Transcript

BHP Billiton

Preliminary Results

Investor and analyst briefing

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1. Andrew Mackenzie - Results

ANDREW MACKENZIE, CHIEF EXECUTIVE OFFICER: Welcome to our results briefing on what is a very important day for our company. I am in London with our CFO, Graham Kerr. Other members of our Group Management Committee are here or they have joined by telephone. First, let me point you to the disclaimer and remind you of its importance to today's presentation.

I'm going to provide you with an overview of the last year and share with you our exceptional results of our productivity agenda and Graham will then take you through our financial results in some considerable detail and I will then focus on our next exciting step in our journey towards a simpler portfolio and our strategy to deliver the next level of performance for our shareholders.

In the 2014 financial year, we continued to deliver on our commitments. We exceeded production guidance for a number of our core commodities and surpassed our annual productivity target with another $2.9 billion of sustainable gains embedded, and there is more to come. Our selective investment, through which we will ultimately deliver higher investment returns, coupled with our financial discipline, generated a substantial increase in free cash flow. This comfortably covers our progressive base dividend and has further strengthened our balance sheet. We will return excess cash flow to our shareholders in a consistent and predictable manner. And finally, we have announced plans to simplify our portfolio in a single step. All of this should provide you with the confidence that we will continue to do what we say we will do.

Sustainability, our first charter value, dictates that health and safety always come first so that everyone goes home safely every day. This year, we have delivered our best ever safety performance. Our total recordable injury frequency of 4.2 for every million hours worked is a new record low, but, most importantly, none of our colleagues lost their lives at work. As you know, sustainability extends beyond safety alone. During the past year, we achieved or remain on track to achieve many of our key public targets. The potential exposure of our employees to contaminants reduced by 21% compared to our 2012 baseline. Our greenhouse-gas emissions remained below our 2006 baseline in absolute terms, even with the considerable and significant growth in our business. And in line with our commitment, set at 1% of pre-tax profit, we invested $240 million in community programmes.

The 2014 financial year was characterised by weaker prices for the majority of our key commodities. However, the exceptional success of our productivity agenda and volume growth from our largely low-risk brownfield investment programme enabled us to increase profitability: Underlying EBITDA by 7% to $32.4 billion; Underlying attributable profit by 10% to $13.4 billion; net operating cash flow by 26% to $25.4 billion. Capital and exploration expenditure, excluding finance leases, decreased by 32% to $15.2 billion. Free cash flow, one of my overriding priorities, has grown by $8.1 billion. With our disciplined approach to investment, we maintained return on capital of 15%. Our progressive base dividend increased by 4% to 121 US cents per share. Our solid-A balance sheet continued to strengthen, with net debt at the end of the period of $25.8 billion.

Annual production records were achieved at 12 of our operations, across four commodities and as a result, group production increased on a copper-equivalent basis by 9%. A 14th consecutive year of record production at Western Australian Iron Ore delivered volumes significantly ahead of our initial full-year guidance. The early completion and accelerated ramp-up of the Jimblebar mine expansion and the success of volume-led productivity initiatives contributed to this result. Queensland Coal achieved record production and sales. Metallurgical coal production exceeded guidance and increased by 20%. Copper production met guidance of 1.7 million tonnes, as higher mill throughput and concentrator utilisation at Escondida offset a decline in ore grades. At Olympic Dam, with initial trials of heap-leaching now complete, we plan to commence construction of a larger-scale demonstration plant in the second half of the 2015 calendar year. These studies will help to unlock the full value of this unique ore body.

Petroleum liquids increased by 18%, underpinned by growth at Onshore US of 73%, and an 87% increase in production at Atlantis. Our Onshore US business was profitable in the second half, as we focused on our highest-value acreage. With a 6% reduction in unit costs, Underlying EBITDA increased by more than 60% to $1.4 billion and in our Black Hawk acreage, we now plan to bring on up to 120 new wells in the 2015 financial year. We are also making further gains in the Permian, where our plans to develop a 100,000 barrels of oil equivalent per day operation are firmly on track. With strong growth in liquids production and further improvements in productivity anticipated, we remain confident that, in the 2015 financial year, this business will be strongly EBIT positive.

