PRESENTATION TO THE BRISBANE MINING CLUB
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Speech Topic: Diversification and Delivery in a Cyclical World

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SLIDE 1 – Cover Slide

Good afternoon ladies and gentlemen, and thank you for inviting me to speak with you today.

It is a pleasure to be back in Brisbane. BHP Billiton is the world's largest seaborne supplier of hard coking coal and Queensland is right at the centre of our strategy.

From Queensland we oversee our six BMA Bowen Basin mines and the Hay Point terminal near Mackay, all owned equally with Mitsubishi. It is also the place from which we steward our two BMC joint-venture mines co-owned with Mitsui and our Illawarra Coal operation in New South Wales. More broadly, Queensland is also the home to Cannington, our wholly owned and operated lead, zinc and silver mine.

There are five key themes I would like to explore today:

- The cyclical nature of the industry in which we operate;
- The role of industry and governments to encourage future investment;
- The future outlook and the importance of diversification for us;
- How BHP Billiton is responding to global economic conditions; and
- Sustainability at BHP Billiton.

SLIDE 2 – Disclaimer

Before we begin, I would like to point you to the disclaimer and remind you of its importance in relation to this presentation.

THE CYCLICAL NATURE OF THE INDUSTRY IN WHICH WE OPERATE

As a predominantly mining audience, most of you will appreciate that mining is fundamentally a cyclical industry.

Over the past decade, however, I think many have almost forgotten about the cyclical nature of our industry. What the industry experienced over this time was growth of unprecedented proportions, fuelled by the industrialisation and urbanisation of China.

SLIDE 3 - Urbanisation drives steel consumption intensity

During this time, more than 200 million people in China moved from the country to urban areas, thereby increasing their demand for the commodities required to provide infrastructure like roads, buildings, train-lines and so on. To illustrate the significance of this, we witnessed a tripling of per capita steel consumption in the last decade from 150 to 450 kg/capita.

When Chinese urbanisation and industrialisation first started to gain momentum in the early part of this century, almost nobody foresaw the full extent of its impact on commodities demand. After lean years in the '80s and '90s, the mining industry had almost no 'investment ready' projects in the pipeline; what eventuated as a result was a substantial supply lag that significantly increased commodity prices, which in turn enticed investment into the industry.

This supply lag caused prices to - at peak - leap by close to 1,000 per cent for iron ore, more than 700 per cent for hard coking coal and energy coal and, over 600 per cent for copper from their lows at the beginning of the decade. These higher prices enabled smaller, higher cost resources to enter the market. For the proponents of these projects, the high prices rewarded their efforts. This is despite the fact that if more "normal" pricing and supply demand conditions had existed, some of the higher cost ore bodies may have been economically challenging. So what we witnessed is that small players got bigger and suddenly many industry participants and observers were calling this a "boom time" for everybody.

In the broader mining industry, the opportunity cost of not producing a unit of production during this high price period meant that most miners took a "volume over cost" approach; the benefits of being able to produce more outweighed the increased costs that resulted. Given the high prices, this was the correct and value maximizing decision for their shareholders (and also for other participants, like royalty and tax recipients).

Just like the miners themselves, mining subcontractors and suppliers initially did not have the capacity to respond. So, they priced what capacity they had in light of increased demand, which led to price increases. They also looked at the cost of an opportunity foregone, and reached the same conclusion as their clients: it is OK if costs go up provided that more opportunities could be captured.

In the same way, resource owners and authorities who participate in the industry via royalties and taxes looked at the short term opportunities to participate in the extraordinary profitability of the industry, without fully appreciating what the impact would be on the longer term competitiveness of the sector. This was the case in Australia, but also elsewhere.

SLIDE 4 - New production delivered at higher cost

Thus, in the industry-wide pursuit to bring on additional supply as quickly as possible, the natural consequence was substantial, across the board cost inflation throughout the mining industry. This is most evident in the increased cost per unit of additional iron ore and metallurgical coal production brought to market. Analysis shows that in the effort to fill the gap, the commodity price increases were leaked throughout the value chain into fixed (or permanent) costs. This is most notable in labour costs, pricing of raw materials, royalties and taxes, and in higher costs for services.

In the meantime though, in the 10 years or so that have passed since China first came to the fore as a commodities demand force, two things have happened:

- First, steel intensity per unit of GDP in China surged as early stage infrastructure and construction was required. This has now peaked, and we expect it to progressively decline as we have seen in historical examples. Put simply, this is a lead indicator of the progression of the Chinese economy toward maturity. However, we will continue to see per capita consumption of steel growing, albeit at a slower rate, as steel intensity of GDP declines.

