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Transcript

BHP Billiton

Demerger of South32 unlocks shareholder value

Andrew Mackenzie, Chief Executive Officer

17 March 2015

Demerger of South32 unlocks shareholder value

Welcome. This is an important day for us.

In August last year we announced plans to significantly simplify BHP Billiton by creating an independent global metals and mining company now known as South32!

Today we issued the shareholder circular and listing documents ahead of our Shareholder Meetings to vote on the de-merger in May.

The Board has unanimously recommended that shareholders vote in favour of this proposal.

I will now provide an overview of the value we believe the de-merger will unlock for our shareholders.

And Graham Kerr, CEO Elect of South32 will speak to you on his vision for the proposed new company.

First let me draw your attention to the important information and disclaimer for this presentation [*Refer Appendix 1 below*].

This demerger creates two great companies each with assets that share greater commonality which your Board believes will maximise value for shareholders!

The transaction is value accretive based on the expected cost savings we have identified.

In the longer term we expect a more focussed BHP Billiton will be better placed to achieve substantial productivity gains beyond the 4 billion per annum already targeted by the end of Financial Year 17.

The new BHP Billiton will be intensely focused on upstream Tier 1 assets and will remain the world's largest diversified resources company with a world-class portfolio of growth options.

Yet our portfolio will be dramatically simpler with a smaller geographical spread and fewer assets that have more in common.

This simplification is a major catalyst for change and presents an opportunity to fundamentally transform the way we operate.

It will allow us to concentrate on the things that matter most without distraction and empower our people to further lift operational performance!

At the same time we create South32, a company with significant presence in each of its major commodities with its own strategy designed to match its high-quality assets.

South32 will also benefit from a dedicated board and management team an appropriate and carefully designed capital structure and the freedom to pursue its own investment opportunities.

I'd now like to share with you why I believe this proposal is so compelling.

The demerger significantly simplifies BHP Billiton's portfolio without losing the benefits of scale or diversification.

Demerger of South32 unlocks shareholder value

In a single step it moves us closer to achieving our core portfolio of 19 assets, across 8 countries and 3 continents.

This is a stunningly simple portfolio for a company of our size! It is unparalleled in the resource industry and will provide a distinct investment proposition.

With a smaller number of common assets we intend to streamline our organisational model and generate cost savings of 100 million per annum by combining functional support for operations and increasing the use of global shared services centres.

A simpler portfolio will also allow us to better use our technical expertise and common systems and fundamentally transform the way we operate!

We expect this to support higher performance and unlock substantial longer-term productivity gains beyond the 4 billion per annum already targeted.

Our recent profit announcement demonstrated the strong results we have already achieved in improving productivity through our business.

However this push for productivity must continue and with future gains harder to win the demerger will be a catalyst for further progress!

We expect a fundamental change in the way we operate to embed substantial productivity gains in the years ahead which would benefit shareholders at all stages of the commodity cycle.

This focus is particularly important during the current environment of weaker commodity prices.

Over the past decade our core portfolio has generated stronger growth and margins than our non-core assets.

It is underpinned by some of the world's largest long life resource basins including Western Australia Iron Ore, Escondida copper, Bowen Basin metallurgical coal and our world-class Petroleum business.

These resource endowments are rich in high-return growth opportunities.

Following the demerger we will continue to invest selectively in our portfolio. And further improvements in capital efficiency will enhance the value of these projects.

This commitment to ongoing investment is expected to support shareholder returns for decades to come.

We have carefully considered the capital structures of BHP Billiton and South32 to provide an appropriate level of flexibility and balance sheet strength for both companies.

South32's capital structure reflects its targeted investment grade credit rating through the cycle, the nature and scale of its businesses and its strategic priorities.

Demerger of South32 unlocks shareholder value

South32 will take on 674 million dollars of net debt including finance leases and one and a half billion dollars of BHP Billiton's closure and rehabilitation provisions.

At BHP Billiton we remain committed to our strong balance sheet and solid A credit rating which are fundamental enablers of our strategy.

That is to own and operate large, long-life, low-cost, expandable upstream assets diversified by commodity, geography and market.

Following the announcement of the demerger our A+ and A1 credit ratings were affirmed by Standard and Poor's and Moody's who both noted our portfolio diversity as a key strength. This strong diversification is retained post de-merger.

We have done the analysis and the removal of South32 has no material impact on our cash flow volatility.

We have delivered a consistent track record of shareholder returns and we remain committed to our policy of steadily increasing or at least maintaining our dividend payment per share at each half-year.

