Developments in the coking coal market

Vicky Binns
General Manager, Metallurgical Coal Marketing
Coaltrans, Beijing
17 April 2012
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Exploration Results, Mineral Resources and Ore Reserves
This presentation includes information on Mineral Resources, which is based on information prepared by the relevant Competent Persons as named in the 2011 Annual Report, and reported under the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’ (The JORC Code).

All information is compiled under the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2004’ (the JORC Code) by Competent Person A Paul (MAusIMM) who is employed by BHP Billiton at the time of reporting and has the required qualifications and experience to estimate and report Mineral Resources under the JORC Code.

The Competent Persons verify that this report is based on and fairly reflects the Mineral Resources information in the supporting documentation and agree with the form and context of the information presented.

Mineral Resource classification for each deposit is presented in Table 1.

<table>
<thead>
<tr>
<th>Deposit</th>
<th>Measured (million tonnes)</th>
<th>Indicated (million tonnes)</th>
<th>Inferred (million tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goonyella Riverside – Broadmeadow</td>
<td>634</td>
<td>934</td>
<td>179</td>
</tr>
<tr>
<td>Wards Well</td>
<td>556</td>
<td>582</td>
<td></td>
</tr>
<tr>
<td>South Walker Creek</td>
<td>160</td>
<td>174</td>
<td>306</td>
</tr>
<tr>
<td>Poitrel</td>
<td>34</td>
<td>50</td>
<td>59</td>
</tr>
<tr>
<td>Daunia</td>
<td>105</td>
<td>52</td>
<td>19</td>
</tr>
<tr>
<td>Saraji East</td>
<td>23</td>
<td>186</td>
<td>1096</td>
</tr>
<tr>
<td>Saraji</td>
<td>684</td>
<td>221.6</td>
<td>111.1</td>
</tr>
<tr>
<td>Blackwater</td>
<td>236</td>
<td>683</td>
<td>1354</td>
</tr>
<tr>
<td>Gregory Crinum UG</td>
<td>10</td>
<td>140.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Norwich Park</td>
<td>223</td>
<td>146</td>
<td>147</td>
</tr>
<tr>
<td>Peak Downs – Caval Ridge</td>
<td>697</td>
<td>875</td>
<td>572</td>
</tr>
</tbody>
</table>
# Introduction to BHP Billiton

<table>
<thead>
<tr>
<th>Product Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>Aluminium Operations across all three stages of the value chain</td>
</tr>
<tr>
<td>Base Metals</td>
<td>One of the world’s largest producers of silver, lead and copper</td>
</tr>
<tr>
<td>Diamonds &amp; Specialty Products</td>
<td>EKATI Diamond Mine, titanium minerals, Potash development and exploration</td>
</tr>
<tr>
<td>Energy Coal</td>
<td>One of the world’s largest producers and marketers of export thermal coal</td>
</tr>
<tr>
<td>Iron Ore</td>
<td>One of the world’s premier suppliers of iron ore to the international steel industry</td>
</tr>
<tr>
<td>Manganese</td>
<td>Operations produce a combination of ores, alloys and metal</td>
</tr>
<tr>
<td>Metallurgical Coal</td>
<td>Produce and market high quality hard coking coals for the international steel industry</td>
</tr>
<tr>
<td>Petroleum</td>
<td>A significant oil and gas exploration and production business</td>
</tr>
<tr>
<td>Stainless Steel Materials</td>
<td>Supplies nickel to the stainless steel industry</td>
</tr>
<tr>
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<td>Supplies nickel to the stainless steel industry</td>
</tr>
<tr>
<td>Steel Materials</td>
<td>Supplies nickel to the stainless steel industry</td>
</tr>
<tr>
<td>Uranium</td>
<td>Olympic Dam is the world’s largest uranium deposit</td>
</tr>
</tbody>
</table>
Agenda

1. Macro outlook and steel demand growth
2. Metallurgical coal supply / demand dynamics – growth options
3. Developments in metallurgical coal price evolution
4. Concluding remarks
Above trend GDP growth forecast for the next decade despite softer OECD

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.

Chinese GDP is set to grow substantially to 2030

World GDP per capita¹ (US$000, real 2005 PPP)

- US
- Australia
- Canada
- Japan
- Eurozone
- South Korea
- Chile
- Russia
- Brazil
- South Africa
- US 1980
- Japan 1980

Population (million persons)

Source: Global Insight; BHP Billiton.

¹. All figures for 2009 unless mentioned otherwise.
Economic development is characterised by strong, early phase steel demand growth

Industrial development and apparent steel consumption¹
(kilogram per capita)

- China/India steel intensity
- Other country steel intensities
- Possible range for China to 2025

Source: CISA; WSA; Global Insight; JBS; BHP Billiton.
1. Steel consumption on a crude steel equivalent basis.

