Marketing Briefing
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A Centralised Marketing Model

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I. Introduction

Good afternoon to those of you in Australia and Asia and good morning to those of you in London and South Africa. My name is Alberto Calderon and I am the Chief Commercial Officer of BHP Billiton. My responsibilities include marketing, M&A and IT for BHP Billiton.

Today, I want to introduce to you, in Sydney, Tom Schutte, the President of BHP Billiton Marketing, and we have some members of his team: we have Vicky in Sydney; we have Mike here, who is going to cover the steel complex, Henry is going to cover energy, and David is going to cover base metals. Tom will end the presentation talking about why we seek floating prices, a little bit about freight and then some conclusions.

II. Marketing – Actively Managing the Revenue Line

I would like to start by giving some general comments on why we value and why we pursue our centralised marketing model. Let me start with how we actively manage the revenue line. How we structure in a centralised way the whole of our marketing system is, we believe, a key differentiator from other large mining companies. For us, marketing is not about what we produce but how we control and how we have very clear and unified visibility over our $50 billion revenue line.

Marketing at BHP Billiton manages the physical product and distribution flow from the time the commodity is in a saleable form through to cash collection. The involvement of marketing is along the whole logistics chain and customers of each of our commodities. This involves having our own people on the ground in our important markets instead of using marketing and trading intermediaries and agents. It also involves building long-term relationships with our customers and our suppliers.

We take our marketing best practice in one region or commodity and implement it in another. There have been plenty of examples over the years, but let me highlight two: in the copper area, where we were the ones who pushed eliminating the copper price

participation, leading to the price of copper reflecting the supply and demand fundamentals. In the energy coal space, if you remember, even seven years ago we were in a similar situation to the iron ore space where there were long negotiations – what I call very long lunches – benchmark negotiations, which used to create complexity and misalignment and so we pushed for a spot price. All of the API in this part of the Atlantic ocean, API2, API4, we have a paper market that is more than 10 times the physical and you have a very clear price for how to sell your coal. I think if you asked any of the customers if they would like to go back to the system of seven years ago more than 90% would say no, even though initially we had to push the supply and demand fundamentals and try to get the market price every day.

III. Centralised Marketing Model

Let me continue with our centralised marketing model. It is based on a hub and spoke model around the two principal marketing centres at The Hague and Singapore, with regional marketing offices in China, Japan, Korea, India and Brazil.

By using a common platform across all the commodities we can manage the physical product flows as well as the financial flows in a uniform manner. This uniformity extends to a single IT platform, a single set of processes, a single risk management system, a single set of standards, a single governance model. Irrespective of what commodity we are dealing with, I would be able to see and the President of Marketing would be able to see every day in one book what our unified position is.

Another key aspect of this model is that it is scalable. For example, when we bought WMC it was very easy to bring in all of WMC in a scalable way.

IV. One View Internally and One View Externally

The benefits of a centralised model were clear to us through the up cycle, but I believe and we have seen the real benefits of this centralised system in the down cycle. In an environment where the financial health of some of our customers was at risk, the ability to manage the total company exposure across all products proved invaluable. You have seen in our recent results a $50 billion revenue line. You may have seen too the $18.9 billion net profit. What was probably less highlighted is that even though our EBIT decreased by about $6 billion, our net operating cash improved by $1 billion. What that means is a very disciplined approach to inventories, to working capital, to being able to reach all of the cash across all parts of our corporation. There were no compartments, just a single cash position and that has proved invaluable during these hard times.

One of the biggest issues in this crisis was that of performance risk, especially in the bull commodities. Again, when you have one-year negotiations the misalignment of these contracts has proved one of the greatest issues for all mining companies during this past year. Let me just highlight two issues around that, one in the short term and one in the longer term. In the short term, let me just reiterate that we have insisted to our customers on 100% fulfilment of the contracts. When we were in the upturn two years ago, iron ore could reach $180 and we had a contract at $60, we delivered 100% of our contracts. When things changed we have insisted to our customers – sometimes it has taken more than insistence – that everybody should deliver 100% of the contract. However, there is no doubt that this does create tension and it does create misalignment and that is where

you have seen and you will hear more from Tom later why we push again for the development of markets that reflect the true supply-demand balance, why we like floating prices and why we try to consolidate what has been the history of all commodities, the movement from long-term prices into short-term prices.

Why do we like short-term prices and spot prices? Well, it is very clear, if you look at the history of any of the commodities, that everything that is traded, such as petroleum or all the LME products, reflect the supply-demand balance in a very clear way. There is no misalignment between customers. There are really no issues, almost no negotiation, because you have a very clear indicator. Therefore, that push towards floating prices is one of the issues that you will hear us reiterate again and again.

Lastly, this centralised marketing system gives us a 'house view' of the commodity world and the macro world. What you will hear today from Vicky and from the other members of the team is what our house view is on copper, on steel, on energy. Let me start by giving our house view of the macro world. This will be the last part of my introduction.

V. Key Macroeconomic Indicators

1. Macro Situation

This slide shows our new global macroeconomic barometer, which I think is self-explanatory: it goes from red, obviously in dire straits, to yellow and to green. It uses the averages of 10 key economic indicators. Here, you can see the main economies: the US, the EU, Japan and China.

I would like to give you, which you have heard before, our two overriding messages on how we see the macro situation of the world. In one regard, China has performed probably even better than expected. It is going to grow 8%; it has solid growth for next year. There are issues that we are seeing, however: there are some risks from the economy in the pace of loan growth, there are risks in terms of overstocking. Overall, however, China has performed remarkably well. We will not touch India, but in spite of the monsoons, it has shown a solid 6%.

The second message is regarding the developed world, more the OECD world that we see reflected here. There is the beginning of a turnaround. How I would probably summarise it is we think that the worst is over, but the big question is how long it will take for things to get better. Probably it will be much slower than envisioned. We are beyond the initial stabilisation of the decline and we are moving from a very, very low base. There are signs of improvement, as you see here, for example in the PMI indicator, there is an initial something in construction, we are starting to see a little bit on trade, we are starting to see restocking across the EU and the US. What happens after that is probably going to be a more interesting question. Hence on the OECD point, yes, things are not getting worse, but we would indicate caution.

Let me indicate on this barometer something interesting. The only thing that you see in green is the stock market across the US, the EU, Japan and China. There can be two explanations for that: the market is wise and see everything in the long run or there is another explanation, but I will leave that to you to decide.

2. China

China's economic recovery is gaining momentum again, with rising investment, massive support from the government; industrial production is going well, construction, retail sales growth. Even lagging indicators like electricity generation and heavy industry are starting to click in. We are starting to see the rate of decline in the export market and in the import market going down. As I said before, there is a very solid GDP of around 8% and analysts expect next year around 9% or some in Goldman's, for example, are talking about 10%. The focus will now shift to how the government will control collateral damage risk from its growth and that is really where we are focusing. What is going to happen to loan growth? What is going to happen to life after this massive fiscal expenditure programme? On banking regulation we have seen that the bank has publicly stated it will act to reduce credit liquidity to speculative trading in several industries, including steel, cement-based metals and property. This could have an impact on credit available for importers of commodities. We believe that the Chinese government is unlikely to tighten interest rates in the next six months. However, they will be proactive, exploring ways to rein back money and credit growth without disrupting the recovery.

In the medium-term, the message is we do see reasons for high rates of growth, say around 8%. The question in the long run is probably more interesting: can China sustain the rate of investment beyond 40% of GDP that we did not even see in Japan in the peak years? What is the rate of return on capital of that very high level of investment? That is something beyond probably 2015 and there are interesting questions on the sustainability, but that is more for the long, long run than anything in the short or medium term.

3. Japan

Turning to Japan, economic momentum seems to have turned in Japan with better than expected data signalling the economy again seems to be past the worst. However, the Bank of Japan is still cautious and has extended emergency credit provisions as well as cut down its growth forecast. On the positive side, Japan's product manufacturing index continued to surge in August and has moved into yellow in all of the economies and that is a positive sign. We also see exports increasing on a month to month basis. Here, I would probably make a caveat. You will hear a lot of positive news when you compare month to month and it is the same for quarterly GDP growth across all of the OECD. I think you still have to look at year to year though. For example, in Japan, exports year to year are dropping 37%, imports are falling 41%. So yes, it is good news that exports are starting to increase a little bit, but the base is very low. Not losing sight of where we come from is going to be important to interpret what is happening and what is the impact of this across the world.

