BHP Billiton Preliminary Results for the Financial Year Ended June 2010

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Please also see slide 2 of the investor presentation for additional cautionary information of which investors should be aware, including with respect to forward-looking statements contained in the presentation, which can be viewed on BHP Billiton's website.

MR KLOPPERS: Ladies and gentlemen, welcome to today's presentation of BHP Billiton's preliminary results for the financial year ended in June 2010. I'm speaking to you today from London and Alex Vanselow, our CFO, is in Sydney and he will present from there. Before we begin, I would like to point you to the disclaimer and remind you of its importance in relation to today's presentation. I will start by giving you a brief overview of results. I'll then hand over to Alex to take you through the details of our financial performance, after which I will talk to you about our view of the macroeconomic environment, and then, before concluding, I will talk about our proposed offer to acquire PotashCorp.

During the 2010 financial year, we observed yet more volatility in the external trading environment. Economic recovery continued for the first half of our financial year, as markets became more comfortable with the idea of a broad based economic recovery following the financial crisis. However, after a period of improving sentiment, sovereign debt concerns reemerged in April of this year, and although conditions have stabilised in the meantime, there are some lingering concerns over the health of the global economic system.

I will talk to you more about our view of this economic environment later but let me talk about an overview of our financial results first. Our underlying EBITDA for the year was up 10 per cent to US$24.5 billion and underlying EBIT was up eight per cent to US$19.7 billion. Attributable profit for the year was US$12.5 billion, before exceptional items, and that is up 16 per cent. Our balance sheet remains strong, with a net gearing level of six per cent. And today, we announced a final dividend of 45 US dollars cents per share, which brings out dividend for the full year to 87 US dollars cents per share, an increase over the last period of six per cent, thus continuing our progressive dividend policy. Given the volatile trading environment that I've just experienced, we are very pleased with these results.

Now, let me turn to our operating performance. In addressing our operating performance, I would like to start with safety. Health and safety performance is critical to the wellbeing of our people and to the success of our business. We will only be successful when every employee and every contractor goes home safely at the end of each day. We recognise the potentially hazardous nature of our industry but it is our view that these hazards only result in injuries when the risks are not properly identified and managed. And against a back drop of continued improvement in a number of our key safety indicators, the loss of five of our colleagues during the year sadly reminds us that the leadership task is not complete and of the immense challenge that we've got, to continue to improve the management of our risks. We extend our sympathy to families, friends and colleagues.

Turning to our operational performance, BHP Billiton produced another very strong set of results, including a tenth annual consecutive production record in iron ore and a third consecutive production record for petroleum. These achievements and the other production records that we produced across a range of our businesses and assets is the result of a focus on operating our assets to the maximum of their potential and our continued and significant investment in organic growth throughout the cycle. This organic growth resulted in first production from five projects in iron ore, alumina and energy coal, and we also approved a further US$2.9 billion in new projects and pre-commitments during the period. And whilst we have not yet had an outcome on our production joint venture in iron ore with Rio Tinto, we continue to work through the relevant regulatory processes. Now, let me hand over to Alex, who will give you more detail on our financial results.

MR VANSELOW: Thank you, Marius. It is great to be presenting another strong and clean set of financial results, built on what is a very stable foundation. As Marius said earlier, we continue to operate in a very volatile environment, which makes diversity of product, customer and geography, combined with asset quality, critically important. In that context, a uniquely diversified business ensured we were well-positioned to benefit from a general recovery market and more that offset the pressures presented by a weaker US dollar. Now, let's review the major drivers of our strong full year result.

As you can see, our solid earnings growth was delivered despite external pressures placed on our business. The net impact of higher prices and a weaker US dollar reduced underlying EBIT by US$1.1 billion. In contrast, those factors within our control contributed strongly to underlying performance. To that end, our strategy to maximise production from our low cost assets at all points in the cycle ensured the business was well-positioned to respond to a robust recovery in demand, so volume has added US$1.9 billion to underlying EBIT.

Similarly, successful commissioning of petroleum projects, such as Pyrenees and Shenzi, contributed an additional US$1 billion to underlying EBIT and also emphasise our commitment to value-adding growth opportunities. When we assess our operating performance, and by excluding those factors beyond our control, we see the strong volume growth and our targeted portfolio management, and this has delivered an 18 per cent increase in underlying performance. And with that in mind, I'd like to address the costs in more detail.

So on this slide, if you look on the left-hand side, you will notice a significant reduction in raw materials and logistics costs. And we have previously mentioned that input costs tend to lag product prices, and as an example, the reduction in energy prices was clearly non-structural in nature. However, what should also be apparent is the almost equal yet opposing impact of the one-off costs we had in the period, and I will highlight some specific points to you.

One is the impact associated with the Clark Shaft unplanned outage at Olympic Dam. Also, the provision we have taken in iron ore relating to the proposed amendments to the Western Australia State Agreement, and the provision we've taken in petroleum relating to the current drilling moratorium in the Gulf of Mexico. If you take away those non-structural, non-recurring items, I am proud the highlight the US$282 million improvement in controllable cash costs that we delivered in the period. As always, we can do more, and our relentless focus on the cost base will continue to be a high priority for the team.

Now, let's look at the performance of the global portfolio in more detail. One of the most obvious highlights of this slide is the balance of our diversified portfolio across the three main business groups. More importantly is the underlying quality of our business, as clearly highlighted by the superior margins that we continue to deliver. Furthermore, our commitment to stay low cost and diversify by commodity, geography and customer will be further enhanced by the acquisition of PotashCorp.