We are so confident in the merits of this transaction and the value we believe it will unlock that should shareholders approve the demerger we do not plan to rebase or lower the dividend.

This implies, all other things being equal, a higher payout ratio for BHP Billiton.

In addition, South32 intends to pay out to its shareholders a proportion of its underlying earnings as dividends subject to its cash flow priorities. This would represent an additional return to shareholders. And Graham will provide further detail on this in just a moment.

If a shareholder does not wish to hold South32 stock they can sell the shares in the market to provide an immediate cash return.

The BHP Billiton Board looked at a range of options and carefully assessed the alternatives for simplification of our portfolio.

We concluded that the proposed demerger is more likely to maximise value for shareholders compared to maintaining the status quo or simplifying the Group in other ways.

And unlike the alternatives a demerger will materially simplify our portfolio in a single step. And it provides shareholders with investment choice as they can choose their levels of investment in both companies.

For BHP Billiton we expect the demerger to be value accretive. The one-off transaction related costs we believe will be more than offset by the value of the ongoing savings quantified.

And at South32 the planned regional operating model would generate cost savings expected to outweigh the additional costs that South32 would incur in the near-term.

But this is about longer term value and delivering further productivity benefits is the most important value creation opportunity we have.

Demerger of South32 unlocks shareholder value

We fundamentally believe a simplified portfolio will be the key driver to deliver and sustain substantial longer-term productivity gains beyond the already targeted 4 billion per annum by the end of Financial Year 17.

The de-merger creates two great companies; a simpler BHP Billiton focused on generating additional value from its core portfolio and an exciting new global metals and mining company; South32.

It is the right strategy to maximise shareholder value and the BHP Billiton Board recommends that shareholders vote in favour of this transaction.

I will now hand over to the CEO Elect Graham Kerr to talk further on South32 and the detail of its strategies and approach.

Demerger of South32 unlocks shareholder value

Appendix 1

Important information and disclaimer

Nature of this presentation

The information contained in this presentation does not constitute a prospectus or other listing document in relation to BHP Billiton or the new company proposed to be demerged from BHP Billiton ('South32') in any jurisdiction and is summary information provided for information purposes only. Any investment decision in relation to South32 should be made only on the basis of the information contained in the Listing Document for the relevant jurisdiction. The "Listing Documents", which have been published today and are available, subject to applicable securities laws, on the BHP Billiton website at www.bhpbilliton.com/demerger, comprise a prospectus which has been approved by the UK Listing Authority in connection with the proposed admission of South32's ordinary shares to the standard listing segment of the Official List of the UK Financial Conduct Authority and to trading on the Main Market for listed securities of London Stock Exchange plc, an information memorandum in connection with South32's application for the admission of its ordinary shares to listing on the Australian Securities Exchange and a pre-listing statement in connection with South32's application for the admission of its ordinary shares to listing on the Johannesburg Stock Exchange.

This presentation should not be relied upon in connection with voting on the proposed demerger. Information relating to the proposed demerger is set out in the Shareholder Circular. The Shareholder Circular is available on BHP Billiton's website at www.bhpbilliton.com/demerger. Subject to applicable securities laws, shareholders may obtain printed copies of the Shareholder Circular and the Listing Document applicable to their jurisdiction (the 'Disclosure Documents') free of charge by calling the Shareholder Information Line (details set out in section 3.9 of the Listing Documents and under "Important notices" at the start of the Shareholder Circular).

Nothing in this presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell BHP Billiton securities or securities in South32 in any jurisdiction.

Forward-looking statements

This presentation contains forward-looking statements, which may include statements regarding, among other things: trends in commodity prices and currency exchange rates; demand for commodities; plans, strategies and objectives of management; closure or divestment of certain operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; tax and regulatory developments.

Forward-looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue', 'annualised' or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Readers are cautioned not to put undue reliance on forward-looking statements.

For example, future revenues from our operations, projects or mines (including those that will become part of South32) described in this presentation will be based, in part, upon the market price of the minerals, metals or petroleum produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing operations.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include our ability (or, as applicable, the ability of South32) profitably to produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we (or South32) produce; activities of government authorities in some of the countries where we (or South32) are exploring or developing these projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the Disclosure Documents.

Except as required by applicable regulations or by law, neither BHP Billiton nor South32 undertakes any obligation publicly to update or review any forward-looking statements, whether as a result of new information or future events.