The key risks moving forward are further declines in business investment and worsening unemployment. Unemployment in Japan is about 5.7%, which is one of the highest rates for that country since the 1970s and is probably a major reason for the changes in political fortunes over there.

Finally, I will end on Japan with a statistic I saw the other day which impressed me a little bit: normal GDP in Japan this year is now back to the same levels of 1992, so it is not a lost decade, it is a little bit more.

4. US

In the US, GDP fell only 0.25% this quarter, though again it is quarter to quarter, but in the last quarter of last year we were falling, so it is a big improvement versus Q1 and things are not getting worse. Consumer confidence has picked up, with improved housing statistics and employment indicators, although both of these are again from a very low base. The peak of new houses being built was about 1.4 million per month in the States and we are now at 400,000, so the good news is that it is going up by 450,000 or something like that. Hence it is the same idea: things are beginning to get better but from low bases.

The decline of US industrial production growth has finally begun to ease, although the improvement is very modest. There is improvement in IP and trade has particularly been driven by strong federal government purchases. Thus the fiscal impact in the States is not felt as strongly as in China, but it is being felt. On the export side, declines in the States are now in the low-30s or high-20s, so slightly better than some months ago. Business confidence in the US is also improving, the downside is that the unemployment index suggests that it will get to about 10% in the United States and it will take a long time to get better.

5. EU

The economic outlook for Europe is lagging the other economies we are discussing today. However, again it is showing some improvement albeit from low levels. In the second quarter, the Euro zone GDP fell by 0.1% and we are at the bottom of the trough. In August, the Euro zone PMI increased to 50, so now it is in neutral territory for manufacturing growth and this, coupled with improvements in business and consumer confidence, has contributed to a fragile improvement in the overall look. The EU central bank retains a tight lid on money supply and credit growth and this will probably delay recovery in the Euro zone a little.

6. Summary

Let me summarise the macro situation by saying China looks good, India looks okay, for the OECD the worst is over, but how quickly it will get better is the question.

I will now hand over to Vicky Binns in Sydney and she will take us through our views on the steel complex.

The Steel Complex

Vicky Binns

Head of Commodity Analysis and Economics, BHP Billiton Marketing

I. Introduction

Thank you, Alberto. My name is Vicky Binns and I look after commodity analysis and economics in BHP Billiton Marketing. It is a pleasure today to be able to talk to you about our short and long term views on steel and what this means for two of our major steel-making raw commodities, iron ore and metallurgical coal.

II. The Divergent Worlds of Steel Production

In 2009, above all other years, the steel story is about China. China has moved from consuming around 37% of the world's steel and producing around 37% to producing 49% of the world's crude steel in this year to date. The grey shaded trend in the background of this slide shows the trend in monthly global steel production, which contracted by a dramatic 32% between May 2008 and December 2008. It has since recovered 27% from its new, very low base. The regional dynamics are shown in the individual graphs on the slide and portray a sharp divergence in production performance. China was the first to go into and the first to exit the slowdown. June, July and August crude steel production this year has been above 600 million tonnes annualised. By the end of August this year, crude steel production in China is up 5% on last year. Another plus has been there has been virtually no negative impact from India, with crude steel output up 1.6% year on year at the end of July.

On the negative side, you can see that Japan's monthly production last year contracted back to levels not seen since the 1960s and despite having rallied 40% in the last few months is still down more than 40% year on year.

European and North American crude steel output also pulled back to levels not seen for several decades and they are yet to meaningfully recover. US capacity utilisation in this last week has increased from sub-50% to 58% and US, German and Italian crude steel production is down more than 40% year to date. As a result, China's share of production has grown dramatically to 49% of global crude steel production and 62% of pig iron production. However, rising inventories and a 25% drop in steel prices in the last month indicate that the Chinese rebound may lose some momentum in the fourth quarter. Nevertheless, the improvement in global volumes is expected to continue during the second half of this year as blast furnace restarts outside of China gather pace. In the last couple of months, Korea, Japan, the US and Europe have geared up for blast furnace restarts that will be coming online over the next two months. However, as we stated at our financial results, it is difficult yet to judge how much of the improving demand is just restocking after the very aggressive destock we saw late last year and how much of it is due to real end-user demand. It may be some months before clear signals of this emerge either way.

III. China

1. Chinese Market Steel Inventories

Turning to China specifically, we remain concerned that the spectacular rally in crude steel production in China this year has been at least partially speculative and we note that the steel inventories have increased quite markedly over the last two months. This chart shows the steel inventories across 23 major warehouse facilities in China. The trends show that inventories for rebar using construction are now at close to record highs last seen in March this year and that hot rod coil inventories are at record ever levels.

Instead of the inventories following the customary summer inventory drawdown in China, the supply chain inventories have, in fact, increased by 30% over July and August. Coupled with this, spot prices in the Chinese domestic market have plummeted by more than 25% over the last six weeks and steel futures traded on the Shanghai exchange remain under pressure.

With falling prices, traders become less willing to shoulder an inventory with declining value and they simply cease buying. In addition, as Alberto said, any new policy that is implemented by the government to restrict speculative trading activities in a range of commodities, including steel, could impact the availability of credit for traders, who are important in the steel market.

From these inventories it does appear that domestic supply is growing faster than underlying demand in China, so with developed world capacity gaining momentum over the remainder of this year and with the Chinese domestic prices now below regional prices, we expect Chinese exports to resume over the remainder of the year. As these exports coincide with the blast furnace restarts that I have talked about, we see pressure on regional prices.

On the positive side, steel inventories in Japan and the US are at record lows, so they will require substantial volumes of steel to bring those inventories up to even normal levels. However, unless restocking is underpinned by real demand growth, the sustainability of steel prices in the OECD could be tested.

2. Emerging Markets Urbanisation is Key Driver

While we keep a close watch on short-term global steel demand to assist us in marketing our commodities, we also undertake long-term analysis of markets to assist us in asset and infrastructure development decisions. We are believers in robust long-term growth of steel production and we contend that steel demand growth will continue to be driven by construction and other activity stemming from the industrialisation and urbanisation of the emerging economies.

Focusing on the long-term drivers in China, an economy that is likely to continue to urbanise about 15 million people a year for the foreseeable future, we can see that steel production could increase by more than 40% by 2015 and could more than double to more than one billion tonnes by 2025. The pace of this growth is primarily driven by growth in the demand from construction, infrastructure and machinery. As a consequence, we see no sharp demand inflexion point in Chinese steel demand at least prior to 2025 and likely well beyond.

One example of the detailed analysis of end markets we undertake is the recent study we did on Chinese steel demand, where we analysed the five major drivers of steel demand. Just to focus on one of those, construction, which accounts for around about 50% of Chinese steel consumption, we looked at forecast changes in the average residential floor space per capita as well as how the average steel intensity in buildings would change over time with building height in order to capture the higher steel intensity as buildings become taller. In a country where urban land trades at a premium, we believe the shift to taller buildings in the urban landscape as more of the population is urbanised is inevitable. We estimate demand from just these two drivers could add a further 150 million tonnes per annum to steel demand and that is assuming that China, by 2025, only reaches the urban residential floor space per capita of Japan and Taiwan today.

IV. Chinese Iron Ore

1. Chinese Supply is Price Sensitive

Now let us move on and have a look at what this means for the iron ore industry. 2008 and 2009 to date have been years of dramatic change. As Tom will discuss in some detail later in this presentation, there has been rapid industry evolution towards greater liquidity and transparency in market pricing, both despite and, in some cases, because of the global financial crisis. There has been a marked change in the source of iron ore to the largest market, China, with imported ore taking substantial market share from domestic ore based mainly on price versus cost. Imported iron ore has increased from around 55% of total feed in 2008 to almost 70% in the first half 2009, as domestic mines were forced to cut production in response to poor demand and lower prices. However, during the last three months we have seen a reversal of this trend, with higher cost and freight (CFR) China prices incentivising the restarts of domestic capacity, with a one- to two-month lag. Even though these imports of iron ore in the first half of 2009 annualised to around 600 million tonnes, which is an increase of 35%, year on year, most of this imported ore has gone to feeding the ferocious growth in Chinese steel production. Only 5 million tonnes of that extra import has gone into port stockpiles.