The capabilities of our core businesses will carry our momentum forward. Production guidance for this financial year is now: iron ore of 225 million tonnes; copper of 1.8 million tonnes; petroleum of 255 million barrels of oil equivalent; and metallurgical coal of 47 million tonnes. For the two financial years 2014 and 2015, we will have delivered production growth of 16%. This outlook is the clearest indication of our systematic approach to productivity and how it continues to lift performance in a sustainable way. How do we do this? Well, we are working on many fronts. For instance, in our minerals business, we identify and attack the usual bottlenecks: wash plants in coal; concentrators in copper; train load-outs in iron ore.

But, the element common to all of our mines is trucks and with all of our operations now using a single platform across the entire fleet, we can interrogate these systems and use the power of big data. In the 2013 financial year, we identified a high degree of variability in the average utilisation of our fleet. Armed with this depth of data, we set benchmarks to improve performance. The result? We increased utilisation by 10% in the 2014 financial year, as well as reducing variability and increasing predictability. This 10% improvement has given us the equivalent of 75 additional trucks at no extra cost. In iron ore and coal, it has allowed us to relocate our fleet, displace contractor equipment and increase both capital productivity and margins.

Our relentless focus on productivity is most evident at our largest asset, Western Australian Iron Ore. After a decade of capital investment, the next phase in the journey is to maximise the return on this investment. In the 2014 financial year, we increased production by 20% and, in the second half, delivered a unit-cost reduction of 12%. As we lift our performance and move the bottleneck in iron ore to the port, we have the potential to grow this business from 225 million tonnes per annum to 290 – that's 290 – million tonnes per annum, at a capital intensity of less than $50 per annual tonne. As volumes grow and we attack the cost base, we even expect lower unit costs. While Western Australian Iron Ore provides a case study, it is but one example of the great work of our teams across our whole organisation. We have already embedded more than $6.6 billion of sustainable productivity-led gains, and there is more to come from our simplification agenda.

I am now going to pass over to Graham, Graham Kerr, and then I will return to tell you more about our proposed demerger. With this in mind, I am very pleased to announce that, today, I'm sorry last week, we confirmed that Graham is the CEO-elect of our new company. Congratulations, Graham; well done.

2. Graham Kerr - Results

GRAHAM KERR, CHIEF FINANCIAL OFFICER: Thank you, Andrew. I am very excited at the prospect of becoming the CEO for the new company, but, today, I am equally excited to present our strong 2014 results, my last as CFO. Before I turn to this year's financial performance, I want to remind you of what we have achieved over the last two years. We started with 'Project Reset', a thorough review of operating costs resulting in far-reaching savings across all the business. It evolved into our productivity agenda. We also optimised the rate, allocation and timing of our capital expenditure. By striking the right balance, we maximise investment returns from our high-quality projects. In the 2014 financial year, these rigorous processes and financial discipline underpinned solid financial results. There are four areas I will cover today: individual items affecting profit; our EBIT waterfall analysis covering each of our five businesses; the sustainable productivity gains we have embedded; and our strong growth in free cash flow.

A number of individual items affected our Underlying financial performance this year. This slide summarises the EBIT impact of impairments, closure costs, redundancy charges and other items totalling $1.5 billion, of which $1.3 billion were recognised in the second half before accounting for the movement of monetary items on the balance sheet. I will cover these in more detail as I go through each of our businesses to assist you in working through our accounts. Turning to taxation, as you can see, tax and royalty-related charges were partially offset by re-measurement of deferred tax assets recognised under the Mineral Resources Rent Tax. This raised Underlying profit by $170 million. We paid $6.5 billion of income and royalty-related taxation and $2.8 billion for other production royalties. Our adjusted effective tax rate was 32.5%. It is expected to remain between 30% and 34% in the 2015 financial year.