BHP Billiton non-IFRS financial information

BHP Billiton results are reported under International Financial Reporting Standards (IFRS) including Underlying EBIT and Underlying EBITDA which are used to measure segment performance. This presentation also includes certain non-IFRS measures including Underlying EBIT margin and Net debt. These measures are used internally by management to assess the performance of our business, make decisions on the allocation of our resources and assess operational management. Non-IFRS measures have not been subject to audit or review and should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

South32 financial information

This presentation and/or the Disclosure Documents include historical combined financial information and pro forma financial information relating to South32. The historical combined financial information has been prepared by aggregating the historical financial information relating to the businesses that will be held by South32 as at the date of the demerger. The pro forma financial information has been prepared for the purpose of showing the impact of the demerger on South32's financial performance and position. Details of the basis of preparation and presentation of the South32 financial information are set out in the Disclosure Documents.

The South32 financial information in this presentation and/or the Disclosure Documents include references to Underlying Earnings, Underlying EBIT and Underlying EBITDA, which are used to assess the performance of South32 and its businesses. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policy that South32 proposes to use when discussing its operating results in future periods. The accounting policy proposed by South32 for calculating these measures differs from that currently used by BHP Billiton. Further information on the calculation of these measures is set out in the Disclosure Documents.

Demerger of South32 unlocks shareholder value

Presentation of data

Unless specified otherwise, all references to revenue, Underlying EBIT and Underlying EBIT margin include third party trading activities.

Reliance on third-party information

The views expressed in this presentation contain information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This presentation should not be relied upon as a recommendation or forecast by BHP Billiton or South32.

No financial or investment advice – South Africa

BHP Billiton and South32 do not provide any financial or investment 'advice', as that term is defined in the South African Financial Advisory and Intermediary Services Act 37 of 2002, and we strongly recommend that you seek professional advice.

No SEC or Exchange Act registration – United States

The demerger of South32 from BHP Billiton will not be registered with the US Securities and Exchange Commission (SEC) under the US Securities Act of 1933, as amended. BHP Billiton expects South32 to qualify for the exemption from registration under Rule 12g3-2(b) of the US Securities Exchange Act of 1934, as amended ('Exchange Act'), and accordingly the South32 shares will not be registered under the Exchange Act and South32 will not be subject to the reporting requirements of the Exchange Act.

Mineral and Coal Resources

This presentation includes information on FY14 Mineral or Coal Resources as compiled by: P. Whitehouse (MAusIMM) – WAIO and Samarco JV; M. Williams (MAusIMM) – Escondida, Pampa Norte, Antamina, Olympic Dam; B. Coutts (MAusIMM) – Cannington; J. Field (MAusIMM) – Queensland Coal, NSW Energy Coal, Cerrejón, Illawarra Metallurgical Coal, South Africa Energy Coal and New Mexico Coal; J. Engelbrecht (MAusIMM) – Worsley Alumina; R. Aglinskas (MAusIMM, employed by Mineração Rio do Norte) – MRN Mine; I. Espitia (MAusIMM) – Cerro Matoso; C. Nengovhela (SACNASP) and E.P. Ferreira (SACNASP) – South Africa Manganese; D. Hope (MAusIMM) – GEMCO; M. Menicheli (MAusIMM) – Nickel West; and J. McElroy (MAusIMM) – Jansen.

The above-mentioned persons are full-time employees of BHP Billiton at the time of reporting, unless otherwise stated, and have the required qualifications and experience to qualify as Competent Persons for Mineral or Coal Resources under the JORC Code. The compilers verify that this report is based on and fairly reflects the Mineral / Coal Resources information and agree with the form and context of the information presented. All tonnes and grade information has been rounded, hence small differences may be present in the totals.

FY14 information was reported under the 'The JORC Code 2012 Edition'. The resource information in this presentation is extracted from the BHP Billiton 2014 Annual Report and Form 20-F submission (dated 25 September 2014), and the South32 Listing Documents Section 7.2 which are available at BHP Billiton's website at www.bhpbilliton.com. BHP Billiton confirms that it is not aware of any new information or data that materially affects the information included in the original Australian Securities Exchange (ASX) market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant ASX market announcement continue to apply and have not materially changed. BHP Billiton confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original ASX market announcements. It is BHP Billiton's opinion that all resources included have the potential to be recovered and sold.