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
Many large Chinese provinces are still in the early stages of the steel intensity curve.

Chinese steel intensity by province versus GDP per capita
Finished steel consumption per capita 2010 (kilogram)

Note: Bubble size reflects 2010 population of each province.
Source: DRC Report; NBS; BHP Billiton.

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
China will account for the bulk of global steel production growth to 2025

Global crude steel production (mtpa)

- Other
- India
- Brazil, Russia
- China

Source: BHP Billiton.
Agenda

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Global metallurgical coal trade

241 million tonnes
Seaborne metallurgical coal coal trade (2011)

The supply response for coking coal has been limited by infrastructure...

Queensland
- Queensland has the world’s best quality and largest reserves of coking coal.
- Complex port/rail ownership has limited production growth to a ten year CAGR of 4.9%.

Other Basins
- Mongolia, Mozambique and Russia development is also limited by infrastructure.
- Remote locations, uncertain regulations and high costs of capital limits willingness to invest.
Seaborne traded coal growing in response to stronger demand

Annual seaborne coking coal trade
(million tonnes)

Chinese production
(million tonnes)

2011–2016: 5.4% per annum
2004–2011: 3.5% per annum
1992–2004: 1.8% per annum

2005 – 2011 +11%
2009 – 2011 +7%
2005 – 2011 +5%
2009 – 2011 +5%

Source: IEA; Macquarie Bank.

Note: Apparent Clean Coal production equals coal consumption minus imports plus exports, including coal in coke exports.
China and India will account for the bulk of global met coal demand growth to 2025.

Global metallurgical coal demand (mtpa)

- Other
- Brazil, Russia
- India
- China

Seaborne demand CAGR

<table>
<thead>
<tr>
<th></th>
<th>2000 - 2011</th>
<th>2011 - 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source:</td>
<td>2.4%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

CAGR 2.3%

CAGR 5.6%

Source: BHP Billiton.
Rising costs impact development decisions

Slide 16

BHP Billiton hard coking coal cost versus price
(2002 Index = 100)

Source: BHP Billiton.
We are well positioned in the Bowen Basin

1. Bubble size depicts relative coal resource size on a 100% basis. On an equity basis, as at end June 2011, BMA/BMC’s Marketable coal reserves total 1,284mt, Measured plus Indicated plus Inferred coal resources total 7,143mt. FY11 production was 25.8mt on BHP Billiton share basis.
2. ‘Resource Life’ is indicative only and is calculated on the basis of [(Total Resource x Estimated Saleable Conversion Factor) / current mining rate].
3. The resource information in this slide was compiled from the BHP Billiton 2011 Annual Report by Andrew Paul, a Member of the AusIMM and full time employee of BMA who has sufficient experience to qualify as a Competent Person and who consents to publication of the estimates in the form and context in which they appear above. A full listing of Competent Persons, Professional affiliation current employment status, and resource classification is provided in the Disclaimer Slide.
We have a strong portfolio of metallurgical coal growth options

Future options
- IndoMet Coal Expansion
- Illawarra Coal Expansion
- Wards Well
- Blackwater Expansion
- Saraji East
- IndoMet Coal
- Red Hill
- Caval Ridge Expansion
- Peak Downs Expansion
- Saraji Expansion

Feasibility
- Queensland Rail and Port Expansion
- Appin Area 9

Execution
- Broadmeadow
- Daunia
- HPX3
- Caval Ridge

Projects
As at 8 February 2012
Proposed capital expenditure (BHP Billiton share)

Placement of projects not indicative of project schedule.

Metallurgical Coal Projects

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
Agenda

1. Macro outlook and steel demand growth
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3. Developments in metallurgical coal price evolution
4. Concluding remarks
China growing and driving the evolution

China metallurgical coal production
(product million tonnes)

An evolving Chinese market

China has taken a lead in developing the coking coal market:

Pricing
- Evolved to shorter terms, supported by reliable indices.

Physical transaction platform
- Opened in Taiyuan in February 2012.

Forward markets

Adjacent markets
- Similar developments in iron ore and the steel market.

Source: Fenwei-Metcoal production; BHP Billiton.

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
Commodity evolution has several key features

Chinese metallurgical coal/steel industries have so far developed in line with other commodities:

1. **Shorter-term pricing periods**
2. **Market transparency**
3. **Physical trading platforms**
4. **Risk management tools**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Established index</th>
<th>Product differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Energy coal</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Copper</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Aluminium</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Nickel</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Gold</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Soybeans</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Corn</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Coffee</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Freight</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Iron ore</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Steel (including scrap)</td>
<td>Establishing</td>
<td>Yes</td>
</tr>
<tr>
<td>Metallurgical coal</td>
<td>Establishing</td>
<td>Yes</td>
</tr>
<tr>
<td>Manganese ore</td>
<td>Establishing</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: BHP Billiton.