2. Chinese Domestic Iron Ore Costs

The relationship between China's domestic iron ore production and the CFR equivalent cash cost allows us to compare domestic to imported production. Recent market conditions have allowed us to check our understanding of the price elasticity of Chinese domestic ore. When the spot and index prices fell below $60 a tonne CFR in March and April this year, we saw around one third of Chinese domestic iron ore production fall out of the market. However, as CFR prices rallied well beyond $80 a tonne in July and August, we saw a vast majority of that idle capacity restarted, beginning to make its way back into the market. The competitive ratio of domestic ore versus imports varies across the different provinces, depending on the inland-versus-import transportation differentials. However, with more than 70% of Chinese steel capacity in the coastal region – and that region also comprises 70% of steel capacity growth – it makes sense that only the iron-ore-producing areas in close proximity to those coastal regions would be cost-competitive with imports.

V. Iron Ore

1. Floating Price

The other major change in the global market has been the dramatic growth in the floating priced iron ore market, both seaborne and that iron ore that is floating priced in China itself. The five-year trend in this market shows a strong compound annual growth rate (CAGR) of around 26%, with the 2009 floating priced ore forecasted to grow by 35% over 2008 levels. This compares to a total seaborne and China iron ore growth of 7% over the same period. Breaking down China domestic and imported floating priced ore, we can see that Chinese growth was around 10% CAGR, with a more impressive 48% CAGR for the imported tonnes. If we were to annualise 2009 floating price tonnes for the year to date, we would have double the tonnes versus last year. We expect the seaborne spot market growth to continue to outstrip the growth rates in the total seaborne market, as pricing is transitioned to a more flexible and transparent mechanism.

2. Iron Ore Import Purchase Trends

We also thought it would be interesting to show you the trend in iron ore imports between purchasers. The total iron ore imports into China in the first half of 2009 were up 67 million tonnes or around 30% on the first half of last year. According to the China Iron and Steel Association (CISA), 83% of these imports were priced spot with only 17% transacted on contract. The traders posted a very strong 124% increase in their imported volumes and the smaller mills were up 33%. Larger mills, however, reduced their imports by 25%. This supports our view that, during the turmoil in early 2009, capacity utilisation of the larger mills was below that of the small mills, which could be more nimble on pricing. It also indicates to us that the larger mills were likely purchasing spot or floating priced ore from traders instead of fulfilling contracts from producers.

3. Seaborne Iron Ore Demand

Like steel, we also want to take substantial long-term demand analysis for seaborne iron ore demand. Our businesses take decisions for the long run in order to plan for large expansion projects. Therefore, our demand forecast must also be for the long run. By 2025, we believe Chinese and other emerging nations' demand could push seaborne iron ore demand up 250% above current levels. To put it simply, this equates to more than 1 billion tonnes of incremental iron ore demand over the next 15 years.

VI. Metallurgical Coal

1. Pig Iron

When we look at metallurgical coal demand, we look at forecast trends in pig iron rather than crude steel, eliminating electric arc furnace (EAF) production, which does not use coking coal as an input. This chart shows pig iron production trends for the major seaborne metallurgical-coal-importing countries. The key messages you should take from this are that pig iron production levels have bottomed out. Global pig iron production is off 14% in the year to date but, if we take into account the announced blast furnace restarts

that will start in the next couple of months, you could see 2009 pig iron production being down only 3-4% versus the levels of last year.

2. China

This very small variance in pig iron production, during the most turbulent economic times we have experienced for the last 80 years, has mostly been driven by China. China produces more than 60% of global pig iron production, and it is up 6% in the year to date. However, we expect second-half production to ease in China, although it will still record impressive year-on-year increases. India has also contributed to stability in the pig iron market, with production up 1.6% in the year to date. While most developed economies still show negative pig iron production year on year, the month-on-month improvements from April lows are compelling.

3. Coking Coal

Australia is the number-one seaborne coking coal exporter. Breaking down its exports by destination illustrates trends in regional metallurgical coal demand. Traditional seaborne markets have lagged significantly in metallurgical coal demand in the year to date; however, Chinese import demand has soaked up this idle extra production, so the seaborne market has been far tighter than many had forecast. Higher import demand from China was also driven by domestic supply constraints. Industry consultants estimate that the accidents in Shanxi province in February impacted coal production by around 35%. That is pretty significant, as Shanxi produces around 50% of China's metallurgical coal production. Around 60% of this lost production now appears to be back online.

4. India

The metallurgical coal market has also been supported by stable demand from India this year, reflecting flat pig iron production. Spot coking coal prices are now trading well above Japanese benchmark prices, and this will incentivise idle capacity to restart, but there will be a lag before these new tonnes are delivered to the market, which should underpin metallurgical coal prices at around current levels.

5. Supply

First-half metallurgical coal exports from the US were down around 30%, as its traditional European and Brazilian customer base cut back. Canadian metallurgical coal exports were down 38% over the same period; however, both US and Canadian producers have announced restarts of idle capacity over the last three months, and we expect to see second-half exports from those countries substantially higher. The ability of Australian metallurgical coal exporters to increase production and exports on this stronger demand remains constrained by infrastructure and port capacity for the remainder of this year. Again, this underpins strong seaborne prices as the developed market demand improves.

6. Chinese Metallurgical Coal Imports

There have been many questions from the market over the last few weeks about the sustainability of Chinese metallurgical coal imports, given its substantial coal resource. If we were to annualise Chinese imports in the year to date, China would import around

30 million tonnes of metallurgical coal this year. That is 6-7% of their total consumption. Our view on the sustainability of import demand into China is that it depends: it depends on the speed of consolidation in Shanxi and other coal provinces; it depends on the quality trends of domestic metallurgical coal; and it depends on the location of new steel mill capacity in relation to China's coal resource. What we do know is that around 70% of existing steel production capacity is in the coastal provinces. We also know that around 70% of the planned capacity increases are in this region.

7. Blast Furnaces

CISA has publicly stated that it is pushing new capacity to bigger and greener blast furnaces. The increase in new blast furnace capacity since 2007 shows that by far the fastest-growing blast furnace segment are the larger furnaces, of greater than 2,000 cubic metres, with more than a 17% CAGR over this period. We believe the trend towards new steel mills installing larger furnaces will continue, as they are more environmentally friendly and economical; they are higher in productivity and lower in fuel rates. However, bigger blast furnaces require better quality coke and, therefore, higher quality coking coal. In our view, existing and new coastal mills would be receptive to sustainable imports of small percentages of good quality coking coal. However, they will of course be price-sensitive.

VII. Key Messages

China's steel recovery has been fast and robust, and is likely to contain some overstocking that could lead to either lower production or higher exports in the short term. In the longer term, we look for global steel production roughly to double from current levels by 2025.

The price for iron ore CFR China in the $60-80/tonne range looks to be well supported by the cost of domestic iron ore production and a still-strong crude steel growth rate. Over the next 15 years, more than 1 billion tonnes of incremental iron ore will be required to support steel production growth.

China's role as a net importer of high quality coking coal does look sustainable for a small portion of their total metallurgical coal requirement.

The Energy Complex: Emerging Market Story

Mike Henry

Marketing Director, Petroleum, BHP Billiton

I. Context

1. Theme

Today I am going to talk about a simple and compelling theme: the growing global demand for energy and the opportunity that affords BHP Billiton.

2. Energy Demand

In 2006, global primary energy demand was around 11.7 billion tonnes of oil equivalent. Of that, roughly 40% was used for electricity generation. BHP Billiton's production of energy commodities is equivalent to roughly 1% of the world's primary energy demand and roughly 3% of the world's primary electricity demand.

3. Energy Growth

World energy use is set to increase by nearly 40% over the next two decades, driven largely by increasing standards of living in emerging economies. That growth is forecast to be met by the full suite of energy commodities, with CAGR of between 1% and 2%, depending on the commodity in question. To translate that into something more tangible, it equates to:

- Another 9 billion barrels of oil per annum by 2030, which is roughly equivalent to the Middle East's current total annual production;
- Another 50 trillion cubic feet of natural gas per annum, which is roughly equivalent to the current total natural gas production of Europe, Eurasia (including Russia) and the Middle East today;
- Just under another 80 million pounds of U308, which is the equivalent of the current annual total uranium production of Australia, the US and the African continent;
- Finally, another 2.5 billion tonnes of coal per annum, which is roughly the current total annual production of China and Indonesia combined.

