening in the currencies of key producing countries. In the face of higher prices, we have also seen a trend towards some governments seeking to increase royalties and taxes, which placed further pressure on costs.

With the shortage of low-cost supply now well advanced towards being filled, prices for those commodities that experienced the greatest supply-demand shortage, and therefore the greatest price increases, are expected to ‘mean revert’ in the period ahead. The companies and regions that will do well in the current environment will be those that sit at the low end of the cost curve, that are able to expand production in a timely and disciplined fashion, and that can invest in the right portfolio of commodities.

In that regard, BHP Billiton’s strategy has been largely unchanged for more than a decade – we own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market. Our diversification strategy reduces our exposure to any one commodity or currency – the value of this has been demonstrated time and again, most recently over the past year where the Company has outperformed its peers across a number of dimensions. Combined with disciplined financial management, it is this diversification strategy that helps deliver resilient cash flows, allowing us to invest in our business throughout the commodity cycle.

### 9. Renewable Energy Investments

#### **When is BHP Billiton going to invest in renewable energy technology and start diversifying away from fossil fuels?**

We spend a significant time discussing energy policy and climate change. It is important to our business and we are committed to playing a constructive role. Our commitment is evidenced through our 16 per cent reduction of greenhouse gas intensity compared to our 2006 base year.

We have also invested US\$430 million on energy efficiency projects since 2008. However, we will not be investing in renewable technology businesses. This would not be consistent with our strategy of owning and operating large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market. Nonetheless, we believe that our diverse portfolio of energy products, including gas and uranium, have a positive role to play in a carbon constrained world.

### 10. Olympic Dam Expansion

#### **Are you still going ahead with the Olympic Dam expansion and how are you intending to fund it?**

As we stated in our news release dated 22 August 2012, we are currently investigating an alternative, less capital-intensive design of the Olympic Dam open-pit expansion, involving new technologies, to substantially improve the economics of the project. Recently our Chief Executive Officer, Marius Kloppers, was in Adelaide for a joint announcement on the future of Olympic Dam with the South Australian Premier, Jay Weatherill. That announcement extended the time BHP Billiton has available to present a revised development plan for the project until October 2016 and committed AU\$650 million in funding towards the development of these new technologies, some further site works and additional community investment. This demonstrates the company's desire to find a way to unlock the potential of the Olympic Dam ore body.

As with any capital commitment, all future investment decisions will be heavily scrutinised as they move through our approvals process and our highest returning projects will be prioritised, with value being the primary consideration. The long-term outlook for the copper market remains strong and BHP Billiton will continue to work closely with all stakeholders, including the South Australian Government, as we refine our longer term development plans for this unique, world-class ore body.

### 11. Dual Listed Structure

#### **What is the difference between BHP Billiton Limited and BHP Billiton Plc?**

BHP Billiton is a Dual Listed Company (DLC) comprising BHP Billiton Limited and BHP Billiton Plc. BHP Billiton was created through the DLC merger of BHP Limited (now BHP Billiton Limited) and Billiton Plc (now BHP Billiton Plc), which was concluded on 29 June 2001. The headquarters of BHP Billiton Limited, and the global headquarters of the combined BHP Billiton Group, are located in Melbourne, Australia. BHP Billiton Plc is located in London, United Kingdom. Both companies have identical Boards of Directors and are run by a single management team. Shareholders in each company have equivalent economic and voting rights in both companies. BHP Billiton Limited has a primary listing on the Australian Securities Exchange and BHP Billiton Plc has a premium listing on the London Stock Exchange.

### 12. Fayetteville Impairment

#### **Could there be write back or partial write back to the balance sheet of any or all of the US\$1.8 billion Fayetteville impairment?**

As part of every company's financial reporting process the value of the assets are regularly assessed and revisions are made as required. These values are at a point in time and are affected by things such as exchange rates and prices.

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The write-down of the Fayetteville shale assets was clearly disappointing and it was not a decision that we took lightly. That being said, it should be noted that the impairment of our Fayetteville asset was not a reflection of the quality or scale of the resource.

Our Fayetteville acreage sits at the low-cost end of the dry natural gas cost curve and demand for natural gas is rapidly growing globally and will continue to do so as the world transitions towards lower emission energy sources. In the US, gas has begun to replace coal in the power sector and it is also making inroads into transportation. Over time, the regional differences in natural gas prices in the US and other regions around the world are also expected to narrow.

However, our current drilling plans are focused on the liquids rich fields in Eagle Ford in Texas. The investments in liquid rich wells we are making today are generating strong returns and we expect that extraction technology will continue to improve, creating further upside for all of our shale resources.

### 13. Annual Election of Directors

#### **Why does BHP Billiton have an annual election of Directors?**

The UK Corporate Governance Code recommends that Directors of FTSE 350 companies be elected annually. Holding annual elections does not change nominations to the Board or the process of elections or re-elections. Previously, Directors generally stood for re-election every two years and our annual election policy simply reduces that to every year. Election of Directors is a fundamental component of accountability to our shareholders and annual elections strengthens this.