Mineral / Coal Resource life is estimated from the resources converted to a run-of-mine basis using historical resources to reserves conversion divided by the FY14 production rate on a 100% basis. Nickel West deposits not in production use similar style Nickel West or study phase resource to reserve conversion factors. Jansen Mineral Resource life is based on aspirational potash capacity (10 Mtpa KCl) stated on a 100% basis. Resource life calculations are indicative only and do not necessarily reflect future uncertainties such as economic conditions, technical or permitting issues. Historical Mineral / Coal Resources to Ore / Coal Reserves conversion factors may not be indicative of future conversion factors.

Petroleum Resources

The estimates of petroleum 2P reserves and 2C contingent resources used to build the Asset Life graphic contained on slide 7 of this presentation are as of 30 June 2014 and are expressed on a net economic interest basis. Petroleum asset Resource life is calculated from the net remaining 2P Reserves plus 2C Resources as of 30 June 2014 divided by the net FY14 production.

BHP Billiton estimates proved reserves (1P) according to United States Securities and Exchange Commission (SEC) disclosure regulations and files these in our annual Form 20-F submission with the SEC. All unproved volumes are estimated using SPE-PRMS guidelines which allow escalations to prices and costs, and as such, would be on a different basis than that prescribed by the SEC, and are therefore excluded from our SEC filings. Under the PRMS guidelines 2P represents the sum of proved and probable reserves and denotes the best estimate scenario of reserves. The 1C category denotes the low estimate scenario of contingent resources, while 2C represents the best estimate scenario of contingent resources.

The estimates utilised are based on, and fairly represent, information and supporting documentation prepared under the supervision of Mr. A. G. Gadgil, who is employed by BHP Billiton. Mr. Gadgil is a member of the Society of Petroleum Engineers and has the required qualifications and experience to act as a qualified petroleum reserves and resources evaluator under the Australian Securities Exchange (ASX) Listing Rules. This presentation is issued with the prior written consent of Mr. Gadgil who agrees with the form and context in which the petroleum reserves and contingent resources are presented.

Reserves and contingent resources estimates utilised have been estimated using deterministic methodology with the exception of the North West Shelf gas asset in Australia. For this project, probabilistic methodology has been utilised to estimate and aggregate the proved reserves dedicated to the gas project only and represents an increment of 30 MMboe above the deterministic estimate. Aggregates of reserves and contingent resources estimates have been calculated by arithmetic summation of field/project estimates by category. The aggregate proved reserves may be conservative due to the portfolio effects of arithmetic summation. The custody transfer point(s)/point(s) of sale applicable for each field or project are the reference point for the resources. The barrel of oil equivalent conversion is based on 6,000 scf of natural gas equals 1 boe. Estimates have not been adjusted for risk and exclude fuel required for operations. Unless noted otherwise, petroleum resources represents the sum of 2P reserves plus 2C contingent resources.

A decorative graphic consisting of three horizontal grey bars of varying lengths, stacked vertically.

SOUTH32

Making a Difference from the Ground Up
Graham Kerr, Chief Executive Officer Elect
17 March 2015

Making a Difference from the Ground Up

Thank you Andrew.

Welcome everyone to the launch of South32.

As CEO Elect, it is with great pride I introduce the South32 business, our management team and our strategic priorities.

The listing documentation for South32 is available today, providing comprehensive detail on the company's assets, structure and robust balance sheet.

The document is governed by various listing regulations and we acknowledge there is a large amount of new information to digest.

Over the coming weeks, we plan to engage with you to explain our business and answer your questions.

We can now talk in more detail about our plans for South32. And will use today's presentation to provide more information on our proposed structure, management and strategic priorities.

Before we begin, I would also like to draw your attention to the important information and disclaimer notice that applies to my presentation [*Refer Appendix 2 below*].

While we are a new company we start with a great foundation.

We have high quality assets that have generated at least two billion dollars of annual combined Underlying EBITDA at an average margin of thirty six per cent over the last decade.

We are the world's largest producer of manganese ore, and own the world's largest silver mine. We are also a substantial producer of alumina, aluminium, nickel and coal.

And most of our underlying EBITDA is generated by assets which are competitively positioned in their industry cost or margin curve.

Our assets have benefited from BHP Billiton's systems, processes and the focus on productivity. And we have a great workforce.

What is new is our strategy to maximise the potential of our assets.

Our strategic priorities are deeply thought out and clearly defined.

We have a senior management team with strong commercial, technical, industry and in-country experience. Talented people and a clearly defined strategy will position us to make a real difference from the ground up.