Those figures are of course for incremental demand only. They do not include the volumes required to replace declines in current mines and operating wells.

4. Climate Change

There is a number of different climate change scenarios that we could see develop, which would determine the ultimate fuel mix that we see in 2030. But suffice to say that BHP Billiton is well placed according to numerous different climate change scenarios. We are the only major listed company with a footprint across all of the fossil fuels and nuclear.

II. Projected Demand

1. Drivers

One might be excused for asking whether or not those sorts of energy growth forecasts are realistic. Setting aside that the forecasts we have shown are aligned with the major global economic forecasters, there are some compelling fundamental points that support this view. Primary energy demand is largely a function of, firstly, population growth and, secondly, per capita output. We can see that energy intensity increases as economies develop and then plateaus as economies mature and moves to a greater weighting of service-based relative to industrial output. The average of the major economies we have compared is 4-8 tonnes of oil equivalent per person per annum.

2. Urbanisation

The future growth opportunity lies with the urbanisation and rapid growth of developing economies. The forecast 40% growth in energy demand that I mentioned equates to an increase of around 0.8 tonnes of oil equivalent per person for the 5.5 billion people in the non-OECD economies. China and India, currently sitting at less than 2 and 1 tonnes of oil equivalent per person per annum respectively, will play a major role in that growth.

3. Power Generation

If we then look at the global demand for power generation, which is where the bulk of gas, coal and uranium goes, we can see that the forecast growth pattern is much the same if not even steeper than for overall energy demand. Non-OECD economies are now overtaking the OECD in terms of electricity production. Over the next two decades, China and India alone will account for over half of the world's incremental primary electricity demand. The Middle East is also expected to feature in that landscape as the region sees its share of economic growth and seeks to make use of its substantial gas reserves for industrial production. Among the world's leading listed energy companies in the space of coal, gas and nuclear, BHP Billiton is ranked fourth, after Gazprom, with their large Russian gas position; Rio Tinto, with their large US Powder River basin coal position and uranium; and Peabody, with their large US coal position.

4. Electricity Demand

Electricity demand will increase by 2-3% per annum over the next two decades. Growth is likely to be lower towards the back end of that range, as economies begin to see a shift towards a greater proportion of service-based output. Given its large current installed infrastructure base, its global spread of reserves and the large domestic reserve bases in China and India, we would expect coal to maintain its share of the global energy mix. Gas

and nuclear are both expected to grow by around 3% over that period. Oil is projected to continue its decline in use for power generation as, with a few exceptions, non-OECD economies follow the OECD path of limiting the use of oil products in power generation. Wind and renewables will see significant growth over that period but, coming from a very low base, they are not expected to have a major impact on demand for other fuels in this period.

5. China and India

While China and India are both heavily reliant on coal for their fuel mix, and they are expected to remain so into the future, a combination of the need for long-term energy security, underlying economic and global climate change responsibilities are expected to drive material opportunities for both gas and nuclear in those two countries over the next two decades. The growing energy shortage in these countries is already spurring efforts to secure long-term access to resources – both by direct investments and long-term purchase contracts.

III. Key Messages

We expect significant growth in global energy demand, driven by urbanisation and economic growth in developing countries. While the exact future fuel mix is dependent on response to climate change over that period, growth in demand is expected to be significant for each of oil, gas, coal and uranium under any climate change scenario. BHP Billiton is the only major listed company with a footprint across each of the fossil fuels and nuclear, positioning us uniquely well for that growth opportunity in different climate change response scenarios. We have a good breadth of development opportunities across the suite of energy commodities.

Copper:
A Growing Deficit Market

Dave Martin

Marketing Director, Base Metals, BHP Billiton

I. Theme

In this section of the presentation, I will talk about the current drivers of copper demand and follow this with a longer-term outlook.

II. China

1. Copper Cathode

It will come as no surprise to any of you that recent demand has been driven by China, where increases in copper cathode demand have been very impressive. If we compare actual figures for the 2008 calendar year to the forecast demands for 2009 in China, it will increase by around 22%, whereas demand for the rest of the world will decrease by about 8%, which gives a total global increase for cathode demand in 2009 of 1%. This is very impressive when compared to some of the gloomier forecasts we saw earlier this year.

2. Drivers

In our view, there have been three major drivers of Chinese demand:

- Scrap replacement by cathode;
- Restocking by the State Reserves Bureau (SRB), fabricators and traders;
- Strong domestic Chinese consumer demand and infrastructure development, driven in part by the Chinese Government's stimulus package.

3. Scrap

Scrap imports have fallen 36% in the first half of calendar year 2009 compared to the same period in 2008. If we assume a 3% year-on-year growth for semi-fabricated consumption in 2009, the scarcity of scrap has significantly boosted the demand for cathode. However, cathode-to-scrap replacement has slowed in recent months. In July, Chinese imports of scrap were up 46% on the monthly averages for the first half of 2009. I should also say that that lessened somewhat in August. However, we believe that cathode demand will moderate in the last quarter of 2009, as improving economic conditions will lead to greater scrap generation, and the price will lead to greater incentives to recycle.

4. Restocking

It is very difficult to ascertain how much of the demand has come from restocking. We believe the SRB has purchased around 230,000 tonnes of copper on a net basis. The total restocking figure across Chinese fabricators, in bonded and unbonded warehouses, would significantly add to this figure. It is very difficult to ascertain, but it could be around 600,000 tonnes. I would underline 'could' in that statement.

5. Consumer Demand

Domestic Chinese consumer demand is evidenced by factors such as car production being up 23% in the first half of 2009 compared to 2008, an increase in refrigerators by 33% and strong anecdotal evidence from our marketers in China suggesting increased domestic consumption. This, combined with the strong floorspace growth talked about earlier, has been a major driver of copper consumption in China.

6. Summary

In essence, China has seen an increase from restocking in consumer infrastructure demand, but has suffered a significant reduction of available units from scrap. This, mixed with the constrained domestic mine production in China has resulted in very strong growth for imported copper. This has been largely met by cathode, which is up by around 160%, year on year, and, to a lesser extent, by imported concentrate, which is up 14%, year on year, as at the end of July. I have a note of caution: we do not expect these strong import figures to continue. In our view, restocking is largely complete and scrap is gradually reappearing in the market. Even if we assume that demand is equivalent to what it was in 2008, which is a very conservative assumption, we would still see an increase of cathode demand by 18%, year on year, and we will continue to see strong demand for imported concentrate, given constrained mine supply in China and robust smelter demand.

7. Longer-term Analysis

Short-term drivers are important for the marketing of our production, but we also undertake substantial long-term analysis. In China in particular, similarly to steel, we expect copper demand to grow, driven by ongoing industrialisation and urbanisation. China's copper intensity is growing rapidly to four kilograms per capita. We believe that, as China builds a modern economy, this intensity figure will more than double by 2025, which still only results in a similar intensity to that experienced by Japan and Germany – at similar GDP, as measured by purchasing power parity (PPP) – and well below the intensity of Korea and Germany today. If we assume relatively modest growth figures in copper cathode demand in China of 8%, and you will recall China had growth of 14% over the last five years, China would move to having 39% of global cathode demand by 2020, up from approximately 28% today. There are two other points to note, the first of which is the OECD share. From 2000 to 2008, the OECD has seen a decrease in demand of 19%, while China has seen an increase of 172%. The forecast production of existing mines makes the supply challenges obvious. Of course, there will be more greenfields developed and further expansions announced over time, which will lessen this gap somewhat.

8. Demand Growth

I have talked about the growing importance of China to world demand and the significant increases to copper consumption. There are five main drivers to demand growth. I will focus on two, the first of which is power distribution. Copper is a preferred metal for the fabrication of underground distribution cables, with around 90% usage, because of its longer life, better transmission efficiency and lower maintenance costs. A major driver of copper consumption is the pace at which overhead aerial transmission cables, which are made mainly from aluminium, are replaced by underground cabling. Today, China has a 60/40 aerial/underground split, compared to 25/75 in France. If the transition to underground cables in urban areas evolves to a very modest 40/60 ratio by 2025 and power distribution infrastructure growth, which historically tracks the GDP rate, only grows by 2.5%, copper usage in this distribution sector would increase by approximately 2.5 million tonnes per annum by 2025.