- And secondly, as the industry matured it has progressively improved its ability to supply the volumes to meet demand.

As a result, the ‘supply shortage’ has largely been filled, or is well advanced in being fulfilled. Therefore, what we are now witnessing is the rebalancing of supply and demand and a progressive recalibration of prices back to long term sustainable pricing levels.

In effect, what this means is that the record prices we experienced over the past decade, driven by the ‘demand shock’, will not be there to support returns over the next 10 years. What we can instead expect is demand growth at more predictable and sustainable levels and more moderated pricing. This ‘mean reversion’ in prices and returns is something we at BHP Billiton have anticipated for some time.

Now as I noted before, in the past environment of high prices, the benefits in maximizing volumes far outweighed the benefits of actively managing operating costs per unit. That is, improving productivity played second fiddle to speed to market for many in the industry. However, as we look to the future environment of mean reversion in prices that I just described, costs and productivity will be key for both the industry and for Australia more generally.

SLIDE 5 – Australia’s mining productivity

The best predictor of long term societal wealth is productivity, because productivity improves a country’s relative competitiveness over the long term. Productivity is, therefore, something that on which we should all focus. While Australia experienced total factor productivity growth of 2.3 per cent per annum in the five years to 1999, that rate more than halved to 1.1 per cent per annum in the next five years, and then went into reverse by 0.3 per cent per annum for the five years after that, to the end of 2008. Productivity growth decreases continued on average over the following years to 2011. This should be a concern for all of us, because as markets revert to more sustainable levels, our relative competitiveness will be the key to maintaining the economic advantage our resources endowment naturally provides.

Which leads me to the second theme – the role of industry and governments to encourage future investment.

THE ROLE OF INDUSTRY AND GOVERNMENTS TO ENCOURAGE FUTURE INVESTMENT

As prices are ‘mean reverting’ we are seeing some industry participants around the globe and here locally, under increasing pressure to remain viable. This is particularly the case for the owners of those higher cost, lower quality and smaller ore bodies that came into production during the high price environment. They are experiencing what every home owner knows – leverage works both ways!

On top of long term moderating prices, the mining industry in Australia has seen a number of additional challenges:

- a strong appreciation and resilience of the Australian dollar;
- substantial capital and cost escalation;
- higher taxes and royalties; and
- increasing regulatory burdens.

SLIDE 6 – Resource and Energy Sector Project Construction Wages.

As each of us, from individual companies to Australia as a whole, look forward to capturing the opportunities ahead, we should do so against a backdrop of the inevitable moderation of prices. In this context, BHP Billiton's analysis shows that the next round of minerals investments in Australia will, almost without exception, be captured only if costs are decreased and productivity is improved. Companies and governments need to work in partnership towards attracting the next rounds of investments.

Industry can, and should, do the heavy lifting, but government policies should both enable and complement our efforts to restore competitiveness. As the Minerals Council said in its "Opportunity at Risk" Report prepared by Port Jackson Partners last month: "Australia must do the hard yards of volume growth in order to grow (or even maintain) and capture our share of future investment and revenue potential".

In our conversations with State and Federal governments, and as part of our contribution to the White Paper on "Australia in the Asian Century", we tried to synthesize our views on reform into three simple concepts:

- Speed;
- Stability; and
- Competitiveness.

SLIDE 7 - Australia's future success

We believe these three factors best capture what will be critical to Australia's continuing success in the resources sector.

- By speed, we mean efficient and stream-lined regulatory processes and decision-making that help underwrite timely project builds.
- Stability talks to the fiscal framework (i.e. the stability of tax and royalty regimes) against which we invest, measured over decades; and
- Competitiveness highlights the criticality of creating policy frameworks that support improved productivity. This includes taxes and royalties, efficient workplace relations and a manageable but responsible regulatory regime.

Given the current cost pressures, it is abundantly clear that governments and companies will all have to work together to achieve this. Simply put, Australia's key competitive advantage is its large and high quality minerals endowment. We need policies that recognize this to allow the country to thrive.

Let me now turn to the future outlook, highlighting the change in future commodity consumption we anticipate and how BHP Billiton is best placed to meet these changes.