Our earnings are highly sensitive to cost savings and productivity improvements. Our tailored strategy and lean operating model are designed to reduce costs and increase productivity.

Our regional organisational structure is designed for the particular characteristics of our assets to help drive more efficient and productive operations with stronger relationships.

Making a Difference from the Ground Up

More authority will be devolved to our regional business units, reducing the size and complexity of our corporate centre. Overhead savings from the implementation of our lean regional operating model are expected to outweigh the additional costs of establishing our corporate centre.

We start with a robust balance sheet on day one. A balance sheet which is expected to provide the financial strength and flexibility required to create value for shareholders and invest in the business in order to maximise total shareholder return.

When allocating capital we will be governed by a simple and fit for purpose capital management framework. To start with we will allocate capital to ensure we deliver safe, consistent and predictable operating performance and seek to maintain our targeted investment grade credit rating through the cycle.

Once these first two priorities for cash flow have been met, we intend to distribute a minimum forty per cent of underlying earnings in dividends following each six month reporting period.

Any excess cash will be allocated to the option that maximises total shareholder returns. This means that special dividends and share buy-backs will actively compete with expansions and other investment opportunities.

The current South32 Board consists of four directors chaired by David Crawford and South32 intends to appoint additional Non-executive Directors in time.

The composition of the South32 Board following the demerger is planned to reflect a range of geographical backgrounds, including Australia, South Africa and the United Kingdom.

The South32 senior management team brings with it extensive experience with strong technical capabilities and considerable in-country experience. Beyond its deep operational expertise, the team also brings the best of BHP Billiton's values and skills, including a strong commitment to health, safety and our communities.

Through this depth of experience I believe we are extremely well placed to further improve the performance of our operations.

Under its regional operating model, South32 has joint Chief Operating Officers individually responsible for the two key regions of Australia and Africa.

Ricus Grimbeek is our Chief Operating Officer Australia Elect. A mine engineer by qualification, Ricus most recently ran the Worsley alumina asset and was also Head of BHP Billiton Group HSEC. Ricus has deep operational experience having also served as Asset President of the Ekati Diamond mine and Executive Vice President of Mining and Concentrating for Lonmin Platinum.

Mike Fraser is our Chief Operating Officer Africa Elect. Mike was most recently a member of the BHP Billiton Group Management Committee and President, Human Resources. Mike has extensive experience in southern Africa, having worked at BHP Billiton's coal, aluminium and manganese assets before being appointed Asset President of the Mozal aluminium smelter.

Making a Difference from the Ground Up

South32's Chief Financial Officer Elect is Brendan Harris. Brendan was most recently the Head of Investor Relations for BHP Billiton from June 2011. Before joining BHP Billiton in 2010, Brendan worked in the finance sector for close to a decade. Brendan brings to us strong financial acumen and understanding of global capital markets, combined with an excellent working knowledge of the South32 asset base.

On the governance front, Nicole Duncan is our Chief Legal Officer and Company Secretary Elect. Nicole has held various legal and commercial roles within BHP Billiton following her initial career in private legal practice.

The positions of Chief Commercial Officer and permanent Chief People Officer will be filled in time via external appointment.

I believe we have an extremely strong, focussed and energetic team.

South32 will start life with a strong purpose and a set of clearly defined strategic priorities.

We are proud of our BHP Billiton heritage. However, we will also seek to create a new, independent culture and identity suited to the scale and requirements of the South32 business.

The hallmark of this will be an agile and entrepreneurial approach, with a culture of innovation and continuous improvement throughout all levels of the business.

South32 recognises that all its stakeholders benefit from a sustainable business. We will continue to enhance our environmental, health, safety, and social programs for the benefit of our employees, host communities and governments.

We will embed a fit for purpose lean organisational design, focussed on operational excellence. A cornerstone of this model will be a regional management structure that aggregates functional support at the regional level.

Within this operating model, the South32 team will have a near-term focus on maximising cash flow per share by seeking to further reduce costs while increasing productivity.

As we generate cash we will be firmly focussed on creating a strong alignment with our investor base. In order to achieve this we must be predictable. Our simple capital management and investment framework is firmly grounded in our commitment to maximise total shareholder returns.

We now turn our focus to sustainability.

We care about our people, the environment, and the communities we are part of. South32 firmly believes that a clear focus on sustainability will be a source of future competitive advantage for our business.

The concept of shared value is integral to this focus.

Making a Difference from the Ground Up

All stakeholders, including our shareholders, gain when we are responsible stewards of mineral assets within our host countries and communities. We will aim to continuously improve safety performance and aspire to have no person hurt at work.