We'll start with energy, and in energy, a record production of 159 million barrels of oil equivalent followed the successful commission of BHP Billiton-operated facilities in Shenzi and Pyrenees. The increase in high-margin crude volumes was the single largest contributor to the US$488 million increase in petroleum underlying EBIT. Lower average realised prices for energy coal were a major offset, despite a significant improvement in profitability in the second half of the year on the back of firming Chinese and Indian demand. We remain deeply committed to growing our energy business and it remains an area of intense activity in the group. During the year, we completed three projects across petroleum and energy coal, whilst seven projects remain in development.

With the non-ferrous group, rebounding prices increased underlying EBIT by over US$5.5 billion, and we simplified our nickel and aluminium portfolios, and this led to a US$526 million favourable variance in underlying EBIT. The sale of Ravensthorpe contributed US$457 million to exceptional profit after tax and this was offset by exceptional items specific to the aluminium business, totalling US$465 million after tax.

For ferrous, the lower metallurgical coal and manganese price reduced underlying EBIT for that group by US$4.5 billion. The significant reduction in the groups overall contribution actually masked what was a very strong operating performance. Western Australian iron ore delivers, as Marius said, its 10^{th} consecutive annual production record, while metallurgical coal and manganese both witness a very strong recovery in production and demand. In total, higher ferrous volumes increased underlying EBIT by over US$1.8 billion. In that context, efficiency and productivity across our iron ore supply chain remains a key priority for us and we're particularly pleased to have put the rail access case behind us.

Similarly many of you will no doubt be aware that we have tirelessly pursued market clearing prices and for all our bulk commodity products, not just iron ore. And I am pleased to say that this initial transition is now complete. Marius will talk to this important achievement in more detail shortly.

Now, from a broader perspective another set of strong operating results just speak volumes for our well defined yet simple strategy revolving around our commitment to maximise volume from our low cost diversified portfolio through all points in the cycle and our intention to take these market clearing prices. While some of our peers were forced to, or chose to, reduce production during the recent down turn in demand, we stuck to our strategy. Where possible we rebuilt inventories across the supply chain and continued to invest in the future. This insured less volatility and a more rapid recovery in our volumes.

To illustrate this point in this slide we have compared our performance in copper equivalent units to that of our peer group as a shaded grey. And as shown we are now producing at a rate exceeding the peak levels achieved prior to the onset of the global financial crisis. And furthermore I am pleased to say that we are now selling well in excess of 90 per cent of the group production – and this is across all commodities, on shorter term market based prices.

While volume is one measure, returns and profitability are the ultimate benchmarks. And our consistent and unchanged strategy will continue to deliver superior returns for our shareholders. For the sixth consecutive financial year, BHP Billiton recorded an underlying EBIT margin of 40 per cent or more and an underlying return on capital of 25 per cent or more. This is an outstanding achievement considering we continue to invest heavily in our future. Excluding capital investment not yet productive our return on capital employed for financial year 2010 would have exceeded 30 per cent. And as you can also see, we once again managed to convert those very healthy margins into strong cash flows. Second half operating cash flow rose by over 100 per cent when compared with the first half. What shouldn't be lost on investors is the link between strong margins, superior returns, and the ability to regenerate and grow ones business.

With our very healthy balance sheet we have been able to invest heavily in our business, with our capital and exploration expenditure of US$10.7 billion for the period. Furthermore our strong cash flow and balance sheet has facilitated our all cash offer for Potash Corporation, which with its tier one assets will further enhance our unique business model. While Marius will discuss the natural fit of PotashCorp shortly, I would like to take the opportunity to discuss some of the financial aspects of the all cash offer. It is a fully funded underwritten credit facility totalling US$45 billion which combined with our strong financial position will preserve the financial flexibility of the group. And with regards to the financing package we have structured the facility in three tranches with terms of one year with an extension option of another year, three and four years. Our commitment to maintain a solid A credit rating equally insures our cost of funding remains particularly competitive. Importantly we remain committed to our progressive dividend policy.

Finally, and I have to cover this, I would like to make a comment on taxation. Despite the sometimes conflicting messages throughout the recent taxation debate in Australia, when it comes to the numbers themselves, and you can see that on the slide, nothing's clearer than that. BHP Billiton, Australia's largest single corporate tax payer continued to pay its way in the last financial year. Company tax, state royalties and petroleum production payments totalled A$5.5 billion. These payments represented 46 per cent of operating profits from our Australian assets in the 2010 financial year. For the seven years from fiscal year 2004 to fiscal year 2010 average total tax, royalty and production payments in relation to Australian profits was 42 per cent. So the key point I wish to make here is that BHP Billiton pays a lot of tax in Australia at both federal and state levels, and has done so consistently over a long period of time. And with that I'll now hand you over back to Marius who will walk you through the micro economic views. Over to you, Marius.

MR KLOPPERS: Thank you, Alex. Let me take you through our views on the external environment. As I mentioned earlier, during the first three quarters of our financial year we experienced steadily improving financial conditions which flowed through into much stronger prices for our commodities. However, in late April the rating agencies down graded credit ratings for several European countries. On the left hand chart on the screen shows how volatility fell post the financial crisis and then how it spiked again on the back of sovereign debt concerns. The European sovereign risk concerns returned around the same time as China was taking measures to cool the property markets in its major cities. And these events provided a trigger for a turn in sentiment and the right hand chart shows how sentiment has fallen as volatility increased. Due to the factors I've mentioned, our view is that the volatility we have experienced will continue in the near term.