THE FUTURE OUTLOOK AND THE IMPORTANCE OF DIVERSIFICATION FOR US

SLIDE 8 - China's GDP growth

We expect China's GDP growth to be around seven to eight per cent this year, and in line with this level for the next 10 years. While this is a lower level than China's annual growth of around 10 per cent over the past decade, clearly a significant opportunity remains as China moves from an investment-led to a consumption-led economy.

China's growth over the past decade has relied on the creation of new cities, buildings, roads, housing and other general infrastructure to support its massive urbanisation trend. As these cities and buildings are completed and as people continue moving to the cities, their future needs will include the next level of consumer goods being kitchen appliances, heating and air-conditioning, cars, and so on.

While all this occurs, steel intensity per unit of GDP will continue to moderate, and growth rates for iron ore and coal are likely to decrease. The market, however, will still offer substantial opportunities for those companies and countries that can supply competitively and at low cost. For example, in the current decade we anticipate the global iron ore market to grow by 650 million tonnes, below the 800 million tonne increase that we saw over the last decade, but nevertheless still a very substantial opportunity.

At the same time, the progressive transition into a consumption-based economy implies increased demand for commodities other than steel, such as copper, energy, aluminium, and so on. As the middle class continues to grow, better diets will also imply a higher demand for commodities such as potash.

It is important, therefore, to note that:

- in the first instance, the types of commodities that China (and other developing economies) will need as it continues on its journey will change; and
- given the balancing of supply and demand, and the resulting mean reversion of prices, assets that are lower cost and more competitive will capture the opportunity.

At BHP Billiton we have been planning and managing our portfolio to be the "more diversified portfolio" for more than a decade. This has been part of a well-planned strategy that has been implemented diligently by successive management teams. It is what differentiates us and will continue to do so.

SLIDE 9 – The power of our diversified model

The most fundamental part of our diversification is that in addition to a diversified minerals portfolio, we have a large oil and gas business, while our competitors do not. As you can see on the current slide, historically, oil and minerals have been inversely correlated. When oil prices were high, minerals prices tended to be lower. While there was some breakdown in this correlation for a few years as China entered the demand picture, this correlation is now re-establishing itself.

In recent times, therefore, while so much attention has been paid to the falls in iron ore and coking coal prices, for example, the strength of the oil price at the same time has meant that our exposure to petroleum has played its role in substantially diversifying our earnings and cash flows.

While on balance our competitors became less diversified over the last decade, we have continued to invest in a substantial way across the breadth of our portfolio, notably in oil and gas, iron ore, metallurgical coal, copper and potash. In doing so we have continued to invest in products that are not only leveraged to early stage industrialisation, but are also well positioned to "resource the future" as demand patterns change along with stages of economic development.

I should also comment that despite some suggestions over the last 10 years of high prices that we should consider adding lower quality assets to our portfolio, we have persisted with our strategy of only owning the lowest cost assets that are cash generative and profitable throughout the cycle. There is probably no need for me to elaborate on the advantages of this part of our strategy within an environment where prices (and margins), are expected to mean revert.

The success of BHP Billiton's strategy for its shareholders is evidenced by our outperformance of our peers over the decade to 30 June 2012. Over this time, BHP Billiton delivered total shareholder returns in excess of 600 per cent.

One additional advantage of only owning and operating large, high quality assets is that these assets also contain numerous growth options that we can trigger as the market requires.

SLIDE 10 - Major projects in our core products underpin near term growth and returns

Our "options-long" approach to project selection means that we have a suite of growth options sufficient for decades of growth across all phases of commodity demand, and we will only exercise the final decision when risk and return conditions are satisfied. We remain committed to investing through the cycle and continuing with our unchanged strategy of approving only the highest return and lowest risk projects out of our considerable growth option set.

As you can see on this slide, we currently have 20 projects in execution with a combined budget of US$23 billion. Our growth priorities focus on our established basins in Iron Ore in Western Australia, Potash in Canada, Copper at Escondida, Petroleum in the United States and Western Australia, and Coal, most notably here in Queensland.

HOW BHP BILLITON IS RESPONDING TO GLOBAL ECONOMIC CONDITIONS

At the same as we continue to pursue the right growth opportunities, we have also been actively anticipating and responding to changing market conditions to maintain and enhance our competitive position.

What I have described today is a set of industry-wide challenges covering both the revenue and cost line, which have led to margin compression (or disappearance) in some businesses, and has changed the economics of some growth options and projects.