9. Consumer Automobiles

Secondly in the consumer auto space, we expect China to move up the penetration curve as GDP per capita improves and affordability improvements continue to move prices down in real terms. Today in China, car ownership is 16 cars per 1,000 people. This compares to 344 in Portugal, 480 in the USA, 495 in the UK, which is geographically constrained, and 171 in Malaysia. China has 57 air conditioning units per 100 households, which is fewer than the country I live in, Singapore, where we almost put air conditioners into the bathrooms. Relatively modest increases in the penetration of these and other consumer articles to levels still below many developed countries will result in significant increases in copper consumption. For other sectors, we have assumed growth tracks forecast industrial production (IP) growth and intensity figures move towards the levels of developed countries. The sum total of this is a 150% increase in copper demand in China over the next 15 years.

III. BHP Billiton

BHP Billiton has a major cathode book and also a very major copper concentrate book. Global demand for copper cathode is around 18 million tonnes per annum, of which 3 million tonnes is met by scrap; 3 million, by cathode from leaching SX-EW; and 12 million, from concentrate that is refined. As a consequence, we are exposed to both the copper price and the treatment and refining charges (TC/RCs). Over the last few years, concentrate supply has not met smelter demand and TC/RCs have been low, ranging from the mid-40s to the mid-70s annually. On a spot basis, TC/RCs have traded in a broader range. The smelter capacity forecast to 2014 shows that growth will slow very considerably from 2012. If history is anything to go by, this may not happen. Copper concentrate production over the same period shows a very significant gap so, unless we see substantial improvements in acid and other by-products, smelters' margins will remain under pressure and miners such as BHP Billiton will continue to benefit from the tight concentrate market.

IV. Key Messages

We have a challenge in copper supply and need the industry to develop resources. If we take the current mines and add to them planned expansions, mines under construction and probable greenfield expansions, we end with a significant supply gap of approximately 10 million tonnes in 2020, some of which would be filled by scrap. In our view, China will provide the demand in growth over the coming years. The challenge we have is to meet that demand.

Why We Prefer Floating Price Mechanisms

Tom Schutte

President, Marketing, BHP Billiton

I. Theme

Today you have heard views on our centralised marketing model, the global economic cycle and shorter and longer-term drivers of demand for some of our key commodities. As Alberto mentioned earlier, a major imperative for BHP Billiton is our quest for floating, flexible and transparent pricing mechanisms, on which I will spend some time.

II. Context

We at BHP Billiton believe that floating prices are the best discovery mechanism and we aim to implement this across our commodity suite. The strategy of owning Tier 1 assets across commodities and running them in a portfolio structure is why we can achieve superior returns, even in periods of considerable economic uncertainty. By achieving the market price of the day, every day, for our suite of commodities, we can use our cash-flow at-risk model and risk strategy to optimise our returns, no matter what the prevailing market conditions are.

III. Strategy

1. Supply/Demand Fundamentals

As outlined earlier, the strategy to move our commodities to a floating price mechanism is threefold. Floating prices reflect true supply/demand fundamentals that exist when the product is priced, not those set at the beginning of a certain period when external factors could have been vastly different. Floating prices reduce the conflict of pricing when the buyer and seller may hold disparate views of the market outlook. Once again, there is no negotiating for six to twelve months to set up contracts that may never be completed.

2. Risk

Floating prices mitigate the risk of non-performance on both sides of the contact, when the spot and contract prices are markedly different. During the global financial crisis, there were many examples of contract non-performance across commodities, in our industry as customers struggled to cut their production as consumer spending plummeted. This was substantially less prevalent in commodities that were traded on floating prices.

3. Efficiency

In our view, index pricing is a more efficient signalling mechanism that more supply is needed in the market or, indeed, that there is too much supply in the market. That,

combined with a detailed understanding of planned capacity supply and demand additions or contractions is key to the functioning of an orderly market.

4. Negotiations

Negotiations between buyers and sellers could be better spent on areas that can be influenced, like value in use of products which benefits the customers, product quality, or optimal shipping and logistics arrangements.

5. Misunderstandings

a. Longer-term contracts

It is also worth highlighting that there are many common misunderstandings about floating price mechanisms. Selling products at a floating price does not mean that only short-term cargo-by-cargo transactions can occur. To the contrary, products can still be sold on longer-term contracts, just priced on a shorter-term or different pricing mechanism.

b. Customer and supplier relationship

Another misnomer is that customer and supplier relationships will not remain important. The trust and confidence that we have built up with our customers over many years will remain key to the optimisation of our product placement. We see this in our aluminium products and some of the other contracts that are priced off the LME. We have long-term relationships with those customers and they have not been damaged.

c. Price management

This is another area that is easily accessible to both customers and suppliers. Those customers looking for longer-term price security can swap out fixed price exposure along a forward curve to lock in the spread or margin, as they prefer.

IV. Comparisons

1. Misconceptions

In our view there is a common misconception in the market that benchmark pricing is a more risk-averse or stable pricing mechanism. Comparisons of Japanese fixed and Newcastle floating thermal coal prices, and of Australian benchmark iron ore prices and China spot implied, show that spot prices are more efficient at capturing the changes in supply/demand fundamentals than benchmark prices.

2. Japanese and Newcastle Energy Coal Prices

We took the Japanese utility benchmarked energy coal contract price and plotted it against the Newcastle floating index price. What do we see? When the Newcastle price increased beyond $180 a tonne in mid-2008, on the back of strong demand, peaking oil prices and capacity constraints in Newcastle, the benchmark price, negotiated from April that year at $125 a tonne was totally non-reactive. Spot and index prices were more than 40% higher than the prevailing benchmark. The same applied when the price dropped in

late 2008, as a result of the global financial crisis. The benchmark price of $125 a tonne was totally non-representative of prevailing market conditions, putting the customer under stress to perform against contracts when the demand for their own products was under immense pressure. This could drive non-conformance of contracts.

3. Metallurgical Coal

If we move this analogy to metallurgical coal, imagine the pressure on the steel companies in late 2008, having to buy coking coal at $300 a tonne when their steel prices have more than halved and demand has collapsed or evaporated to less than half of prior levels. Surely shorter-term pricing horizons should allow counterparties to manage their risks and margins better. With that said, BHP Billiton has historically always delivered on its contracts, whether drivers were misaligned or not. We believe totally in the sanctity of contracts and we expect the same in return.

4. Australian and Spot Iron Ore

In the case of iron ore, we showed the FOB market or spot price and the Australian FOB benchmark price. These price trends illustrate the lost opportunity to Australian producers versus spot competitors, when they continue to sell along the inflexible annual benchmark mechanism. The spot market is liquid and has been trading for more than five years. Indian exporters sell more than 100 million tonnes into that market, and so do others as well. Benchmark iron ore prices settled in 2007 mis-priced extremely high iron ore demand in late 2007 and mid-2008, when the steel prices soared beyond $1,000 a tonne and the iron ore spot price for FOB increased to about $165 a tonne. Adversely, this also mis-priced the market fundamentals in late 2008 and early 2009, when iron ore demand plummeted and steel prices halved. This again reaffirms our belief that a market-based pricing mechanism is a more risk-averse pricing mechanism, more suited to efficiency plans and to match changes in demand, which in our view are the keys to a functioning and orderly market.

V. Market Evolution

1. Phase One

There are three key phases that a market goes through as it evolves to full market pricing. The first phase is the rise of a spot market and the emergence of a two-tier pricing system, both benchmark and spot. This is followed by a period of greater price volatility and the market push towards a reference product to simplify pricing and trade, and also to manage risk.

2. Phase Two

In the second phase, the financial market starts to participate via trading in the paper market. Intermediaries such as exchanges and over-the-counter (OTC) clearing houses enter the market to facilitate transactions. As the market then develops, more sophisticated products such as options and swaps emerge, which allow each counterparty to optimise their own exposure.

3. Phase Three

Finally, there is the development of adjacent markets, either up or downstream, and relevant to a certain commodity. One such example is the deregulation of the power market and the coincident move to the index pricing of energy coal, which is freely traded as a spread versus power in Europe. In our view, the benchmark price does not represent the market price in a dynamic global environment, and the evolution of pricing of all the commodities we produce towards shorter-term pricing is more flexible and transparent.