Now turning to the earnings waterfall, we have divided our EBIT waterfall into uncontrollable factors on the left and controllable factors on the right. We have also split the volume variance between growth volumes, associated with our capital projects; and productivity volumes, delivered without additional investment. Underlying EBIT remained stable at $22.9 billion as our focus on the controllables – safety, volume and costs – mitigated broad-based weakness in commodity markets and delivered a $2.4 billion increase in Underlying EBIT. But, first, to the factors outside our control. We continued to benefit from our diversity. A 16% increase in the average realised price for natural gas partially offset lower bulk commodity and metal prices. In total, however, lower commodity prices reduced Underlying EBIT by $3.4 billion. A favourable move in exchange rates as the Australian dollar weakened contributed an extra $1.8 billion, although inflationary pressure, particularly in Australia, Chile and South Africa, reduced Underlying EBIT by $800 million.

Moving on to the factors we control, a 9% rise in copper equivalent production increased Underlying EBIT by $2.9 billion. As Andrew mentioned, iron ore and metallurgical coal production exceeded expectations, supported by productivity initiatives and the completion of growth projects. We reduced controllable cash costs by $1.9 billion, by optimising equipment utilisation, contractor activity and, again, reducing exploration and business-development expenditure. This lower rate of exploration and business-development expenditure of around $1 billion per annum is sustainable, given the level of understanding that we now have of our large long-life ore bodies. An increase in non-cash charges reduced Underlying EBIT by $2.1 billion and included a number of the items I mentioned earlier.

Now to each business in turn: petroleum and potash contributed $5.3 billion to Underlying EBIT. The positive EBIT contribution from volume growth, which included a better than expected 18% increase in liquids volumes, was offset by an increase in non-cash costs. This included $140 million in impairment charges for a number of small Gulf of Mexico assets and mine-site-rehabilitation provisions for closed mines in North America totalling $300 million. An adjustment to the Browse divestment price reduced Underlying EBIT by a further $143 million and is reflected in 'other' items. We invested $4.2 billion at Onshore US this year and capital productivity continued to improve. For example, Black Hawk drilling costs declined by 16% and spud-to-sales timing reduced by 21%.

Now Copper. The contribution of our copper business declined to $5.1 billion as weaker metal prices reduced Underlying EBIT by $900 million. By focusing on the factors we control, we managed to offset the impact of grade decline by raising productivity. For example, at Escondida, the in-sourcing and optimisation of contractor activities led to a $190 million cost saving and contributed to a 6% reduction in unit costs at our operated copper assets.

Our iron ore business contributed $12.1 billion to Underlying EBIT, despite the net effect of lower prices, inflation and exchange rates, which reduced Underlying EBIT by $600 million. Growth volumes, mainly from Jimblebar, added $900 million to Underlying EBIT. Productivity volumes delivered a similar benefit as we released latent capacity in our supply chain. The additional volume and heightened focus on all aspects of our cost-base led to a 12% reduction in unit costs to below US$26 per tonne in the second half of 2014 financial year.

Our coal business continued to move sharply down the cost curve. Given the significant impact of lower prices, a $1.2 billion reduction in controllable cash costs was fundamental to maintaining a positive Underlying EBIT contribution. Queensland Coal cash costs are now more than 40% below their peak. Included in non-cash charges was a $292 million impairment at South Africa Energy Coal, while 'other' items includes the profit on sale of the Optimum Coal purchase agreement.

Our aluminium, manganese and nickel business increased its contribution to Underlying EBIT. A $300 million improvement in controllable cash costs was supported by productivity-related volume gains. Worsley, Alumar, Hillside and Mozal all delivered annual production records. This strong result was particularly impressive as the closure of the Perseverance underground mine and smelting activities at Bayside reduced Underlying EBIT by $341 million. With these productivity gains embedded, this business is well placed to benefit from any sustained recovery in prices.

What does this mean? We have generated more than $6.6 billion of sustainable productivity-led gains in two years, including $2.9 billion of volume and cost efficiencies this year. This exceeded our target by more than 60%, or $1.1 billion. As mentioned, the key contributor to our cost efficiencies was coal, while iron ore underpinned our stronger volumes. Our commitment to increase productivity is a continual process. It will drive growth in free cash flow and shareholder returns, even in the absence of higher prices. In fact, our free cash flow increased by $8.1 billion in the 2014 financial year. Strong operating performance, a 32% reduction in capital and exploration expenditure to $15.2 billion and a significant reduction in working capital in the second half of the financial year were the main contributors. We successfully completed six major projects during the period and expect capital expenditure to decline again in the 2015 financial year.