Now, you would have seen this chart before in our interim results in February. It shows the US net borrowing flows by sector and the orange bars on the right show how dramatically the US Government has stepped in to support its economy. I've used it again here because in our view the level of sovereign debt in the OECD remains a fundamental issue for global economic growth. The big question is whether governments can continue to support their economies and it's not just the absolute level of debt that is of concern, but we are also concerned about the impact on growth of governments withdrawing the unsustainable stimulus packages they were forced to introduce. And the chart that we've got on the screen shows how dramatically government spending is outpacing revenues in the Euro zone. This is leading to a series of austerity measures being introduced in countries such as the UK and Spain. Therefore, the likely impact of fiscal austerity on economic output is yet to be seen.

And while I've talked about the developed world, in our business obviously what happens in China is very important. China's GDP grew strongly in the first quarter of 2010 but has since slowed meaningfully on the back of government tightening policies. In particular, as I said before, these tightening policies were introduced to deal with the rapid escalation of property prices in the major cities. Our view is that for the remainder of the calendar year we will likely see slowing growth on the back of removal of stimulus and tighter monetary policy. However, our anticipation is for a soft as opposed to hard landing, and second half GDP growth this calendar year could be closer to eight per cent. We do want to note that China can and will be more flexible on its domestic policy if developed market economies deteriorate more markedly than anticipated. Despite slowing near term investment growth in China we expect a continued focus on a broad range of infrastructure projects to promote inter connection across the country.

China is also restructuring its economy away from a dependence on investment towards a more balanced consumption led economy. While I've presented a reasonably sanguine picture for the near term economic outlook, I do want to highlight that the reduction in capital expenditure by others in our industry during the financial crisis is impacting the supply side for commodities. As such we feel comfortable that our margins will remain healthy despite volatile economic conditions.

Over the past five years we have – sorry, that should be the past 10 years, if we take Energy Coal into account, we have methodically sought to achieve floating and transparent market pricing for all of our products. We would like the market price of the day, every day, for all of our commodities as we believe that transparent prices are good for consumers and good for producers. We are therefore very pleased that during the course of this year we made very significant progress in achieving this overall objective as Alex noted before, in this instance for our major ferrous products. The chart on the left hand side of the screen shows the recent emergence of a liquid traded market in iron ore and importantly it also shows that we now have a traded forward curve that aids in forward price discovery. Also, as you can see from the right hand chart on the screen, all of our iron ore sales are now priced on a shorter term basis. As mentioned by Alex, but I do want to emphasise, we now receive shorter term market based prices for over 90 per cent of all of our production across all of our products.

And while market based clearing prices may be individually more volatile than annual pricing, the volatility of individual commodities is not a concern for us as a result of our diversification. And to that exact point the chart on the screen is the one that we have used many times before. I do need to note that it's Alex's favourite, even though I will present it today. It's very important, because it goes to the heart of our strategy.

A diversified portfolio of tier 1 assets reduces the volatility of our cash flows and gives us greater ability to forecast our cash flows throughout the commodity and economic cycle. In turn, having more predictable cash flows helps us better plan capital spending and, importantly, invest more consistently throughout the cycle and deliver a progressive dividend.

Alex mentioned earlier that, for the sixth consecutive year, we have had a 40 per cent-plus EBIT margin, and this clearly illustrates the strength of our business model throughout the cycles. And that brings me to the recent announcement to acquire PotashCorp, which is completely consistent with our diversified upstream strategy. We have been studying an entry into Potash since 2003, as we believe Potash have strong, long-term industry financials and significant growth potential, underpinned by the following key drivers: firstly, population growth and increasing wealth levels in the developing world um is are increasing demand for protein and other high quality, more nutritious foods; secondly, increased urbanisation and the need for sustainable agriculture puts increasing str strains on available, arable land, thus requiring greater yields per acre.

The Potash nutrient is an irreplaceable element in enabling increased global agricultural production. PotashCorp is the world's leading integrated fertiliser company, and the proposed acquisition of PotashCorp will provide us with an immediate and strong leadership leadership platform in this global fertiliser industry. PotashCorp operations are at, or close to, the bottom of the cost curve, and the proposed acquisition will add further ah diversification by commodity, by operating geography, and by customer. And, as you can see, this transaction is wholly consistent with our strategy of developing, owning, operating a diversified portfolio of large, long-life, low-cost, expandable, export-oriented, tier 1 assets. As Alex has mentioned, our proposed offer is full underwritten by um is fully funded by underwritten credit facilities that preserve our operational and financial and strategic flexibility.

And I need to stress that we are committed to maintaining a strong, single A credit rating, as well as to our progressive dividend policy. Now, this brings me to the end of our presentation, so let me conclude. Alex and I have, today, set out to demonstrate that our strategy of being an upstream resources company, operating large, low-cost, and broadly diversified assets, remains the correct one. The results we presented today show that the strategy works for us and our shareholders. Looking ahead, our disciplined approach and simple portfolio of large, hub-based tier 1 assets, will allow us to continue to deliver superior returns and margins into the future.

Our recent offer to acquire PotashCorp is consistent with our strategy and will add an attractive new commodity to an already well-diversified portfolio. But we will remain, as ever, disciplined. On that note, I would like to thank you, ladies and gentlemen. I would now be pleased to take your questions. If you could direct them to me in the first instance and I will pass them to Alex, in Sydney, but also to Mike Yeager that is on the line. We will start here in London, and then move on to Sydney, before taking questions from the phone. May I have the first question, please.

MR FAIRCLOUGH: Good morning, Marius. Merrill Lynch, Jason Fairclough. There's some commentators that are suggesting that China's metal intensity per unit of GDP has peaked. I'm just wondering if that's a view that you have, and if, going forward, we should expect more capital allocation to non-metals resource businesses.

