Growth and evolution of commodities demand

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4 May 2011
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Agenda

- Beliefs behind commodity demand forecasts
- Evolution of commodities demand
- Well positioned for diversified, tier 1 growth
- Concluding remarks
Above trend GDP growth forecast for the next decade despite softer OECD fundamentals

GDP growth has two main drivers

- **Demographic** factors including the size and age profile of a population and degree of urbanisation
- **Productivity** factors including education, infrastructure and the efficiency of capital allocation

China will become increasingly influential

- Despite the global financial crisis, global growth rates improved in the last decade
- Decelerating Chinese growth rates are expected to be offset by the larger size of the Chinese economy

The positive global outlook doesn’t rely upon aggressive underlying assumptions for China…

**Investment expenditure**
- (RMB billion, real)

- **Share of total GDP**
  - (%, nominal)

**Urbanisation rates**
- In the first half of this decade 20 million people per year will move into cities
- However, the rate of urbanisation will slow

**Construction**
- The rate of growth in construction will decelerate in the next decade
- By 2025 the rate of addition of new urban floor space will fall by half

**Infrastructure**
- New city clusters will develop requiring new transportation and energy infrastructure
- Development of the Western Provinces will be resource intensive

Source: Global Insight.
...nor unrealistic assumptions for Chinese consumption growth

Consumption has grown at a rapid rate
- Consumption has been growing rapidly although less than overall GDP growth
- Incomes will be driven by labour productivity
- Rising incomes will support consumption of goods and services

With the transition in the economy, GDP targets can be met with slowing investment
- In the last decade, investment growth (~12%) has outpaced consumption growth (~8%) with resultant overall GDP growth of ~10%

Source: Global Insight.
China has and will continue to enact policy to deliver a sustainable growth model

Policy is focused on sustainability
- Income and wealth distribution to place higher priority on individuals
- Increasing domestic demand focus

Policy to further support consumption
- Improvements in welfare, education and health reducing the need for precautionary savings
- Provision of 36 million new social housing units
- Shift in tax structures to promote consumption

The economic mix and structure will shift
- New development will take place in the west and the interior of China
- More funding will be placed into research and development, and into higher value industries
Importantly, China has a track record of delivering GDP growth targets and actual growth. The diagram shows the GDP growth target versus actual growth and GDP growth versus energy consumption. The key points are:

- **GDP Growth Target versus Actual Growth (%):**
  - 5YP target
  - YoY growth
  - 5 year average YoY growth

- **GDP Growth versus Energy Consumption Index (2005 = 100):**
  - GDP
  - Energy consumption
  - Energy efficiency (RHS)
  - Efficiency target (RHS)

Source: China National Bureau of Statistics.
Chinese GDP is set to grow substantially to 2030

**World GDP per capita**

US$’000, real 2005 PPP

- Globally, GDP per capita is projected to increase significantly by 2030.
- Key countries: China, India, US, Eurozone, Japan.

**Population**

- Million persons

**Source:** Global Insight; BHP Billiton analysis.

1. All figures for 2009 unless mentioned otherwise.
Demographics still vary significantly across China

**World GDP per capita\(^1\)**
(US$’000, real 2005 PPP)

- California
- Australia
- Canada
- South Korea
- Brazil
- Russia
- Japan
- Japan 1980
- US
- Eurozone
- China Eastern Provinces
- China Provinces (excluding Eastern)
- US States

Bubble size = GDP of US$2 trillion (real 2005 PPP)

Source: Global Insight; BHP Billiton analysis.
1. All figures for 2009 unless mentioned otherwise.
Slowing growth in China simply reflects the natural progression of the economy

Source: Global Insight; IMF; Morgan Markets; OECD.
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Economic development is characterised by strong, early phase steel demand growth.

Industrial development & steel consumption\(^1\)
(kg per capita)

Source: CISA; worldsteel; Global Insight; JBS; BHP Billiton analysis.

1. Steel consumption on a crude steel equivalent basis.
Copper demand intensity follows a similar path, with a longer plateau.

Semis copper consumption (kg per capita)

Source: World Bank (GDP and population); Brook Hunt; CRU; IISI; Global Insight; BHP Billiton analysis.
Electricity consumption continues to grow as economies mature.

Electricity consumption (MWh per capita)

Source: Global Insight; IEA; BHP Billiton analysis.
Commodity intensity trends evolve with economic development

Source: World Bank; Brook Hunt; CRU; IISI; Global Insight; CISA; worldsteel; JBS; IEA; BHP Billiton analysis.
Global commodity demand well supported by emerging market growth

Global commodity demand forecasts
Index (CY10 = 100)

Finished steel
- China
- India
- Rest of the world

Copper
- China
- India
- Rest of the world

Seaborne thermal coal
- China
- India
- Rest of the world

Source: Brook Hunt; IEA; CRU; BHP Billiton analysis.
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BHP Billiton is well positioned for early and late stage economic development

Underlying EBIT (H1 FY11, US$ billion)

- Metallurgical Coal
- Manganese
- Iron Ore
- SSM
- D&SP
- Base Metals
- Aluminium
- Energy Coal
- Petroleum

Underlying EBIT margin¹ (H1 FY11, %)

- Metallurgical Coal: 37%
- Manganese: 36%
- Iron Ore: 62%
- SSM: 19%
- D&SP: 33%
- Base Metals: 52%
- Aluminium: 1%
- Energy Coal: 14%
- Petroleum: 59%

¹ Excludes third party trading.
Significant investment underpins our tier 1 growth strategy

Strong pipeline of investment (US$ billion)

Note: Excluding sustaining capital and exploration expenditure and future investment associated with the acquisition of the Fayetteville Shale.
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- Strong global GDP growth to continue
- Increasing impact of emerging economies on global growth
- China growth assumptions are realistic
- Relative commodity demand intensities to evolve over time
- BHP Billiton is well positioned to meet the growth opportunity as well as the evolution in demand intensities