Our solid-A balance sheet is strong and getting stronger. Net debt declined by $1.7 billion to $25.8 billion, including finance leases, of which $757 million were brought to account in the second half. We continued to optimise our debt facilities and now have a very well-balanced debt maturity profile. We issued $5 billion of bonds in multiple markets. This included $2.5 billion of 5% senior notes due in 2043. This is long-term money at very attractive rates. Conversely, we redeemed $1.4 billion of high-yield Petrohawk bonds and, after period end, redeemed the remaining Petrohawk bonds for $1.8 billion. So our balance sheet is in good shape, and we are confident in the outlook for the group. As a result, we have increased our base dividend by 4% to 121 US cents per share for a pay-out ratio of 48%. Importantly, this base dividend is comfortably covered by free cash flow.

Looking ahead, we will ensure we have the capacity required to invest selectively, pay our base dividend and return excess cash to shareholders consistently, predictably and in the most efficient and value-accretive way, irrespective of commodity prices. In conclusion, our performance continues to improve. We are generating strong results underpinned by solid operating performance. We have a strong balance sheet, and it is getting stronger. We will remain financially disciplined, continue to maximise value and return excess capital to shareholders. Back to you, Andrew.

3. Andrew Mackenzie – Demerger

ANDREW MACKENZIE: Thanks, Graham. I would like now to outline the next major step towards a simpler and even more formidable portfolio. Again, let me point you to the disclaimer and remind you of its importance, again, to the second part of today's presentation.

We have decided to reshape our company and stay true to our strategy. We plan to simplify BHP Billiton's portfolio with a demerger and unlock value for shareholders as we focus even more on our largest businesses, reduce costs and improve productivity more quickly. We will create a new global metals and mining company, which I will refer to as 'NewCo', and this will largely complete our simplification process in a single step. This will maximise value of all our assets for all our shareholders. Please note my presentation will be in three sections: the red section outlines the rationale and structure of the proposed demerger; the terracotta section defines BHP Billiton's core portfolio and its potential; and the blue section introduces NewCo.

BHP Billiton's strategy has remained unchanged for many years. We own and operate large, long-life, low-cost, expandable upstream assets diversified by commodity, geography and market and over the last decade, the disciplined implementation of this strategy has delivered exceptional results. We have maintained a strong balance sheet throughout the cycle and returned $64 billion to shareholders.

BHP Billiton has significantly outperformed both the sector and the broader markets. $100 invested in our shares 10 years ago is worth almost $500 today. Through this period of consistent outperformance, our portfolio has evolved. For iron ore, copper, coal and petroleum, the growth in Chinese demand could only be met by the addition of much higher-cost supply, so prices rose significantly, but the resource endowment of our major basins allowed us to respond, and we directed the majority of our capital towards projects in our highest returning businesses which offered the most attractive growth. We expanded our low cost-operations to the benefit of our shareholders and the global economy.

As you can see, our four pillars now contribute the vast majority of our Underlying EBITDA, and they generate the strongest margins and offer the most compelling investment options. These exceptional businesses demand our full focus, attract all of our capital and drive performance for shareholders. Given the shift in the shape of our portfolio, we have been simplifying our business now for over a decade. In the last two years alone, we have completed divestments of over $6.5 billion at attractive valuations. A demerger is the logical next step for other high quality assets elsewhere in the portfolio that don't have the scale of those in our major basins.

The assets selected for demerger are our manganese business, with mines at GEMCO and Hotazel and smelters at TEMCO and Metalloys; our aluminium business, including the Worsley and Alumar refineries and the Hillside and Mozal smelters; the Cannington silver mine; the Cerro Matoso nickel operation; Illawarra Coal; and South African Energy Coal. Creating a new global metals and mining company with a dedicated board and management team with its own bespoke strategy will help all these assets realise their full potential and unlock shareholder value. Shareholders will have the opportunity to benefit from the potential value created by two high-quality companies that can each optimise performance and improve productivity more quickly.