MR KLOPPERS: Jason, our updates that we provided in October of last year, at our marketing presentation are, probably, unchanged. And you will recall that basically states our growth aspirations, particularly in two of our key products, you know, the steel-making raw materials, steel and copper. And we have no reason to update that at this point in time. As to the second part of your question, we want to allocate capital to a diversified portfolio of resources, and I'm always keen to – and I will use this opportunity – to stress that the market should not see us as a coking coal company, stapled to a copper company, stapled to a petroleum company, and so on.

The way Alex and myself and the management team look at it is that we allocate capital across the range of commodities. From time to time, we may allocate more capital to any particular commodity that has got more growth options that are value-adding to our shareholders. But I should stress that the whole concept of diversification by geography – operating geography, that is – by market, by customer, and by product, remains very important to us and is something that we take into account every time we make a material investment or acquisition. So can I just remind everybody – I forgot to say, please, just state your name when you ask the question.

MS KERR: Hi. Oliva Kerr from UBS. My first question – when you're thinking about your methodology for long-term prices, should we, now, be more thinking towards the incentive price to bring on new capacity, if we're thinking in the longer duration, or at, sort of, current marginal cost of production? And then my second question – if I just look at your capex guidance for FY11, I note that it's reduced from just over 20 billion to 15. That amount seems to be – that the iron ore JV equalisation payment has been removed. Can you just provide any update why that's not in there?

MR KLOPPERS: I don't think the JV point is intended to signal anything, Olivia. I think it's purely to illustrate the underlying organic investment in the business, as opposed to by acquisition or by buying up. To your first question, is it incentive or is it marginal cost – I can't give you an unequivocal answer because it depends on the product. For most of our products, I would say, we believe we like to be positioned in products that grow, which means that they are products that will, over decades, require new investment.

And we take – in those products, where new investment will be required – generally, a view of what the lowest cost capacity is that can be built, as part of – and I want to stress that - as part of our process to formulate long-run prices, which we reveal once a year, which, generally, are a little bit more stable than, you know, the frequency with which analysts adjust them, and, I would say historically has generally been reasonably conservative.

MR BRUNET: Good morning. Silvain Brunet with Exane, BNP Paribas. First question was related to petroleum. If you could give us a bit more guidance, to the extent that you've got visibility there, on volumes, going into next year after the drilling moratorium. Second question is on financial leverage. Would you have a maximum number in mind, based on your discussions with rating agencies to maintain the single A rating. And the last question on cost inflation, if there are specific items where you see inflation coming back to the business. Caustic soda is reported to be pretty expensive again.

MR KLOPPERS: Thank you, Silvain. Given that two parts of that question, the volume forecasts in petroleum, as well as the financial questions and costs all basically pertain to a set of issues which Alex looks at very closely. Alex, I wonder if I can ask you to answer those questions – volume forecasts for petroleum; do we have a maximum financial leverage, how do we look at financial leverage and then any specific costs increases.

MR VANSELOW: Yes, I've got that. The petroleum question, Silvain, we have made reference on our production report that we expect should the moratorium continue to November, a flat year on year overall for petroleum business. So the 159 million barrels of oil equivalent that we produce this year, you can extrapolate that for next year as it stands. On financial leverage, the solid A, there is a very well defined criteria by both S&P and Moody's which is based on the FFO and the CFO, so it is operating cash generation. We are managing to that. It goes beyond gearing; gearing is a very rudimentary way of assessing your credit rating. It is more into the cash liquidity and cash generation.

So if you look at the 1.2 or if you look at the 50 per cent, you are going to see that we are managing towards that. Inflation is very good question because, as I mentioned on my note, we see the lagged fact. So what you see now is a retarded reaction of some of the price of the inputs to what was a push on prices for our products a few months back. So I think anywhere from three to six months that I gave you last February, you should look at inflation coming back. In some areas, I would say that labour inflation is manifesting itself stronger and less cyclical than input prices for raw materials and that would be in Western Australia and in South Africa, but Brazil to some extent as well.

MR KLOPPERS: Thank you, Alex. I wonder if we can take the opportunity to take a couple of questions in Sydney before we go to the telephone lines. If I can have the first question in Sydney please?

MR GOODWILL: It's Neil Goodwill from Goldman Sachs. Could I just ask a question around the base metals division really. I mean, could you – you're talking about Escondida declining five to 10 per cent this year. Could you give us some outline about what Escondida can do over the next, say, five years or even 10 years, and how much Capex – or what you have to do in terms of new concentrators etcetera in order to be able to – or, if you can, in order to be able to maintain production levels there. Also, you know, any update on ODO would also be useful.

MR KLOPPERS: Yes, Neil, I can't give you any specific updates on either of those two assets today but I do want to note that the way we look at our resource portfolios here in all of our products is to look at our tenement maturity and look at the inventory. In Escondida it remains a fact that the tenement maturity there is still quite low, which means that by the way we look at things there is still a lot of upside in terms of what is there. We will give you an update on that program in due course but my take is that Escondida is going to be an asset that is going to produce at very material production rates for decades and decades to come, but no update today on that. I'll make sure that we, in due course, when we do the base metals update, shed a little bit more light on that. On Olympic Dam, you will have noted that even when the tax arguments in Australia were at its crescendo, we were very careful to continue our evaluation program at Olympic Dam of the expansion program. In reality the great determining step for us, in order to take the next step, continues to be the completion of the EIS – and, again, there's no update on that today.

