BHP Billiton – Building Long Term Relationships with China

ABARE Conference – China’s Resource and Manufacturing Future

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China – Driving global raw materials growth

- We expect China to be a large, sustainable, consumer of imported raw materials
- Consumption, as % of world total doubles each decade
- Urbanisation and associated infrastructure is the key driver
- The growth is not a short term phenomenon
- While short term spikes may exist, we expect supply to meet demand
China is a large consumer but short of resources

China % of world production and consumption 2003

<table>
<thead>
<tr>
<th>Material</th>
<th>Demand</th>
<th>Supply</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron Ore (Sea)</td>
<td>29</td>
<td>5</td>
<td>-24</td>
</tr>
<tr>
<td>Copper</td>
<td>20</td>
<td>5</td>
<td>-15</td>
</tr>
<tr>
<td>Alumina</td>
<td>20</td>
<td>10</td>
<td>-10</td>
</tr>
<tr>
<td>Nickel</td>
<td>12</td>
<td>6</td>
<td>-6</td>
</tr>
<tr>
<td>Oil</td>
<td>7</td>
<td>5</td>
<td>-2</td>
</tr>
</tbody>
</table>

Source: CRU, IEA, BHP Billiton
Consumption, as % of world total doubles each decade

China % of world consumption (Al, Cu, FeOre, Ni)

Source: Macquarie Research
China is still only in the early stages of modernisation. Steel demand – which path will China take?

[Graph showing Steel Demand Intensity of GDP (1950-2002) with data points for USA, South Korea, Taiwan, and Japan, and a marker indicating China today.]
China’s copper consumption has grown by more than 10% per annum since 1990.
Chinese aluminium production vs. alumina imports

Aluminium Production

Alumina Imports

Thousands of tonnes

Thousands of tonnes


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The growth is not a short term phenomenon

China GDP growth %

Source: Global Insight
Urbanisation and associated infrastructure is the key driver.

China urbanisation - %; population in millions

Source: China Statistics Year Book, BHP Billiton
China’s economic resilience is attributable to:
- An exceptionally high domestic savings rate
- Rapid urbanisation & devt of cities away from the coast
- Strong domestic investment
- A sustained govt commitment to achieving at least 7% growth p.a.
- “Overheating” confined to narrow range of industries and regions

China’s sustainability is underpinned by:
- Huge productivity improvements
- Significant factor cost advantages
- Rapid improvements in infrastructure
- Not dependent on exports – China is not an Asian tiger economy
China’s growth model is sustainable & becoming stronger (cont’d)

These shifts are being driven by:
- An increasingly commercial mindset in Chinese companies
- The changing structure of the economy from state-owned to non-State-owned
- Improved business performance even in State-owned companies

The reform process has irreversible momentum
Clear investment planning has led to a rapid improvement in infrastructure...east-west rail linked to major ports
Rapid urbanisation & development of cities away from the coast - Chongquing skyline, June 2004
The gap between supply and demand can be filled

Seaborne Iron Ore

Source: BHP Billiton, Public Announcements
The gap between supply and demand can be filled.

Seaborne Met Coal

Source: BHP Billiton, Public Announcements
Chinese growth translates to opportunity for BHP Billiton

- **China**
  - Currently 10% of total company revenues, up from 5% a year ago
  - Includes Iron Ore, Copper, Metallurgical Coal, Manganese, etc

- But it will have ‘ups and downs’
Forging closer ties with China to maximise opportunity

- BHP Billiton is actively forging closer links with China through the creation of joint venture partnerships, ie: Wheelarra JV, new LNG contracts, etc.

- Increasing focus on sourcing from China

- BHP Billiton is continually reviewing other trade and investment opportunities in China

- Supporting our commercial activities, the strengthening of trade and economic relations is vitally important as China continues to grow and prosper, eg:
  - Importance of China’s WTO accession in developing market-based business practices
  - Support for joint study into the feasibility of an Australia/China FTA. BHP Billiton providing input
Conclusion

• Chinese growth is not a short-term phenomenon but rather has strong structural underpinnings with so called “over-heating” confined to certain parts of industry sectors and regions

• We expect China to continue to be a large, sustainable, consumer of imported raw materials

• Supply expansions are already underway to match this increased demand

• We welcome any moves to strengthen trade and economic relations between Australia and China