VI. Iron Ore Price

1. Market Evolution

I would like to finish by focussing on a topical issue, the iron ore index. Iron ore is an example of the latest commodity to have moved beyond phase one and is now developing trading and financial instruments. These instruments use indexed pricing as the mechanisms to link the physical or the spot market to the financial or forward market. The development of financial markets usually follows volatile physical trading conditions. The monthly variance of iron ore prices shows that embedded volatility already exists. We quite often hear that the index pricing or market will bring volatility to the market, but it is our contention that that volatility already exists.

2. Drivers

Increased price volatility over the last five years has been driven by three factors.

- The rapid increase in iron ore demand from steel producers.
- The vast increase in the number of physical market participants, within China, India and the rest of the world.
- The unstable global economic conditions.

3. Consequences

This has led to increasing FOB CFR price distortions, leading to significant challenges to the traditional benchmark pricing mechanism. The growing angst between producers and customers over price settlements has seen negotiations become longer, protracted and more acrimonious. To be successful, markets need to be able to function under severe stress levels. The benchmark system simply cannot do that.

4. Examples

The current stage of evolution of the iron ore market is more advanced than many in the industry believe. I will give you a few examples. There are three index providers publishing daily iron ore indices for spot-rated, 58-62% iron content. There are two financial institutions publishing forward curves, daily, while another four financial institutions actively trade OTC or swaps. Both the Singapore Exchange and the London Commodity House have launched clearing facilities to clear these swaps, with monthly financial settlements. We believe that there is well in excess of 50 other market

participants globally, including steel mills, iron ore traders, suppliers, investment funds and freight players, from both China and beyond, which have registered their interest in this market. Interestingly, bid offer spreads have reduced as liquidity has increased. With only a small percentage of global steel priced on an annual basis, maybe 5-10%, managing steel producer margins is much better matched with floating iron ore prices.

VII. Freight

1. Scale

Many of you have asked questions about freight over the last 12 months. BHP Billiton is a major player in the freight markets. Annually, we move around 125 million tonnes of product from our ports to our customers. As one of the largest shippers of dry-bulk commodities, BHP Billiton leverages our market position and reduces cost through economies of scale. By centralising freight activities, we optimise freight operations and obtain value-add by control and flexibility. Vessels can be swapped and rerouted. This allows us to maximise throughput in our ports, which then leads to complete optimisation of our supply chain.

2. Ownership versus Chartering

We have had questions in the past about why we choose to charter vessels rather than own them. I thought this would be a good opportunity to respond. The answer is simply that we believe we can gain all the positive benefits of vessel ownership, such as securing capacity and operational flexibility by chartering, without the downside. In our view, our capital is better allocated to our core business of exploring, developing and mining raw materials, where the returns are higher than vessel ownership. BHP Billiton is a mining company; we do not have the core technical expertise to run vessels.

3. Market Trends

Given the growing demand for shipping capacity and the importance of freight economics to the globe's trade flows and the delivered economics of our products, it would be useful to address trends in the freight market. An outline of the global bulk freight order book is, by order of magnitude, unlike anything the history of the freight market has ever seen. According to Clarkson Research, at the end of July the total order book stood at 290 million deadweight tonnes, which is around 66% of the current fleet capacity. While the orders stretch out to 2014, more than one third of that capacity will be delivered by 2010. Furthermore, orders by vessel type are unevenly distributed with over one third of the total deadweight tonnage coming in the form of Capesize vessels. In 2010 alone, around 300 Capesize vessels are scheduled for delivery. If lined up one behind the other, they would stretch a full 90km.

4. Sustainability

The weakened global economy and the decline in freight rates from their record highs last year has raised questions about the sustainability of the order book. Those are valid questions, given that many of these ships or vessels were purchased at record-high prices. In addition, the credit crisis has severely restricted availability of credit for both

shipyards and owners. That would impact their ability to finance new orders. Given these factors, it is doubtful that the whole order book will translate into actual physical deliveries. However, it is likely that any curtailing of deliveries would be more pronounced towards the back end of this period, and substantial progress has already been made on the vessels that are being delivered in 2009 and 2010. It is difficult to see how all of this additional capacity can be absorbed in the market, even with the most optimistic of demand forecasts. We believe that the substantial wave of new vessels coming to the market is likely to result in an extended period of oversupply.

VIII. Key Messages

- Economic recovery in China is well advanced, with most indicators showing strength.
- Developed economies seem to have turned a corner, with most indicators improving from a low base. However, it is too early to tell if rejuvenated demand is just restocking or partial real end use. The evidence is that we will only see that towards the middle of 2010.
- The evolution to flexible, floating price mechanisms is already happening. We remain committed to the implementation of these pricing mechanisms across our commodity suite.
- We see no reason why our capital should be tied up in vessel ownership when it could be better deployed in the exploration and development of mining assets.
- We see a likely doubling of global steel demand by 2025, with China as the major driver. Growth will need to be more than 1 billion tonnes of incremental iron ore over the next 15 years. A small percentage of high quality coking coal imports into China looks sustainable, given the push towards coastal, larger mills, which require higher quality coking coals.
- The world is short of energy in the medium to longer term. While we have little added insight into which energy source will grow the fastest, our spread of assets across coal, uranium, oil and gas leaves us well placed to take advantage of growth and any change in climate policy.
- The world is short of copper units in the medium to longer term. Existing mine grades are declining and will continue to. Many producers will have to expand just to sustain current production levels. New capacity will come onstream; however, it is unlikely to satisfy even the most subdued demand growth forecasts. Concentrate will remain undersupplied in the foreseeable future and, even though scrap will gain market share, seaborne demand for concentrate and cathode will grow well beyond mine production capacity.

We believe that BHP Billiton, through its optimal marketing structure, is uniquely positioned to take advantage of this global growth opportunity. With an excellent breadth of operating assets and development opportunities across most of our minerals and our energy commodities, we are well placed on production to meet demand, and optimise margins and returns for our shareholders.

Questions and Answers

Jason Fairclough, Bank of America Securities, Merrill Lynch

Vicky suggested that iron ore trader volumes for the first half showed that Chinese steel mills were using traders to bypass their contracts with you. Will you be pursuing them for non-performance?

Rio Tinto has said they sold a lot of iron ore in spot in the first half of 2009, but they are now moving back to benchmark sales. Could we say the same for BHP Billiton?

Alberto Calderon

I do not know how you make that inference in your first question. This is a very large market with 600 million tonnes of imports and 250 million tonnes of production. What Vicky was saying is that the bulk of small steel mills do not have benchmark contracts; they have spot contracts, so they have much greater flexibility. We are comfortable that we know how our customers on benchmarks use the ore. There are no issues with that. We cannot comment on what Rio Tinto is doing; what is important is that we maintain the idea of an index-based system or something that reflects the fundamentals of supply and demand for iron ore.

Sam Catalano, Macquarie

We often hear a lot about the transition of iron ore markets to a floating price mechanism. Could you comment more on the transition for metallurgical coal? With BHP Billiton as the major seaborne producer, what can you do to promote liquidity in any floating mechanism market?

Alberto Calderon

Coking coal is a different market. It lacks the distortion you have in iron ore, caused by the freight differential. It also lacks the same depth of the spot market that you have in the iron ore world. It is very clear that we have started to see a deep, liquid spot market in iron ore. It was there, already giving signals. Any analyst's view of how benchmark negotiations went would just look at the spot price to have a view of the future price. That is different in coking coal. Yes, eventually we would like to move coking coal to a spot, short-term base. We think we will reach that point, but it will take longer. You can start to see the development of a spot market, but it does not have the liquidity that we have in iron ore.

Tom Schutte

The important point is that it is a different market already. Many customers are seeing the benefits of shorter-term pricing; whether that goes all the way to floating is still to be seen. For shorter-term contracts, priced quarterly, for example, we are already seeing some of this.

Alberto Calderon

The structure of contracts is also different in coking coal. There are much shorter contracts and, even though there is not the liquidity, we are happy to move to shorter timeframes and have done so.

Christopher LaFemina, Barclays Capital

You commented that Chinese iron ore production costs supported prices of $60-80 per tonne in the longer term. Where do you think the marginal cost of production in coking coal will be? If you look at the iron ore spot price today, it is in line with that marginal cost. Is that true for coking coal, too? Is the marginal cost at $150 a tonne or is it a lot lower?