MR CAMPBELL: Craig Campbell, Morgan Stanley. Have a few questions relating to the proposed Potash acquisition. First question is with regard, ah Potash, if you're successful in that acquisition, the accounting treatment, would you be looking to utilise goodwill in terms of that acquisition or will the asset come onto the balance sheet at full acquisition cost? Ah second question, ah given you've been looking at this market for quite a period of time and credit markets started to repair themselves during 2009, why is it you weren't able to bid through 2009 and why now, or was there an issue around credit markets. Then, finally, ah you've mentioned, Marius, when we've met with you previously that if an opportunity came up in petroleum, you would look at M&A. Does this potential acquisition now push back any timeframe, if an opportunity came up, say, in petroleum or another asset class?

MR KLOPPERS: Craig, I'm going to try and answer the first – the last two of those questions and I'll leave the accounting treatment for for Alex to explain our general policies, as opposed to this specific instance. Um Petroleum, we are keen on growing that business but we've got one opportunity here which we're working on uh and that's the one that Alex and myself and the rest of the team are focused on. And I think what you should look towards is we'd like to, on the Potash transaction, clear the preconditions so that we've got a bid that is uh capable of being accepted and uh that's what you should look forward to as we proceed through the remainder of this calendar year. Uhm I should stress, however, that we do feel that we've got flexibility uh in our balance sheet uhm and so I – I would say that beyond the acquisition of uhm Potash, our aspirations to continue to grow the deployment of capital in the broader, natural resources space would be would be undiminished.

Credit, cash, uhm I think that uhm there are many factors that go into when something is opportune. Ah in our case, all I can point out is that the combination of PotashCorp having all available information ah in the public market following their results; following the strong cash generation ah during this year ah which was notable ah and where that put us in terms of our balance sheet, plus the credit markets and a variety of other factors all played into why this is the is the opportune moment to make that bid. I can't go beyond that. Alex, perhaps you can talk a little bit about our general policies towards goodwill?

MR VANSELOW: Yes. And this hasn't changed. When we acquire mining interests, we don't book goodwill; everything goes into – into the balance sheet.

MR KLOPPERS: Thank you. Perhaps one more question in Sydney and then I'll move to the telephones?

MR McTAGGART: Hi, Marius, it's Paul McTaggart from Credit Suisse. Again, on Potash, really three bits of the question that have been put to me by clients. Firstly, how much diversification is enough and, you know, let's assume that markets are moderately efficient, how can you add value to Potash and and is your view really about pricing of product in the long run. Thirdly, and importantly, given that this is a hostile bid, you haven't got access to a data room, how do you manage risk around, you know, relying on publicly available information for such a big deal?

MR KLOPPERS: Uhm I would talk about diversification more in the uhm context of how much complexity does the management think it can handle, I mean basically what we've done is we've continued to simplify our business, and perhaps not in a very material way, even in this past year, we've continued, as evidenced by number of employees, EBIT per employee and so on, to to trim off little non-core assets and so on, and really concentrate down on those big basin type assets which Alex and I have spoken to to you before, things like Olympic Dam, the Bowen Basin, uhm the salt beds of Saskatchewan, uhm Western Australian iron ore and so on.

And what we'd like to do is continue to spend more and more of our effort on these big basin type uh assets, and to that, uh I don't know if we've put out any uh specific uh data but I can tell you that the addition to potash, Canada and a large US customer, uh in addition with the nitrogen and the phosphate businesses that come along with this, materially reduces the cash flow at risk of this co company and that goes to the heart of our value proposition. So that's how I would answer those two elements of how much diversification is enough.

How do we add value? Uhm we have the skills to operate these potash mines and their associated infrastructure uhm at the same high levels of utilisation that we that is customary for us across the rest of our portfolio. Secondly, uhm it's notable that there is a material capital investment program uh for PotashCorp, which is obviously in the share price, but which still carries some risk. Uh we deploy $10 billion plus in organic growth every year, and uhm this is a business which we believe we can through our capex programs, our hub concepts and so on, add add significant value.

And the last point is probably back to diversification. We have noted that the potash market contract cycle is changing uh from the way that the product is priced, uh from the very public statements that Bill Doyle has made about his desires on uh pricing periods, given counterparty risk and so on, which intrin intrinsically will make that business more and more like all of the other products that we've got, and a diversified company with stability of cash flows, again, can execute that growth program of what is effectively almost a single commodity company much more effectively than than that company can. So that basically is our value proposition. Uhm I think that that probably covers it. If I can go to the phone and take a couple of questions on the phone and then I will circle around to Sydney again. Can I, operator, can I have the first question on the phone, please?

OPERATOR: Certainly. The first question is from Andrew Hines from CBA. Go ahead, please.

MR HINES: Hi, thanks, Marius. Just a question about your capex outlook and I just sort of hark back to the interim result when you put out your forecast for capex this year. I note that you spent, probably, sort of, one and a half billion less this year than you were saying back in February. I'm just wondering whether that is a deliberate reaction to, you know, what you've already pointed out as being a volatile period or whether you're actually finding it harder to deploy organic capital than you thought, and in that context, what that then means for the $15 billion program for 2011 and talk a little bit about where you're spending that money.

MR KLOPPERS: Look, the capex came in basically within the statistical ranges that we would see, given the project portfolio that we operate. There's been no deliberate attempt to accelerate or keep it back. It's the normal statistical variation. Rather than go through a detailed drawdown of the capex schedule here, I think the material that you've got in one of the appendices has got a fairly detailed split out, per product and per project. Andrew, if you've got any other questions, I'd be very happy to get investor relations to just detail that for you, because there is quite a bit of detail available on those projects. Can I have the next question please?

OPERATOR: Sorry, there are no further questions from the telephone at this stage.

MR KLOPPERS: I'm just going to circle back to London, if I can have the first question here in London please.