### 14. Auditor Independence

#### **The current auditor has been in place for nine years, have you considered changing your auditor or going back to having joint auditors for BHP Billiton Plc and BHP Billiton Limited?**

Our Risk and Audit Committee reviews the auditor's independence each year and based on this year's review, the Board is satisfied that KPMG is independent. KPMG has given an independence declaration (page 253 of our 2012 Annual Report) and has satisfied the independence rules in all jurisdictions. Currently, the UK, Australian and US laws that relate to auditor independence focus on rotation of audit partners rather than the firm itself. Accordingly, all KPMG signing partners rotate every five years.

That being said, auditor tenure and independence is clearly an area that is undergoing extensive debate. The UK has recently issued guidance on auditor tenure and this will apply to BHP Billiton Plc for its 2014 financial year. In addition, the European Parliament is also looking at audit firm rotation, but no conclusion on this point has been reached.

### 15. Termination Benefits

#### **If a member of the Group Management Committee ceases employment in BHP Billiton over the course of the year, what happens to their long-term incentive awards?**

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The Australian legislation sets out a formula for termination payments, but it is not a hard and fast rule. Companies can continue with their own arrangements if shareholders approve them. The legislation is complex, but the key thrust of it is straight-forward.

In essence, the legislation requires severance to be capped at 12 months' fixed pay, which is exactly what our executive contracts provide for. The complexity in the legislation relates to deferred elements of at-risk pay. These are caught by the legislation even though they are designed in a way that aligns with shareholders' interests. Our current termination benefits are outlined clearly in the following table:

Component of pay	Treatment on termination
Salary + pension	A payment can be made in lieu of notice. Up to 12 months' salary + pension contributions.
STI	Resignation or dismissal – No cash STI payment; Deferred Shares are forfeited. Retirement – Pro rata cash bonus based on performance in period to date of retirement may be paid at Remco discretion; Deferred Shares vest.
LTI	Resignation or dismissal – Unvested performance shares are forfeited. Retirement – Pro rata number of performance shares are retained; these remain subject to original performance hurdle and 5 year vesting period.

These arrangements reflect good practice in both Australia and the UK. They are the arrangements we have had in place for many years and they have served BHP Billiton and our shareholders well. They were approved by shareholders at our 2011 AGMs, with 98 per cent of votes in favour.

### 16. Non-Executive Director Fees

#### Did Non-Executive Director fees increase last year?

We are a global company operating in over 25 countries with 100 operations, so it is important that we attract the best possible people on a global basis to our Board. We have 12 Non-Executive Directors on our Board based in the UK, Europe, the US, South Africa and Australia. They all bring the skills and experience collectively that we want on the Board to make the best decisions for shareholders.

We review and benchmark Non-executive Director fees each year and they are in line with comparable companies. This year we took the decision to freeze Non-executive Director fees, which means fees will stay at July 2011 levels to July 2013 when they will be reviewed again. We believe the current levels are appropriate.

Directors on the BHP Billiton Board make a significant time commitment to attend Board meetings, as well as all Committee business. Directors are expected to attend all Board and Committee meetings in person and to inspect our operations. While we say that our Directors

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need to commit a minimum of 45 days each year, in reality they spend about 70 days on BHP Billiton business.

### 17. CEO Remuneration

#### Why is the CEO's pay so high?

While the Board recognises that market forces necessarily influence remuneration practices, it strongly believes that the fundamental driver of our remuneration arrangements should be business performance. Accordingly, while target Total Remuneration is structured to attract and retain executives, the amount of remuneration actually received is dependent on the achievement of superior business and individual performance and on generating sustained shareholder value from relative performance.

At risk components of remuneration that represent a significant portion of Total Remuneration, are subject to performance conditions and to ongoing service, and are designed to deliver appropriate pay over one-, three- and five-year time horizons.

Our senior executives target remuneration is structured in three broadly equivalent-sized categories as follows:

1. **Fixed Pay:** Fixed pay includes base salary as well as retirement and other benefits. Fixed pay is benchmarked relative to comparable roles in global companies of similar complexity, size, reach and industry and reflects an individual's responsibilities, location, performance, qualifications and experience within the Company.
2. **At Risk STI:** This element rewards senior executives for performance in the short term against an STI scorecard including HSEC, financial, capital management and personal elements.
3. **At Risk LTI:** The purpose of the Long Term Incentive (LTI) is to focus management's efforts on the achievement of sustainable long-term value creation and success of the Company – including appropriate management of business risks – and to align senior executive rewards with sustained shareholder wealth creation through the relative Total Shareholder Return (TSR) performance condition. The relative TSR performance condition must be achieved over a five-year period.

These three components at target are of approximately equal size, and this is considered an appropriate structuring of remuneration packages for our senior executives and rewards them appropriately for performance in both the short and long term. We have had this approach to executive remuneration for some time which has been well supported by shareholders, with the Remuneration Report attracting 96 per cent or more votes in favour over the past several years.