We will seek to minimise the environmental impact of our operations through a focus on key areas such as energy efficiency and water resource management.

And, South32 will promote a diverse workforce and inclusive workplace culture.

South32 enters the global resources landscape as a diversified business with significant scale in its industries.

The South32 portfolio consists of eleven operated assets and one non-operated joint venture.

These assets are predominantly in Australia and Southern Africa, with the remainder located in Colombia and Brazil. Our corporate centre will be in Perth. And our assets will be managed from regional offices in Australia and South Africa, with a shared services centre in Johannesburg. We will also have a global marketing centre located in Singapore.

With operations located in five countries producing ten key products, the South32 portfolio offers compelling diversification by geography, commodity and customer.

The bar chart highlights that no one country accounts for more than twelve per cent of revenue by location of customer.

South32 will have a global share register with a primary listing on the Australian Stock Exchange and additional listings in Johannesburg and London.

South32 will also establish an unlisted ADS program in the United States.

We have an attractive mix of assets. The great majority are positioned in the first or second quartile of their respective industry cost curves.

GEMCO is the world's largest manganese ore producer. And has the lowest landed cost into key Asian markets. The GEMCO deposit contains some of the highest mined manganese ore grades globally.

Cannington is the world's largest silver mine. And benefits from significant lead and zinc co-products. The high grade Cannington resource has underpinned consistently strong financial results. For example, generating 460 million dollars of EBITDA in 2014 financial year.

While the Cannington grade profile will continue to decline over the nine year reserve life, our team will seek to incrementally increase throughput and reduce controllable costs to maximise the value of this high quality asset. We will also look at value accretive ways to potentially extend the life of the mine.

Worsley is one of the world's largest alumina refineries. And is also one of the lowest cost. Following the recently completed Efficiency and Growth project, Worsley is expected to offer further production efficiency opportunities.

Making a Difference from the Ground Up

Hillside, Mozal, Illawarra, Cerro Matoso, Alumar and South Africa Energy Coal are all large assets with long histories. All are competitively positioned in their respective industry cost or margin curves, further highlighting the quality of the South32 portfolio.

Here, you can see the contribution of key South32 assets to underlying EBITDA during the first half of 2015 financial year.

This chart highlights two major strengths of the South32 portfolio.

First you can see that no single asset contributed more than fifteen per cent of underlying EBITDA during the period; second you can see that more than 90 per cent of underlying EBITDA was generated by assets positioned in the bottom half of the cost curve, or in Illawarra's case the top half of the margin curve.

Our assets have also benefitted from having been historically managed and maintained in accordance with BHP Billiton standards and practices.

With twelve billion dollars invested in the portfolio over the last ten years. Recently completed major projects include investments in GEMCO and Worsley Alumina, both completed in 2013. And South Africa Energy Coal, completed in 2010.

Major projects currently in the execution phase include ; the capacity expansion and infrastructure handling improvements at Wessels central block at Hotazel, the Premium Concentrate Project which is increasing capacity and upgrading port facilities at GEMCO and Appin Area 9 at Illawarra, increasing capacity to replace declining production at West Cliff.

Many of South32's mining assets have significant reserves, with the potential to significantly extend mine life.

Given the value proposition, you can expect that we will focus our efforts to maximise our resource potential.

Our high quality portfolio of assets has generated combined underlying EBITDA of at least two billion dollars in every year of the past decade.

Notwithstanding the weaker commodity prices that have prevailed in recent years, South32's cash flows from operations, pre interest and tax, have significantly exceeded total capital expenditure.

By focusing on the factors within our control – safety, volume and costs – and key metrics such as per share cash flow and return on capital, we will look to build credibility as a reliable operator and disciplined manager of capital.

Our path to delivering low cost outcomes will be driven by a focussed and lean approach, and a regional operating structure.

By combining individual businesses and assets into regional business units, the core accountability for support functions such as Finance, Supply, Planning and Human Resources will exist at the regional level, as opposed to being duplicated across the asset base.

Making a Difference from the Ground Up

It will also facilitate greater alignment for the South32 business with regional stakeholders. For example, the ability for us to manage our South African businesses with an integrated approach, offers a distinct opportunity.

South32 will start life with an appropriately strong balance sheet .

With pro forma net debt at 31 December 2014 of 674 million dollars including finance leases totalling around 680 million dollars.