MR JANSEN: Heath Jansen here, from Citigroup. Marius, can I ask you about hedging? I know that you've always said that you don't do it, and clearly, you're going to more of a spot market, but clearly, going forward, you might be bringing on 40 billion of debt, so I can understand, on the earnings and cash flow, why you get the diversification, but I'm just wondering whether you might want to look to hedge out some of that risk, particularly on the balance sheet side of the equation, and whether you've done any, sort of, scenario analysis, to say, look, if your economic environment and outlook is right, and potentially, we go into a double-dip, you know, how protected are you going to be, potentially, on the downside?

MR KLOPPERS: Heath, we're very comfortable that in any foreseeable scenarios that we've run, and we run extensive scenarios both to the up and down side, that what we're taking on here is very manageable, uhm and we are genetically incapable of thinking about hedging.

MR CLIFFORD: Rob Clifford, Deutsche Bank. Just two questions, Alex mentioned that you tirelessly pursued market pricing for commodities and are now complete. You used iron ore as an example there. Does that mean you've also completed your pursuit of alumina market pricing? And the second question, ah as you move to market pricing in potash, assuming your presence increases, that market is likely to become uh more cyclical. Within your Jackson Pollock chart, where does uh potash sit, or what commodities does it share uhm cyclicality with?

MR KLOPPERS: Uhm Rob, uhm in terms of alumina pricing, that market will continue to evolve, but effectively, the market price is available today in China, every day. It's a question of whether you want to devote – what percentage of your product you want to send there. Uhm historically, we've chosen not to send all of our production over there but to have a more diversified customer base, but a market price is available today. And uh I am seeing a very determined spread towards shorter term repricing periods in that industry in general. So I would wouldn't say anything is complete but given the relative scale in our revenue line, uh given what I already see, in terms of transparency, I wouldn't say that, uh you know, I see material changes in our earnings profile as a result of what's what's going to happen there.

In terms of potash, uhm I think we must just step back and say uh what are the things that most drive uh how it how it plays into the portfolio. Obviously, it's a different currency, and obviously, it's a different short and long term market. Essentially, potash is a more storable commodity, because it's storable in the soil and – uh than some of our other products. But the net impact of all of those cross-correlation coefficients, if we model that into our portfolio, is to materially uh decrease the cash flow at risk, or if you want to, materially stabilise the cash flow, uh further stabilise the cash flows of this corporation, if we model uh the uh complete PotashCorp into our portfolio. Now, in terms of return characteristics, potash itself is more of a high margin product and that is uh understandable, given the fact that it's also a highly capital-intensive business to enter and so on. So the return characteristics may look, perhaps, something a little bit more like uhm you know coking coal or iron ore or petroleum rather than aluminium or nickel or energy coal. Uhm yes.

MR CURNOW: Charles Curnow from Evolution, a couple of questions, please. First you talk obviously in terms of basin plays and given some of the issues and problems in the Gulf of Mexico could you talk how the Falkland Islands could potentially fit into a basin play? Is that something that you see as far as potential is concerned there? The second question is really related back to what you were talking about given the US high levels of government debt etcetera, your genetic incompatibility with gold, would you review that at any stage?

MR KLOPPERS: On the second question, no we wouldn't review it. Gold is simply, other than a by product through copper operations and so on, is just not something that we will target on a commodity basis. That remains unchanged. And Falklands really is a relatively minor part of our overall exploration activities and I think it would be a stretch for me to say anything more about that today, Charles. If we can loop back perhaps to Sydney and Alex, if we can take a couple of more questions there.

MR GERRARD: Yes, Marius, Tim Gerrard from Investec. Two questions. With respect to aluminium and the smelters in southern Africa, where do they, sort of, now fit? When you talk about expandable and export orientated growth assets, where might they fit in the portfolio? And, sort of, also maybe some comment on the relative importance of the aluminium smelters relative to Worsley say? And and the second question is, coming back to Potash, how difficult has it been to do due diligence on forming a view on the on the mining risks associated with the with the potash projects?

MR KLOPPERS: Tim, uhm perhaps, in answering your second part of your question uh I now recognise that I was actually amiss and I didn't answer the question fully on one of the other questions we had on due diligence. Uh the way we look at uh Potash Corp is that it is an extremely well covered company uh which particularly, uh perhaps less evident so for the for the Australian investors and for the London investors, but it is a very very heavily followed uh stock because it's a bellwether uh for grain industrial production. There are many things uh that make this an interesting stock to cover. And as such, uhm together with the fact that it's a publicly held company, there's a very very high level of disclosure here. It's a very small industry in which uhm I would say that uh the level of knowledge of what uh happens is very high. And as such uh that makes us very comfortable about the overall level of knowledge that we've got as we as we proceed through this bid. Tim, please just remind we what the first part of your question was because I I neglected to jot that down.

MR GERRARD: So where does aluminium fit? The southern African smelters?

MR KLOPPERS: That's right – yes. I think that aluminium, along with perhaps nickel in our business, if you look at our chart of overall number of options that we're pursuing, clearly there's a number of things that we're pursuing across those two products, but it is not as emphasised in our further future growth by options as some of our other products are. That is on the basis that there's been quite a technological change in aluminium over the last 10 years, both on the alumina as well as the smelting side where technology has become more ubiquitous. And perhaps the same thing on nickel with changed consumption patterns and some technological breakthroughs there as well. So I think I'd like to answer the question more by saying, you are unlikely to see us deploy without clearly progressing something, you're unlikely to see us deploy large amounts of capital in those two businesses. With the current exposure that we've got we feel very comfortable but those two businesses are unlikely to attract the major share of the capex of the corporation as we move forward.