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
Rising spot sales and shorter term pricing a feature of recent years

Seaborne and China iron ore demand
(million tonnes)

- China short term price (including seaborne import)
- ROW seaborne short term price
- China captive & State owned enterprises
- China imports annual price
- ROW seaborne annual price

Seaborne and China coking coal demand
(million tonnes)

- China short term price (including seaborne import)
- ROW seaborne short term price
- China annual price (including seaborne import)
- ROW seaborne annual price

Note: Years are shown in CY basis.
Source: BCG analysis; CRU; Trade data; BHP Billiton.

Global short term priced iron ore > 1.4 billion tonnes in 2011

Global short term priced coking coal >820 million tonnes in 2011

Vicky Binns, General Manager, Metallurgical Coal Marketing, 17 April 2012
A comparison of Platts and Argus hard coking coal prices (US$/t)

<table>
<thead>
<tr>
<th>Index</th>
<th>Locations</th>
<th>Product range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argus</td>
<td>FOB Australia</td>
<td>Australian Hard Coking</td>
</tr>
<tr>
<td></td>
<td>CFR China</td>
<td>US Low-Mid Vol</td>
</tr>
<tr>
<td></td>
<td>CFR India</td>
<td>US High Vol</td>
</tr>
<tr>
<td></td>
<td>FOB Hampton Roads</td>
<td></td>
</tr>
<tr>
<td>Energy Publishing</td>
<td>FOB Australia</td>
<td>Australian Hard Coking</td>
</tr>
<tr>
<td></td>
<td>FOB Hampton Roads</td>
<td>US High Vol</td>
</tr>
<tr>
<td>McCloskey</td>
<td>FOB Australia</td>
<td>Australia Hard Coking</td>
</tr>
<tr>
<td></td>
<td>FOB Hampton Roads</td>
<td>US High Vol</td>
</tr>
<tr>
<td>Platts</td>
<td>FOB Australia</td>
<td>Premium Low Vol</td>
</tr>
<tr>
<td></td>
<td>CFR China</td>
<td>HCC 64 Mid Vol</td>
</tr>
<tr>
<td></td>
<td>CFR India</td>
<td>HCC PD Region</td>
</tr>
<tr>
<td>TSI (proposed)</td>
<td>FOB Australia</td>
<td>Premium Hard Coking</td>
</tr>
</tbody>
</table>
Developments in metallurgical coal evolution outside China – physical transaction platform

- Benefits from anonymous participation and visible pricing outcomes
- Captures spot transactions and establishes price
- Market can observe and compare transaction points
- GlobalCOAL is a physical transaction platform which has brought liquidity and transparency to the thermal coal market
- It is based on three straightforward elements:
  1. Standard contract (SCoTA)
  2. Screen transactions
  3. Market data generation

A simple model

- SELLERS: Standard specification, Sell with confidence
- PLATFORM: Anonymous, Secure, Automatic value adjustment
- BUYERS: Standard specification, Buy with confidence

MARKET PRICE: Transparent, Comparable pricing points

Cumulative volume of thermal coal brokered on a SCoTA basis (million tonnes)

Source: GlobalCOAL.
Adjacent markets evolving – steel

Estimated¹ share of various steel pricing terms
(2012, %)

- **World**
- **China**
- **USA**
- **India**
- **Europe**
- **Taiwan**
- **Korea**
- **Japan**

Average annual change in HR coil spot price
(FOB Japan, US$/tonne)

1. Best estimate based on publically available information.

Source: Tex, Japan (JISF); Europe (Euromet, Credit Suisse); Korea (Morgan Stanley, BHP Billiton); Taiwan, India, China (BHP Billiton).

Source: CRU.
Results of more transparent pricing mechanisms

Benefits of a shorter term price mechanism

- Market players can enjoy prices truly reflective of supply and demand conditions
- No “dead-lock” on pricing when there are major disparate views on the market
- Mitigates non-performance on contracts when spot versus benchmark differentials are large

Allows individual buyers and sellers to focus on other aspects of relationship

- Differentials for the specific commodities based around value-in-use
- Product quality and consistency
- Logistics

Customer / producer relationships are important

- Either short or long term volume contracts available
- Customer focus continues
Concluding remarks

- The developing world will continue to power global GDP
- Chinese economic growth will remain strong and will underpin world steel production growth
- The global coking coal industry will be increasingly driven by developments in China and India
- The Chinese coking coal industry has evolved markedly in the last eight years: shorter-term pricing, market transparency and a physical transaction platform
- Coking coal is following the same path of market evolution as other commodities – differentiation and product complexity is not a barrier
- The ex-China pricing mechanism for metallurgical coal is also in transition