Alberto Calderon

We do not comment on our internal forecasts but, if you look at analysts of coking coal, they are at around $120-130. Those are probably the most prevalent marginal costs you would see at the moment. What is interesting about coking coal, which is not an issue now but may be in the future, is if we enter a world of scarcity, where supply cannot meet demand. Then you enter an opportunity cost world, as happened in oil and other products years before.

Unidentified Participant

The evolution of the iron ore market could be used to show that the major players were in the right place, at the right time. They have good assets but they really did not predict the future, and did not manage to bring on enough product to market as quickly as maybe they could have. They obviously benefit from high prices, but barriers to entry were arguably broken down to some degree.

One thing you have not touched on in the presentation is substitution. You look at the copper market as an example and are suggesting that 10-15 years from now, there is potential for a massive deficit. I assume that the customers can see that as well – how do you think they are going to behave? At what point do you think they may re-tool and think about using other materials, if, indeed, there are any? How do you build that into your analysis?

Secondly, on a short-term focus, in terms of Europe and the potential for re-stocking, if you look at some of the statistics for iron ore exports from Brazil into Europe and you look at de-stocking in the steel supply chain as a whole, as well as steel, it looks as though there has been massive de-stocking. What potential do you see that we will end up in an incredibly short position, particularly in coking coal, as we move through the next three to six months?

Alberto Calderon

I think you are right on the first one. It has always been easier to be a historian than a prophet, but I think we should have expanded quicker. I think that if we look at how we divided our iron ore expansions, when we were seeing the issues we did not believe them. We were seeing what was happening in China from 2002 to 2004 – and I have to say I

was not there, so I can say to the marketing guys, 'Look what is happening'. That is the issue of size; we were not the size we are right now. There were very big projects, and I think a decision was taken and we did not go for a larger project. That is where the RGP came in – rapid expansions probably would not be so rapid. I think probably we had the elements then to take a different decision. Having said that, we have done everything we can over the past two to three years to make up for that. Two years from now, if you take a five-year period, we would probably be the fastest-expanding iron ore mining company in the world. You cannot compare this with the capacity of China, but, even in the peak of the worst of this recession, we were approving $5-6 billion projects in RGP 5. We should have done it quicker.

I will ask Dave to help me on copper substitution. It happens in nickel; it is really the trade up between sometimes higher prices and looking for substitution. No doubt, there will be something we do not know today, but from all of our technical understandings, it seems you need copper for power lines. The benefits of that are very clear. You also need copper for some elements of telecommunications.

David Martin

Yes, we do take substitution into account as we look forward and put our forecasts together. Also, substitution is happening and I am sure it will continue to happen; whether new technology or something will really make that a big issue, I do not know. When copper was $8,500 a ton last year, people were trying to substitute and the copper market was still growing. So, history shows that substitution occurs, but even at the very high prices we were experiencing last year, we saw growth in demand for copper.

Alberto Calderon

Regarding your last question, yes, we are seeing a re-stocking in Europe; we are starting to see furnaces going up again. I do not think that the issue in coking coal will be in the short run in a month's time. Nevertheless, if you go beyond a month, what you basically see is that the market in coking coal, Seaborne, was in equilibrium at the time, when China may have been importing 7 million tonnes. As we saw this year, China imported 30 million tonnes; what will happen when Europe starts kicking in and incorporating the 18-20 million tonnes that it decreased this year, or in Japan or the US? They will become interesting times, and we can presume that the market in the medium term in coking coal is going to be tight.

Neil Passmore, Sydney

I have a follow-up to Brendan's question. How quickly do you think you could respond in coking coal and bring on supply in a meaningful way? Given that over the last decade your coking coal position has been fairly flat, do you intend to now aggressively increase your production of coking coal?

Alberto Calderon

Yes, we do have projects in the pipeline; there is a project of about 3-4 million tonnes that is now going into a feasibility study. I can tell you that it is something that internally we are quite focused on, trying to expand as aggressively as we can in coking coal. Having said

that, we do not have the same leverage and control as we have in the iron ore space; we do not control infrastructure. That has been the real bottleneck of coking coal. There is a consensus and we are working with governments, and that usually takes more time. What I can tell you is that there is an absolute focus on growing the business as fast as we can. The expansion is about 3-4 million tonnes.

Mike Rosenthall, UBS

My question is on the floating price mechanisms. You said that only 5-10% of steel is on fixed-price long-term contracts. Why do you think there is some reticence from steel producers to move to a floating price mechanism?

Alberto Calderon

It depends; if you go to steel producers in Japan and Korea, there is the issue of the benchmark system and the freight differential. The issue is that prices are the same in FOB and the implications of that for Australian producers in particular is that they lose the freight differential. That is one major reason why you see opposition from some of the Asians. Regarding China, I think we are getting there; there is a better understanding that we need to go to a shorter timeframe in pricing. In Europe, I think there is a beginning of understanding, but that is, in my mind, more puzzling. If you look at the big European producers, they do not have this issue of this freight differential. They have the same prices on a landed basis to reflect market economics in Europe, as opposed to in Asia, for some historic reason. Why are they nervous about this? I think it is an issue of, how is it going to be calculated; it cannot be manipulated and it has solid fundamentals. If I look again at the energy coal experience, we experienced similar reticence from customers, who were very hesitant of this movement. Again, as I said at the beginning of my comments, if you did any survey right now on the large customers in energy coal, nobody would go back. Sometimes it is more understandable and sometimes it is less; we strongly believe that this is a historic push, it has happened in all commodities and it reflects supply and demand very well.

Stuart Collins, Caxton

What signal from the economy will BHP Billiton be looking for, before investing more capital in projects in some of the markets that you have highlighted today as having a very positive long-term demand outlook?

Alberto Calderon

It is difficult to pinpoint one single indicator. I would say that the biggest question this year, and what has made a dramatic difference for commodities, has been China. There is no way that we would be in the commodity space we are in today if China had not filled the void that was left by the developed world. In the long-term, something that we are focused on is the sustainability of Chinese growth. It does not matter if it is 6, 7 or 8%; even if you assume that China will grow on average during the next ten years by 6%, it has implications on all commodities' demand which I do not think that anyone really understands today. If I summarise, the main thing is the sustainability of long-term growth in China. That is something extremely important – for the world and definitely for the commodity world.

Rob Clifford, Deutsche Bank

On iron ore, you talked about your forecast for growth in Seaborne demand to 2025. The CAGR is lower than the rate that has been achieved over the last five years; can you talk about the supply side over that period, particularly in light of things like the proposed iron ore JV giving you the capacity to ramp up more quickly? Secondly, you talked about the marketing impact on market-making long-term price formation; can you talk about two commodities that are important for you guys? Uranium, with Olympic Dam potentially coming on, what are you seeing there and how are you managing that? Also, potash has been providing increasing excitement; have you started moving into that? Where do you see potash on the evolution scale of commodities?

Alberto Calderon

Yes, we are projecting a lower CAGR in iron ore. This is sometimes deceiving in a sense that a lower CAGR from a higher base is still probably a massive amount of iron ore tonnes. We are also assuming a lower elasticity to GDP in this space, and, again, all of this comes from relatively detailed macroeconomic studies of the intensity of the Chinese economy. It is, however, still a staggering amount of iron ore that we are projecting; it is 1 billion new tonnes in the next 15 years of iron ore, per year. That is a very large amount. From the point of view of supply, what we have said time again, this JV will be the largest, lowest-cost producer in the world. When you have this position on the cost curve your only incentive is to go as fast and produce as efficiently and as much as possible, and that is really what is going to happen. The incentives of a low-cost producer are very clear.

In the uranium market, our view is that in the short to medium term, it is still probably a subdued market. Only when we see in China a massive replication of Uranium-driven power generators and when we see costs coming down. That will happen; from every point of view, from a greenhouse CO2 point of view, we strongly believe that will happen. Some time in the next decade it will take off and it will really blossom in the 2020s. Then we will see higher demand and probably a different price. On potash, we are still in the feasibility stage and years away from marketing, so we are not going to express any strong views on marketing. However, we believe in the potash space that it will price, like all commodities, on the marginal cost. At some point in the future there will be a supply and demand base. We are very aware that Saskatchewan is prime territory; we will see a project in the lower-cost part of the curve. We will then be happy to have a market reflect how we operate in other commodities. Even if we are leaders in coking coal, the market marginal costs set the price. We will probably be in that space.