MR YOUNG: Hi, it's it's Paul Young from Deutsche Bank. Can I focus on the build versus buy strategy uh in Potash uhm and have the economics changed on Jansen because I see now that you have split Jansen on your project bubble chart into in a phase 1 and a phase 2. And I understand you are targeting a single 22 million ton per annum haulage shaft, but in the potash industry the maximum hoisting capability of one dedicated dedicated production shaft is 11 million tons per annum, so has the PFS for Jansen, which I understand you're in the final stages of completion, has that shown that you you will now need two shafts an and a longer ramp up to achieve a name plate of eight million tons per annum, and how has that influenced, if so, your decision to buy versus build?

MR KLOPPERS Yes, Paul, a general comment about capex, and I'd like to point you at one of the slides that Alex showed, uh which basically shows that we continue to ramp up our organic capex at about 20 per cent a year I think18 per cent CAGAR is the number that Alex has got on his slide today. Basically that's because we we need to build all of those capabilities, the teams uh and so on as we go forward, and therefore you never see us announcing dramatic increases or dramatic decreases in our capex. Our strategy is to invest throughout the cycle uh if we are within the constraints of our balance sheet, so nothing has changed there. So it's difficult for me to characterise the potash thing as a buy versus build because it is really in addition to not in place of. I mean, we basically see our organic capex programmes which we've got on our slate continuing uhm and really this M&A activity, which has always been there at the top of the pyramid that we've articulated now for the last 10 years, really comes as an additional capex deployment.

Uhm so let me put it even more simply, I cannot go out tomorrow morning and decide to deploy $40 billion of capex in the potash industry because I I don't have the human resources to to do that. Uhm, with respect to Jansen, I think that our team in Canada, Graham Kerr and the team there, uh have uh shed some uhm uh given some information of how we look at that. I mean, while we'll give you more information as we go ahead, we we're going as hard on that project as we can. The next phase for us, which is quite imminent, is to put the refrigeration plant on the surface and freeze the shaft. It's a single shaft location. Uhm, and, yes, the targeted lift on that single shaft – it's a twin shaft system, one is a production shaft and the other one is a ah support shaft, but that twin shaft, which it's always been, uh only one production shaft is targeted for eight million tons of product a year. And basically what you do is – and I'm going to describe it very generically, as you sink the shaft you open up your mining fronts, you build the surface plant in modules as the number of mining fronts open up. And as you ramp that up and, you know, Graham and the team there are going to try and – when we get to the approval point, try and ramp that up as quickly as possible. No changes. Perhaps one more question in Sydney and then I'm going to try and see if there's anybody else on the on the phones at this side.

MR LAWCOCK: All right. Good morning, Marius. It's Glyn Lawcock with UBS. One question you're probably going to get a lot over the next few days or weeks is just how you and the board rationalise the decision between the buy-back option and Potash. If you can, maybe, just enunciate that, and then – I'm conscious poor old Mike Yeager is, probably, on the phone, falling asleep somewhere. Maybe he could share his views on what's happening with the moratorium in the Gulf of Mexico, what he is hearing, you know, in terms of his expectations on how that may play out. Thanks.

MR KLOPPERS: Glyn, why don't we have Mike quickly talk to us about the GoM, and he is on the phone. Jodie, if you can get Mike on and just share a few perspectives, and then I'll come back on and talk a little bit about the buy-back versus M&A. Mike.

MR M. YEAGER: Yes, Marius. Can you hear me okay?

MR KLOPPERS: Yes, we can, Mike.

MR YEAGER: Very good. Well, in regards to the moratorium, you know, clearly, we are in the midst of it at this time, as everyone knows. That means that for BHP Billiton Petroleum, some of our very high opportunities, on Shenzi and Atlantis drilling and all are being deferred. Were it not for this, we had another eight to 10 per cent volume growth outlook and, as Alex said, with this situation we are guiding that we are going to be flat year on year. Having said that, though, we are progressing, right now, a number of things. As you know, we have kept our operated rigs, not declared force majeure, have those things in full bloom as they move forward, to go back to work.

We are progressing our drilling permit through the system, and we're seeing them move. So drilling permits continue to be the biggest risk coming out of the moratorium, but I am pleased to say that we have already submitted several – both water injectors and producers – and we're following those daily and beginning to see the new government system accommodate that. So I don't think we have got a clear view coming out, but we will come out, we feel, in the latter part of this year, get back to drilling.

We're prepared and we hope to be one of the first to get back to work. And our major products, like Mad Dog, Knotty Head appraisal, Gun Flint and some of the other things – we're going to lose these six months, but, certainly, those teams are still very active, and our volume growth after this year, you know, should get back and be strong. So, Marius, I hope that gives a little perspective, but – not clear how we come out, but we're seeing progress, and seeing our permits starting to move forward.

MR KLOPPERS: Thank you, Mike. Uhm let me let me say a few words about buy-back strategy and so on. Glyn, we have said uh for many years, now, that once you pass the possible universe of assets that we, logically, can uh and should own uh through the filters of no long-tail liabilities, large, low-cost, long-life, expandable, export-oriented – through the skill set of the company, which is, basically, mining and extracting, uh and then you pass that through, uh you know, available for ownership – uh it's not a large universe.

It really isn't a large universe, and, from time to time, the opportunity comes to uh to make a bid for one of those tier 1 assets. It's infrequent, the options are limited, and we're probably looking, now, at the same options that we looked 10 years ago. Uhm for us, the time to to acquire this set set of assets – uh there's a number of things that that make it uh a good time for us to make to make this bid. The buy-back option is always there. It is always there and we have taken a a made use of that over time, as you know, either by off-market buy-back or buying the PLC units, which have, historically, been the cheapest units for us.

