Beijing 2008

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BHP Billiton

Clinton Dines – President BHP Billiton China
July / August 2006
China is a domestic demand story driven by six drivers:

- Housing
- Structural Reform
- Rural Reform
- Urbanization
- Manufacturing
- Wealth
Demographics – aging and urbanizing

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th># Over 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1.3 bn</td>
<td>140 mn</td>
</tr>
<tr>
<td>2020</td>
<td>1.4 bn</td>
<td>240 mn</td>
</tr>
<tr>
<td>2050</td>
<td>1.5 bn</td>
<td>440 mn</td>
</tr>
</tbody>
</table>

Chengdu 1990

Chengdu 2002
By 2020, the urban population is expected to triple, but the working age population will be in decline.

China's Urban Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Urban Population (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>532</td>
</tr>
<tr>
<td>2010</td>
<td>658</td>
</tr>
<tr>
<td>2020</td>
<td>970</td>
</tr>
</tbody>
</table>

Urban Growth (Millions)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-2009</td>
<td>123</td>
</tr>
<tr>
<td>2010-2019</td>
<td>315</td>
</tr>
<tr>
<td>Total</td>
<td>438</td>
</tr>
</tbody>
</table>

Data: UN, BHP Billiton estimates

Source: United Nations
Urbanization is expected to lead to strong city development but the quality of that growth is likely to be uneven.

China’s tiered city structure:

Today: 45 tier 1-3 cities

2010: 86 tier 1-3 cities

2020: 147 tier 1-3 cities

Total Urban Population (millions):

532

658

970
China’s economy is deep and well-distributed

Gross Domestic Product
By Industry Sector and Percentage Change

Data are Nominal

USD Millions

Percent Change

1991 1993 1995 1997 1999 2001 2003 2005

Primary Industry
Secondary Industry
Tertiary Industry (TI)

Data: CEIC
BHP Billiton China
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But economic growth still concentrated in the east

<table>
<thead>
<tr>
<th></th>
<th>Pop. (million)</th>
<th>GDP per capita (USD)</th>
<th>GDP Share(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>482</td>
<td>2117</td>
<td>58</td>
</tr>
<tr>
<td>Mid</td>
<td>711</td>
<td>767</td>
<td>39</td>
</tr>
<tr>
<td>West</td>
<td>40</td>
<td>380</td>
<td>3</td>
</tr>
</tbody>
</table>
## China Driving Global Growth: China’s share of global consumption, 2004

<table>
<thead>
<tr>
<th>Material</th>
<th>World rank, 2005</th>
<th>Percentage world consumption, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Aluminium</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Iron Ore</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>Nickel</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Copper</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Steel</td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td>Coal</td>
<td>1</td>
<td>37</td>
</tr>
<tr>
<td>Nuclear</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Alumina</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

Data: BP Statistical Review of World Energy, IISI, World Bank, UN Comtrade database
Money supply and loan growth

Money Supply and Financial Institution Loan Growth
Change YoY, sa = seasonally adjusted
Growth of the trade surplus
Foreign exchange reserves

USD Billions


0 100 200 300 400 500 600 700 800 900 1000

Foreign Reserves
Comparison of current account balances

Data: World Bank
RMB – further revaluation?

• RMB expected to continue appreciating gradually due to:
  – Worries that a rapid revaluation could derail rural income growth
  – Concerns that revaluation could disproportionately hurt small and medium-sized private enterprises
  – Fears that revaluation would negatively affect agricultural exports
The high savings rate is a function of the limited availability of credit and minimal social safety net rather than an indicator of future consumption.

- Though China has a very high overall savings rate (42%), it is worth examining what that means in practical terms:
  - Companies save about 60% of income. This is primarily due to the limited availability of bank credit to private firms and high curb market interest rates.
  - Family savings are about 25% of income. The rate has remained high because of the need to save for education, healthcare, and pensions.

Source: IMF
China’s high savings rate funds investment – but also speaks to under-developed capital markets

- The FAI series gets a lot of attention but includes the value of land transfers and transfers of used capital.
- GFCF calculated according to international practice.
- Increasing unexplained discrepancy once FAI is adjusted for land and used capital.

Source: NBS Yearbook, CEIC, BHP Billiton estimates
Manufacturing Price Indexes

Price Indexes
PY = 100

Change YoY


CPI
PPI Manufacturing
PPI Raw Materials
PPI Petroleum & Natural Gas
Business sentiment improving due to strong demand

Purchasing Manager’s Index (Score of 50 or above equals expectation of expansion)

Source: CLSA
Components of China's Trade Balance
USD Millions

Data: CEIC
China’s trade balance with the world

China’s Trade Balance with the World
USD Millions

-100000 -50000 0 50000 100000 150000 200000


Asia  Latin America  Africa  North America  Europe  Oceania
Recession in the US doesn’t necessarily lead to problems in China

Source: CEIC, UBS
Rising incomes make housing affordable, though there are still not enough low and middle income units.

Data: CLSA
There has been huge progress in bank reform.....

<table>
<thead>
<tr>
<th>NPLs to total loans</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>3Q 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-Owned Commercial Banks</td>
<td>25.6%</td>
<td>20.1%</td>
<td>15.6%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Bank of China</td>
<td>22.5%</td>
<td>16.3%</td>
<td>5.1%</td>
<td>...</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>15.2%</td>
<td>9.1%</td>
<td>3.9%</td>
<td>...</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Bank</td>
<td>24.4%</td>
<td>21.2%</td>
<td>19%</td>
<td>...</td>
</tr>
<tr>
<td>Agricultural Bank</td>
<td>36%</td>
<td>30.8%</td>
<td>26.8%</td>
<td>...</td>
</tr>
<tr>
<td>Joint Stock Commercial Banks</td>
<td>11.8%</td>
<td>8.1%</td>
<td>5.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Total</td>
<td>23.2%</td>
<td>17.8%</td>
<td>13.2%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Source: IMF, CBRC, Commercial Banks
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