BHP Billiton: A Strategy of Diversification

Andrew Mackenzie Chief Executive Non-Ferrous
9 June 2010
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Agenda

- Industry outlook
  - BHP Billiton – a strategy of diversification
China near term outlook

Trade flows picking up (% YoY sa)

- Export
- Import

Robust rebound of industry output (%)

- % YoY YTD
- Light industry
- Heavy industry

Source: CEIC.
Global near term risks remain

US borrowing by sector (annualised)
(US$bn)

- Government
- Business
- Household

Source: US Federal Reserve Flow of Funds.
Annualised Borrowing calculated from the quarterly change in debt outstanding.
Stability and competitiveness of the tax system are central to the investment in resources in Australia.

If implemented, the total effective tax rate on Australian operations will increase from ~43% to ~57% from 2013.

We are not averse to tax reform, but tax reform should be:

- **Prospective.** Any additional tax must only apply to new investments.
- **Competitive.** The overall tax rate should not make the Australian mineral resources industry less internationally competitive.
- **Differentiated.** As current royalties do, any new tax should acknowledge that different commodities have different rates of profitability, and vary accordingly.
- **Resource-based.** Any new tax should apply only to the actual minerals and not to infrastructure, downstream manufacturing and transport.
China is the major driver of commodity demand

China’s share of global demand by commodity (%)

- Met Coal (Global): 63% (2009), 39% (2002)
- Iron Ore (Global): 56% (2009), 26% (2002)
- Mn Alloy: 49% (2009), 24% (2002)
- Thermal Coal (Global): 42% (2009), 34% (2002)
- Aluminium: 39% (2009), 16% (2002)
- Copper: 36% (2009), 17% (2002)
- Nickel: 35% (2009), 8% (2002)
- Potash: 17% (2009), 14% (2002)
- Oil: 9% (2009), 7% (2002)
- Natural Gas: 1% (2009), 3% (2002)

Source: BHP Billiton analysis, import/export statistics, WMBS.
Agenda

- Industry outlook
  - BHP Billiton – a strategy of diversification
A strategy of diversification

EBIT Margin\(^{(a)}\)

\[\%\]

\[\begin{array}{cccccccccccc}
H1 & H2 & H1 & H2 & H1 & H2 & H1 & H2 & H1 & H2 & H1 & H2 \\
FY02 & FY03 & FY04 & FY05 & FY06 & FY07 & FY08 & FY09 & FY10
\end{array}\]

- Petroleum
- Aluminium
- Base Metals
- D&SP
- SSM
- Iron Ore
- Manganese
- Met Coal
- Energy Coal
- BHP Billiton

(a) Calculated on the basis of UKGAAP for periods prior to FY05, except for the exclusion of PRT from Petroleum's and BHP Billiton Group's results for all periods. All periods exclude third party trading activities. The Exploration and Technology business has been included in BHP Billiton Group's results from FY02 to FY05 and excluded from Diamonds and Specialty Products.

(b) Negative margins are not shown as the y-axis is set at zero. SSM had a negative EBIT margin in H1 FY02, both Base Metals and SSM had negative EBIT margins in H1 FY09 and both Aluminium and SSM had negative EBIT margins in H2 09.
The strength of diversification – more predictable cash flows deliver progressive investment and returns

Net Operating Cash Flow (US$bn)

Investments and Dividends (US$bn)

CAGR: 25%

CAGR: 20%

CAGR: 25%

Calculated on the basis of UKGAAP for periods prior to FY05.
FY10F Cash Dividends includes dividend paid on 23 March 2010.
Cash flow reflects proportional consolidation of joint ventures for FY07 and future periods.
Diversification is consistent with economic development

China’s share of global demand by commodity (%)

**Steelmaking Materials**
- Met Coal (Global): 63%
- Iron Ore (Global): 56%
- Mn Alloy: 49%

**LME Commodities**
- Aluminium: 39%
- Copper: 39%
- Nickel: 36%
- Thermal Coal (Global): 42%

**Energy**
- Potash: 14%
- Oil: 7%
- Natural Gas: 1%

Source: BHP Billiton analysis, import/export statistics, WMBS.
Potash – adding diversification

Opportunities in Potash (mtpa)

- Maximum Future Options
- Minimum Future Options
- Planning

BHP Billiton tenements
Other tenements
Manitoba Saskatchewan boundary

All references to capacity are on 100% basis. The above diagrams are schematic and for illustration purposes only. Selected mineralisation areas have been indicatively labelled.
Progress to Date

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<th>Progress to Date</th>
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<tr>
<td>Jansen</td>
<td>• 869 km² 3D seismic&lt;br&gt;• 24 new &amp; 28 historical holes&lt;br&gt;• Lower Patience Lake in-situ resource = 3,370 million tonnes @ 25.4%K2O</td>
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<tr>
<td>Young</td>
<td>• 379 km² 3D seismic&lt;br&gt;• 15 new &amp; 20 historical holes</td>
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<td>Boulder</td>
<td>• 293 km² 3D seismic&lt;br&gt;• 7 new &amp; 22 historical holes</td>
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<td>Burr</td>
<td>• Under assessment in context of BHP Billiton portfolio</td>
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<td>Melville</td>
<td>• Exploration due to start in July 2010</td>
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**Aggressive program:**

Over the next five years BHP Billiton is planning to complete another 3,100km² of 3D seismic and will drill 100 new holes.

The Mineral Resource information on Jansen in this slide was compiled by J. McElroy (MAusIMM) BHP Billiton, B. Nemeth (MAusIMM) BHP Billiton, A. D. Mackintosh (APEGS) A.D.M Consulting who have sufficient experience to qualify as Competent Persons and who consents to publication of the estimates in the form and context in which they appear above.

**Status of Jansen:**
- Selected the location of surface facilities
- Preparing to start ground freezing
- Pre-commitment funding of US$240 million

**Jansen Project Proposed Implementation Target Dates**

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Proposed project schedule is subject to internal and external approvals.
Diversification based on a portfolio of Tier 1 resource positions

- Near-term uncertainties still remain
- Robust long term demand outlook for our products
- BHP Billiton managing risk, uncertainty and opportunity through a strategy of diversification to create long term shareholder value