And, clearly, both of these options, as we look at them, have got to be value-accretive. But, I above all, I want to stress that, for the for the one, there is always uh that option is always available. And for and the other one, there are only specific times and opportunities to find ourselves at that – that's, probably, how I would nuance the the the the two. Okay. Let me let me go to the phone and just see if there's anybody that's come on in the meantime. Jodie.

OPERATOR: Thank you. We have a question from Lyndon Fagan from RBS Sydney. Go ahead, thank you.

MR FAGAN: Good evening. Uhm I just wanted to ask about iron ore. Uhm when is RGP6 likely to be approved, uhm and what sort of work are you still doing on the outer harbour, if anything, assuming the JV doesn't go through? And have you changed your view on medium-term uh tightness, or lack thereof, of the market, given the the approach to spend, or potentially spend, money in Potash?

MR KLOPPERS: Uhm look, the long-term growth aspirations would be the same as we outlaid, now – gosh, how quickly time passes – three years ago, which Ian uh and Ashby and Marcus Randolph laid out. And throughout working on the JV, as Rio has, uh we have, you know – because that's uncertain, both companies have, really, continued to run their businesses on a stand-alone basis, progressing the stand-alone options. Uh to that effect, uh we are continuing to progress both the longer term – what we call Quantum growth options, which entails the outer harbour, as well as the nearer-term one, RGP6.

Uhm we've obviously, pre-approved some capital on RGP6, and one of the key things that's happening there is that the dredging – uh uh the dredging of the pockets in the harbour is uh part of uh capital spend. Uhm uh I think that we haven't given an exact date for approval of RGP6, but I'm, uh probably, on reasonably ground if I say that it will be some time next next next calendar year. But I, probably, don't want to be pushed more on that. Overall, our volume and growth projections that we gave some years back – given the near-term, uh slight fine-tuning of that that we give – essentially, remains unchanged. Uhm can I have the next question on the phone, please.

OPERATOR: There are no further questions from the telephone at this stage.

MR KLOPPERS: I'm just going to move back to London.

MR GARDNER: It's Andrew Gardner from MF Global. More of a topical question if I may, Marius. More just on terms of the coal sector in Australia and what you believe to be the political risk in terms of coal, expansions going forward and the ability for – and the influence really of the green party there, and how does that affect maybe your plans for principally coke and coal outside of Australia?

MR KLOPPERS: Andrew, I think we feel very comfortable that the growth plans that we need to execute in the Bowen Basin are well flagged, well researched and on track, again consistent with our previous guidance. You know, the first major projects there are, you know, the Daunia Poitrel and then the Caval Ridge project as well as the associated infrastructure. We see no reason to change the guidance on that. Where I think it's been a little bit more work is where new basins come into play and the situation differs somewhat across the various states as well. New South Wales, I think the well documented Caroona Basin issues that we've had to go through in order to get exploration access, the issues around interaction of farm land and new assets clearly - you know, those processes are quite long, but for existing basins in Queensland I think we have no reason to change our deployment patterns. We obviously do want to continue the progression of our Indonesian asset because we do believe that that's a good long term growth option, but you know, we'd want to do that in any case. Okay, I think we're just about complete here in London. Alex, I don't know if there are any last questions from Sydney.

MR VANSELOW: Yes, one more, Marius.

MR PARKER: Marius, its Philip Parker, Parker Asset Management. Just on page 26 of your appendix there, there's – just looking at the big outliers there of copper and the met coal in terms of price variance. I know you said you're giving a briefing coming up fairly shortly, but in the interim can you give us some feel for how that's panned out post 1 July this fiscal year? And the second question is – it's probably difficult, but can you make any comment on what you think about the outcome of the recent election here?

MR KLOPPERS: Gosh, look, I think for us I can answer the second question a lot more definitively. Governments change, all oppositions become governments, all governments become oppositions. Not clear what will happen here. We've operated in Australia for 125 years. I wouldn't say it's a non event because for the Australian people it's clearly a very important thing, but for us it really doesn't change – whatever happens there doesn't change the way that we'd like to operate the business and how we'd like to go forward. In terms of page 26, I'm standing here in front without the detailed information – Andre has just passed it to me. Alex, perhaps you can just comment on – you know, in the other movements, I would say that the major movements insofar as it impacts on us that we've seen over the last couple of months has been the movement in iron ore prices. And just given the weight of that in our portfolio that probably, if I step back and try and think of our budget presentations over the last couple of months, would have been the biggest relative movement, but Alex, you can perhaps add a little bit to that.

MR VANSELOW: Yes, I think Philip was asking about met coal and copper. Met coal, what you saw here, Philip, is moving from that fixed higher price that it was last year to a floating price. And I think if you look at Platts it will give a good sense of where the curve is going and the shape of that curve now that we have a curve for coal. And if you look at how busy the ports in Queensland are compared with where they were a year ago, that will put some sort of direction into your analysis there. Copper is in a different world. If you look at copper in terms of a supply constraint, an inability of suppliers to supply us on the upside, it will tell why that commodity has been so vigorous in terms of price sustainability. And we haven't seen anything showing us that that's due to change in the near term.

MR KLOPPERS: Okay. On that note I think we probably have to conclude. I realise that not everybody has got a perfect hour here. We do appreciate the people in London participating early. We do appreciate the people in Sydney participating late in the afternoon. I'd like to close by again reflecting on the fact that we've got a very solid set of results here. We're very proud of the achievements over many years and we are very convinced that our strategy of being large, low cost, upstream, diversified by commodity, geography and customer is the correct one. We continue to remain committed to maintaining, you know, that focus on that strategy and the associated discipline that it puts on the balance sheet and dividend. So thank you again for coming this morning, and thank you again for participating.