Closure and rehabilitation provisions of approximately 1.5 billion dollars also transfer to South32.

We have a 1.5 billion dollar multicurrency revolving credit facility. This facility will underpin the liquidity of South32.

This capital structure complements a cash generative asset portfolio.

In combination, this is expected to provide South32 with the flexibility to pursue its strategic objectives and capital allocation priorities.

On this slide we have highlighted a selection of investments that are currently in execution or at various levels of study.

In keeping with our commitment to maximise total shareholder returns, we will not seek to extend the life of an asset where the economics fail to justify investment.

Having described the capacity of our portfolio to generate cash. And the way we will organise as we seek to further reduce costs and increase productivity.

Let me turn our attention to the way in which we intend to manage our capital. At the core of South32's capital management framework is a very simple and clear set of cash flow priorities.

This hierarchy starts with a commitment to maintain safe and reliable operations. And an intention to maintain an investment grade credit rating through the cycle. The importance of a strong balance sheet is regularly underestimated. It won't be by South32.

Next is our proposed dividend policy.

We believe it is important to reward our shareholders for their continued investment in the company.

Given our exposure to cyclical commodity markets a 'simple to calculate' and 'simple to predict' payout ratio is most appropriate for South32.

Our approach will ensure dividends in any half year reflect the level of earnings generated by the company.

Based on detailed analysis of historical and prospective performance, we have concluded that a targeted minimum payout ratio of forty per cent of underlying Earnings in each six month reporting period is both appropriate and affordable.

Making a Difference from the Ground Up

Should we manage to reduce costs and increase productivity, this policy would ensure that cash returns to shareholders rise, even in the absence of an improvement in commodity prices.

We are aware of the importance of franking credits but immediately following the Demerger South32's franking balance will be zero.

Future franking credits will depend on the timing of tax payments and profitability. Within this simple capital management framework any excess capital will be allocated to the option that maximises total shareholder returns.

In practice this means over time that special dividends and share buy backs will actively compete with investment opportunities.

Once we have deliberated with our full Board, we hope to provide even more clarity.

To summarise our value proposition.

We will care for our people, the environment and our host communities. This is non-negotiable.

An experienced Board and management team can be trusted to bring greater focus to our cash generative portfolio.

This focus, together with our lean regional operating model, should help us to further reduce costs and increase productivity, thereby maximising the potential of our resources.

And our simple approach to capital management will allow us to maximise total shareholder returns as we seek to create strong alignment with our investors.

I will now hand you back to Andrew.

Making a Difference from the Ground Up

Appendix 2

Important information and disclaimer

Nature of this presentation

The information contained in this presentation does not constitute a prospectus or other listing document in relation to BHP Billiton or the new company proposed to be demerged from BHP Billiton ('South32') in any jurisdiction and is summary information provided for information purposes only. Any investment decision in relation to South32 should be made only on the basis of the information contained in the Listing Document for the relevant jurisdiction. The "Listing Documents", which have been published today and are available, subject to applicable securities laws, on the BHP Billiton website at www.bhpbilliton.com/demerger, comprise a prospectus which has been approved by the UK Listing Authority in connection with the proposed admission of South32's ordinary shares to the standard listing segment of the Official List of the UK Financial Conduct Authority and to trading on the Main Market for listed securities of London Stock Exchange plc, an information memorandum in connection with South32's application for the admission of its ordinary shares to listing on the Australian Securities Exchange and a pre-listing statement in connection with South32's application for the admission of its ordinary shares to listing on the Johannesburg Stock Exchange.

This presentation should not be relied upon in connection with voting on the proposed demerger. Information relating to the proposed demerger is set out in the Shareholder Circular. The Shareholder Circular is available on BHP Billiton's website at www.bhpbilliton.com/demerger. Subject to applicable securities laws, shareholders may obtain printed copies of the Shareholder Circular and the Listing Document applicable to their jurisdiction (the "Disclosure Documents") free of charge by calling the Shareholder Information Line (details set out in section 3.9 of the Listing Documents and under "Important notices" at the start of the Shareholder Circular).

Nothing in this presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell BHP Billiton securities or securities in South32 in any jurisdiction.

UK Financial Services and Markets Act 2000 approval

The contents of this presentation, entitled "Making a Difference from the Ground Up", which have been prepared by and are the sole responsibility of BHP Billiton, have been approved by Goldman Sachs International solely for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000 (as amended). Goldman Sachs International, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for BHP Billiton and no one else in connection with the proposed demerger of South32 and will not be responsible to anyone other than BHP Billiton for providing the protections afforded to clients of Goldman Sachs International, or for giving advice in connection with the proposed demerger of South32 or any matter referred to herein.