Tom Schutte

If one looks at uranium, the availability of contestable volume plus the time of the fuel cycles will obviously have some influence on how that market can develop. An accurate summary would be to say this will play out in the future as the demand increases, but also the supply has to react with that. In terms of moving towards different pricing mechanisms, it does not mean that everything has to be on a spot basis; it can mean, in the case of uranium, for example, it follows an evolution path whereby pricing becomes more transparent and observable, probably over a shorter period of time. Certainly, commodities will have different paths of evolution and uranium will be one of them.

Martin Kramer *Mining Weekly Online*

I would like to ask about iron ore pricing, benchmark pricing versus the floating pricing. Our information is that CISA in China favours the benchmark pricing and that it will use import permitting to actually get its way. Do you notice any reduction in the issuing of import permits for iron ore importation? Secondly, is the debate around floating price and benchmark price actually resulting in slower payment for products received? Simply, is your bad debt position worsening?

Alberto Calderon

We are operating as business-as-normal in China; we are seeing no issues on anything that you have pointed out, such as on reduction permits or debtor days. They are pretty good. We keep having our normal meetings; our teams are meeting with CISA and Bao Steel and there is a dialogue that we always have with all of our customers. It is business as usual in China for us.

Unidentified Participant, Exane BNP

On coking coal, are you still looking to set the benchmark, and how far are you in terms of volumes? Secondly, where do you stand on the Olympic Dam in terms of development and CAPEX?

Alberto Calderon

On coking coal, we put an announcement out some months ago that we had settled with most of our customers in Asia, Europe and India. That situation has not changed. We keep selling right now; we are basically totally sold; in a tough market we keep selling again and we have been quite happy with how we have sold into China. What we have sold into China has been at spot prices. We are probably focused now on next year in terms of the benchmark. This year, the bulk of it is already done. Regarding your comment on the Olympic Dam, it is not in the five-year plan; we are still now in the environmental part, which is very big and complex. We are focused in the short-run on that. Also, there are some bottlenecks on the technology side. Olympic Dam is developing at its pace . We have not changed our views that it is not in the medium-term 5 year plan. Having said that, we put out an announcement on an increase in reserves of about 25%; it is still a massive resource. The statistics show that it is the largest uranium, fifth largest gold and fourth largest copper – it is still a massive reserve and we want to make absolutely sure that we develop it, like it should, as a 100-year asset. We are developing it at its own pace.

Tobias Woerner, MF Global

Obviously marginal costs of production are very important for commodities. If you look at your portfolio for commodities and look at the latest development of marginal costs, what would you say the developments have been? Have they been moving up on average, or not? If you cannot answer on the back of an industry average, maybe you can give us some inkling with regards to your own costs. The dollar is weakening again, and that should have an impact on costs.

Alberto Calderon

I will not tell you with exact numbers, and I will ask Tom if he has some additional comments, but what we saw, interestingly, in the copper world was marginal costs through the crisis going substantially down. All of the input costs were going down, and you also saw at that time, in the worst part of the crisis, the currency, for example, of Chile, at that time weakening. That trend in months has now begun to be reversed again. Even though we are not seeing the very high input prices we saw at the peak of the cycle, we are seeing marginal costs coming back up again. Regarding copper, it is slowly beginning to creep up; you are seeing pressures from wages beginning to build up again. Because input prices have a lag, you shouldn't see something significant in the next six months. If things remain as they are, you should see higher marginal costs at the beginning of 2010.

Tom Schutte

Marginal costs differ per region, and we have to look at it on an industry basis. For example, the influence of marginal costing on thermal coal in Europe, on the high end of the cost curve, would be different to another product. It is not a very simple question. On average some of the input costs have come down. One thing the global financial crisis did do was it gave us the possibility of testing the floors in practice – the floors of the marginal costs per commodity. Of course, they differ, but the stresses that many of these producers went through during this crisis clearly demonstrated at which point production would shut-in and how quickly. So, how sticky was the production? How strong are the balance sheets? How long can people stand the pain before production is shut-in? That was one thing we observed.

Alberto Calderon

On energy coal, probably the big influence on marginal costs was Russia. The rouble, for example, had a very clear influence on how the floor is set in Europe. If you look at iron ore, China and India become very critical; you see China's production responding absolutely amazingly to price changes and to marginal costs. That is a market where you currently see this marginal cost pricing beautifully as a test case.

Peter Davey, Ambrian

With your view that freight prices are going to stay low for the next four to five years, are you getting any interest from, or do you have any interest in some geographical diversification in your customer base, away from the traditional Asian area? I know you have your hands full there anyway, but I wondered if some customers in, say, Europe are looking for a bit more competitive tension in terms of iron ore or metallurgical coal. Secondly, with such a positive picture here for copper and iron ore, could you give an update of BHP Billiton's interest in copper in West Africa? I am thinking of the DRC and iron ore in Guinea - you were involved there but it has gone very quiet.

Alberto Calderon

On freight, it presents opportunities, but all of our marketing leaders are always looking at how we can compete. It opens possibilities of increasing competition, for example, into Europe. But part of business-as-usual, and the job they have to do on a regular basis, is

to see where we are more competitive, and it opens possibilities. Sometimes it increases competition in the iron ore world. So, it is a double-edged sword. I would not see anything different than business as usual where we are competitive and where we get the best price. In terms of copper, it is very difficult to find tier-one opportunities. Any Tier 1 is difficult, but in the copper space, it is very difficult. We have seen possibilities in West Africa, but, again, when you try to look at security of tenement, even for very green fields, it is complicated. Even yesterday, you could see big copper companies in DRC with issues around that. Having said that, in the business development space and in acquisitions and investment, it is an area where, if we could have any potential tier-one possibilities, we would get into Western Africa. We would be looking again at DRC, Zambia and the whole copper belt.

It is the same in iron ore. We have something between Guinea and Liberia; it is probably size and the issue of logistics that the iron ore guys are trying to advise on. If we can get hold of what I call very green opportunities in Africa, it is something that we would do. It would be nothing in the medium-term; at this stage, we have focused in the medium-term, with a five-year timeframe, we have said we do not want to put risk on risk. This means we have focused on our backyard. The decision of the company in terms of investment is to really focus in the medium to long-term timeframe in the areas we know, in our backyards, in the places where we already invest.

Clark Wilkins, Citigroup

I know it is not possible to cover your complete commodity suite, but does the omission of nickel and aluminium mean you are you less optimistic about those commodities as opposed to coking coal, iron ore and copper?

Alberto Calderon

That is a fair comment. The nickel space was probably impacted significantly by the massive presence of pig iron nickel. We still believe, and we have said it before that that puts a structural ceiling in the market. For example, right now, in China, we are seeing 80,000 of pig iron nickel coming into the market. So, it is a commodity where the very high prices that we saw; the market will seek other ways to react to very high prices. As we speak, we are seeing that in the nickel world. However, we believe that what we have in terms of Cerro Matosa and Nickel West are tier-one assets. If we could get similar types of assets we would be happy to own them. We would probably not go down the route of downstream Ravensthorpe type investment, for obvious reasons.

In the aluminium world we have not changed our view from a long time ago. It is more a process industry; probably the issue in the long-term is that China is not only self-sufficient, but it will be an exporter – not a big one – over the next 30 years. If China becomes an exporter, you will not have the market information that it generates when becoming an importer. On the other side, it limits it to a good business, but not one with great potential. Those are our views on aluminium; we are happy with the tier-one opportunities we own in assets like Mozal, and the mandate of the President Aluminium is to try to expand this, if we can, in Tier 1s. Clearly, as you say, we would not put in the league of coking coal, iron ore, copper, potash or petroleum.

We can answer one more question.

Pete Chilton, Constellation Capital Management

Given your view of very significant long-term increase in steel production, what is your view on where all the coking coal is going to come from to feed that?

Alberto Calderon

That is a good question to end with. China probably has very high-cost potential. There are areas in the world, for example, in Mozambique, where in the long term you will find coking coal. In a medium timeframe the issues are around infrastructure and the capacity to bring it to market. If you look at a timeframe of 5-10 years, there may be significant issues. Beyond that, we do not know, but there are places in the world, and we will do everything we can to expand. So, it is a market that will be tight, but supply will find its way in the longer term. Thank you very much.