Our basic philosophy is to only operate assets that are cash generative, and to only invest in projects that meet our strict return criteria. In response to the changed conditions, you will, therefore, have seen us re-sequence our growth portfolio, shut down some loss making capacity, and slow down or stop some development projects.

Specifically, here in the Queensland coal industry, we have seen a rapid decrease in prices at the same time as a confluence of factors that have increased costs. In addition to the elements that I have generically described before, specifically also energy costs, carbon taxes and changed royalties have further exacerbated cost impacts.

- Of our existing mines, production at Norwich Park and the Gregory mine here in Queensland was suspended following a profitability review. Additional measures are being implemented that will substantially reduce operating costs and non-essential expenditure across our businesses here.
- Of our coal projects in execution, we have delayed the expansion of Peak Downs. Our 5.5 million tonne per annum Caval Ridge mine remains on schedule to deliver first production in the 2014 calendar year, although we will continue to keep a close watch on market conditions.
- And lastly, we have slowed down the rate of maturing future projects, as you will have seen by the withdrawal of some applications, such as for our Red Hill mining project.

The Queensland coal mining industry is endowed with an almost unparalleled resource base, a source of both energy coal and metallurgical coal that provides substantial opportunity in the decades ahead. However, it is also an industry in which it is difficult to envisage further incremental capital investment until the fundamental issues affecting competitiveness are addressed. While our resource base in Queensland is very high quality; the heavy cost of taxes, royalties, declining productivity and a strong Australian dollar means that further investment to grow these operations is much less likely. It is particularly unfortunate, that these costs are increasing at a time when industry profitability is declining.

As I outlined before, the core challenge for Government and Industry working together is to reverse this situation. The future really is in our hands.

SUSTAINABILITY AT BHP BILLITON

Before I conclude, I would like to spend a moment talking about our commitment to sustainability and what this means for our Queensland communities.

I use the word sustainability very deliberately. Sustainability is enshrined in Our Charter. Putting health and safety first, respecting and sustaining the environment and supporting and leaving a positive legacy for our communities all sit under the umbrella of Sustainability.

SLIDE 11 – We are committed to the communities in which we operate.

As an example of just a few of our recent commitments to the region:

- This year we launched a local buying program providing small businesses from Emerald, Moranbah, Blackwater and Dysart the opportunity to engage in the competitive supply of goods and services to our BMA operations. To date 180 local businesses have signed up to the program and $1 million worth of business has been awarded.
- We recently brought forward $3.5 million in funding to the Isaac Affordable Housing Trust delivering seven new duplexes and triplexes for non-mining workers in Moranbah and Dysart. We also provide around $1 million per annum in subsidised accommodation to key community services such as day care centres, medical and community support services across the Bowen Basin.

- We continue to invest in our residential housing in the Bowen Basin, delivering 69 new houses and townhouses in the last financial year and a further 400 townhouses and houses planned over the next two years.
- Over the last 18 months, we have delivered key community infrastructure projects including the Moranbah Airport ($46 million) as well as contributed to the upgrades of the Moranbah Pool ($2.5m), Dysart Community Centre ($2m) and Day Care Centres ($2m) in Blackwater and Dysart.
- Through our operations, we also provide direct employment to more than 6,000 people in Queensland, and have thousands of contractors in the State working at our operations or on our projects. Our Queensland businesses contribute over $7 billion to the local economy through royalties, salaries and wages and the purchases of goods and services.

SLIDE 12 – BHP Billiton Logo

CONCLUSION

Finally, in summary, BHP Billiton is playing its part by investing throughout the cycle to support further growth, while also taking prudent action where necessary to protect margins, and shareholder and community interests.

Despite the more challenging times, we have a range of magnificent growth options and opportunities.

Although prices are likely to mean revert, we have a high level of optimism for general commodities demand, based on the international drivers of industrialisation, urbanisation and consumption - but demand cycles will change along the way.

We have to work hard to earn the next generation of projects. And the projects we do have must earn their right to stay in our portfolio. When assets or projects are not delivering to expectations, we will take necessary action. That is prudent and responsible management.

BHP Billiton believes it is well positioned to continue to deliver superior value for our shareholders. We have established momentum, adapted our plans, and controlled costs to maintain our margins, and we have an excellent diversified portfolio for these volatile times.

Our aim is to retain our agility and edge to keep delivering sustainably against our goals, and in our shareholders' best interests.

Thank You.