Forward-looking statements

This presentation contains forward-looking statements, which may include statements regarding, among other things: trends in commodity prices and currency exchange rates; demand for commodities; plans, strategies and objectives of management; closure or divestment of certain operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; tax and regulatory developments.

Forward-looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue', 'annualised' or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Readers are cautioned not to put undue reliance on forward-looking statements.

For example, future revenues from South32 operations, projects or mines described in this presentation will be based, in part, upon the market price of the minerals and metals produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing operations.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include South32's ability to profitably produce and transport the minerals and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals or metals South32 produces; activities of government authorities in some of the countries where South32 is exploring or developing these projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the Disclosure Documents.

Except as required by applicable regulations or by law, neither BHP Billiton nor South32 undertakes any obligation publicly to update or review any forward-looking statements, whether as a result of new information or future events.

BHP Billiton non-IFRS financial information

BHP Billiton results which have been published in the Disclosure Documents are reported under International Financial Reporting Standards (IFRS) including Underlying EBIT and Underlying EBITDA which are used to measure segment performance. The Disclosure Documents and/or this presentation also include certain non-IFRS measures including Underlying EBIT margin, Underlying EBITDA margin, Net debt and Net operating assets. These measures are used internally by management to assess the performance of BHP Billiton business, make decisions on the allocation of BHP Billiton resources and assess operational management. Non-IFRS measures have not been subject to audit or review and should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

South32 financial information

This presentation and the Disclosure Documents include historical combined financial information and pro forma financial information relating to South32. The historical combined financial information has been prepared by aggregating the historical financial information relating to the businesses that will be held by South32 as at the date of the demerger. The pro forma financial information has been prepared for the purpose

Making a Difference from the Ground Up

of showing the impact of the demerger on South32's financial performance and position. Details of the basis of preparation and presentation of the South32 financial information are set out in the Disclosure Documents.

The South32 financial information in this presentation and/or the Disclosure Documents include references to Underlying Earnings, Underlying EBIT and Underlying EBITDA, which are used to assess the performance of South32 and its businesses. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policy that South32 proposes to use when discussing its operating results in future periods. The accounting policy proposed by South32 for calculating these measures differs from that currently used by BHP Billiton. Further information on the calculation of these measures is set out in the Disclosure Documents.

Presentation of data

Unless specified otherwise, all references to Underlying EBIT, Underlying EBITDA, Underlying EBIT margin and Underlying EBITDA margin include third party trading activities.

Unless specified otherwise, production volumes, sales volumes and capital and exploration expenditure from subsidiaries are reported on a 100 per cent basis; production volumes, sales volumes and capital and exploration expenditure from equity accounted investments and other operations are reported on a proportionate consolidation basis.

Reliance on third-party information

The views expressed in this presentation contain information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This presentation should not be relied upon as a recommendation or forecast by BHP Billiton or South32.

No financial or investment advice – South Africa

BHP Billiton and South32 do not provide any financial or investment 'advice', as that term is defined in the South African Financial Advisory and Intermediary Services Act 37 of 2002, and we strongly recommend that you seek professional advice.

No SEC or Exchange Act registration – United States

The demerger of South32 from BHP Billiton will not be registered with the US Securities and Exchange Commission (SEC) under the US Securities Act of 1933, as amended. BHP Billiton expects South32 to qualify for the exemption from registration under Rule 12g3-2(b) of the US Securities Exchange Act of 1934, as amended ('Exchange Act'), and accordingly the South32 shares will not be registered under the Exchange Act and South32 will not be subject to the reporting requirements of the Exchange Act.

Demerger of South32 unlocks shareholder value

Andrew Mackenzie, Chief Executive Officer, BHP Billiton

Thank you Graham.

You have now heard from me on the rationale to simplify our portfolio by a de-merger to unlock shareholder value.

You have also heard from Graham on the future of South32 and its strategy to realise the full potential of its assets.

Shareholder Meetings will be held in Perth and London on Wednesday the sixth of May 2015 where shareholders will have the opportunity to vote on the proposed de-merger.

The BHP Billiton Board has unanimously recommended that shareholders vote in favour of the proposed de-merger.

Over the coming weeks shareholders will receive important documents. I encourage you to read this information and support the proposal by voting in favour of the demerger resolution.

Thank you.