All BHP Billiton shareholders will receive a pro-rata distribution of NewCo shares and retain their current holding in BHP Billiton. All shareholders will be treated equally. NewCo will apply for an ASX primary listing and a JSE inward secondary listing. While a dual-listed structure works well for BHP Billiton, we have decided not to pursue a DLC for NewCo, as the complexity, costs and regulatory burden outweigh the benefits for a business of this scale. Australia, where many of the new company's assets are, has been chosen as its listing location and home for its headquarters. The decision to apply for a JSE secondary listing reflects the importance of South Africa to NewCo. Given the time to implement, associated costs and risks with third-party approvals, the Board believes this demerger proposal would deliver more value than other options, including trade sales. This proposal remains subject to final Board approval and will be put to a shareholder vote after receipt of third-party approvals on satisfactory terms. Based on our current timetables, we anticipate listing NewCo in the middle of the 2015 calendar year.

Now let me talk to core BHP Billiton and our vision for a minerals and energy portfolio of unrivalled scale, quality and diversity. For many years, we have successfully reshaped our business. We moved from mining silver, lead and zinc at Broken Hill and tin on Belitung to first producing and then demerging steel; to petroleum; the Pilbara; the Bowen Basin; and copper in the Andes. We also entered and exited many other commodities along the way. This map shows our portfolio in June 2005. The size of each bubble represents the Underlying EBITDA contribution from each asset. Then, we held an interest in 50 assets, spread across 14 countries and six continents. After a decade of investment and high-grading of our portfolio, we now hold an interest in 41 assets. You can see the strong growth in our major basins. This proposal and trade sales will further sharpen our focus.

We see a future based on just 19 core minerals and petroleum assets, a 50% reduction from today. Of these 19 assets, only 12 will be operated by BHP Billiton. For our minerals business this includes: Western Australian Iron Ore, a top three iron ore producer; Queensland Coal, the largest metallurgical coal exporter; Olympic Dam, one of the best copper and uranium deposits in the world, and New South Wales Energy Coal – all in Australia – plus Escondida, the largest producing copper mine and Pampa Norte, also in Chile; and, finally, the Jansen project, based on our potash resource in Saskatchewan, Canada. Across petroleum, this includes: our liquids-rich shale resources in the United States; Shenzi in the deep-water Gulf of Mexico; Pyrenees and Macedon in Western Australia; and the Angostura development in Trinidad and Tobago, a region where we see great exploration potential.

In addition, our core portfolio also includes interests in the non-operated world-class joint ventures at Antamina copper, Cerrejón energy coal and Samarco iron ore; plus our petroleum interests in Atlantis and Mad Dog, two of the largest fields in the Gulf of Mexico; and the long-life Bass Strait and North West Shelf operations, offshore Australia. Given our vision for simplification, there is more we can do. We continue to review Nickel West, including the potential sale of all or parts of the business, and New Mexico Coal, where we have completed the Navajo transaction. We are also looking at our smaller petroleum assets, having recently sold Liverpool Bay.

It is one thing to have the best assets, but a company also needs to have the right management team and we have both. The changes we made 18 months ago to de-layer our structure have brought me and the GMC closer to operations. With the changes announced today, we retain a first-class management team. Now this is important, given our ever-increasing focus on health and safety, operating costs and productivity.

Our core portfolio will be perfectly aligned to our strategy, and remain diversified by commodity, geography and market. With our broad exposure to steel making, energy, copper and potentially fertilisers, we are uniquely positioned to respond to changes in commodity demand. From our concentrated, largely-OECD footprint, we will continue to sell to the four corners of the world and have the freedom to choose when and where to selectively expand our operations and maximise value. Compared to our historic performance, the core portfolio would have generated even stronger results over the last decade, with no increase in volatility. We have many of the best ore bodies in the world. They underpin our competitive advantage, an advantage that cannot be replicated by others. We hold more than 100 years of inventory across multiple commodities in our major minerals basins. No other company has this unique position, and we will continue to invest our skills and capital selectively and sparingly, so as to maximise value and shareholder returns.

As Graham covered, capital expenditure declined by 32% to $15.2 billion in the 2014 financial year, and is expected to be below our $15 billion investment ceiling next year, at about $14.8 billion. In the medium term, our plans include roughly $2.5 billion for maintenance capex, $1 billion for exploration, $4 billion for Onshore US and around $1.5 billion to maintain steady production in our existing conventional petroleum business. Finally, we have our major minerals projects in execution. Beyond that, all investment options will compete for capital.

After we complete the proposed demerger, we will reduce our investment ceiling to $14 billion. As we continue to lower our spend, internal competition for capital will rise, as will the quality of our major projects. As I said at the half year, our favoured projects are now expected to generate an average rate of return in excess of 20%. As we improve capital productivity, we can choose either to maintain our rate of investment and create more value, or to invest less than $14 billion and return even more cash to shareholders, but, under all scenarios, we will maintain strict financial discipline to get the balance right.

By the end of the 2017 financial year, we are targeting at least $3.5 billion of additional annualised productivity gains beyond those reported today. These go straight to the bottom line, with more to come, and the demerger will be a catalyst that helps us improve productivity further, faster and with more certainty. With fewer assets and an even greater upstream focus, we will continue to simplify our management structure and reduce duplication and functional costs at an even quicker pace. We will continually improve our operating performance, more like an advanced manufacturing company than a traditional resources business. The prize is huge.

In line with our commitment to a solid-A credit rating, we have a strong balance sheet. As Graham said, it is getting stronger. This enables us to invest consistently through the cycle. We will seek to increase steadily or at least maintain our dividend per share after the demerger, so this implies an even higher pay-out ratio than the 48% quoted by Graham. We will be even more focused on the controllables: safety, volume, cost and the rate and where we invest, but the pace at which our balance sheet strengthens of course does depend on external factors, like commodity prices and foreign exchange rates. We will not be overly conservative and we will return excess cash to shareholders in the most efficient way. But by making sure that we start from a position of strength, we will be well placed to implement an enduring and improved programme for capital management that can be carried out over years in a consistent and predictable manner. BHP Billiton has been a very successful company but it can be even stronger. This plan will further differentiate us so that we increasingly compete with the very best companies in the world.

To NewCo. NewCo will be a global metals and mining company with high-quality assets, many of which are amongst the most competitive in their respective industries. Even at today's prices, together, these assets, which spread across the Southern Hemisphere, form a portfolio that generates over $1.4 billion of net operating cash flow. It will be a company of global significance. NewCo's portfolio will have a diversified exposure to manganese, precious metals, base metals, metallurgical coal and energy coal, which currently trade below mid-cycle levels and have some of the highest rates of demand growth. NewCo will operate 11 assets, primarily in Australia and Southern Africa. Its culture, processes, organisational structure and systems will suit the scale of its operations. It will be lean and flat, with a regional operating model designed to strengthen relationships with governments and communities where it operates, especially in Southern Africa.

NewCo will have an experienced team, led by Graham Kerr as CEO and headed by David Crawford as Chairperson, who will retire from the BHP Billiton Board in November 2014. Given the location of its assets, the head office will be at its geographical centre in Perth, Australia, and there will be a regional head office in Johannesburg to lead its African operations and a global shared-services centre there.

As we take a closer look at the portfolio, remember that these are BHP Billiton assets, built to BHP Billiton standards in sync with our strategy of large, long-life and low-cost. They are some of the leading assets in their industries. Let me now explain the chart on the right. It shows the position of NewCo on the commodities cost curve against other companies in that industry, as well as its production rank. NewCo is positioned in the first or second quartile of industry cost curves and ranks amongst the largest global producers. These are all high-quality assets. Over the last decade, however, their markets have evolved differently, so they have not received the same level of capital as our pillars. Individually, NewCo's assets are large and well-capitalised. They have been operational for decades. Collectively, they form a robust portfolio that will continue to benefit from the legacy of BHP Billiton's common systems, processes and highly trained people. NewCo will hit the ground running. It will be set up for success and adjust its approach to optimise its portfolio. It will be designed to maintain safe operations, increase productivity and improve performance

So let's discuss the assets in turn. Illawarra Coal owns and operates three underground coal mines. It is situated close to major port infrastructure with easy access to global markets. It is an operation that produces high-quality hard coking coal, with a capacity of 9 million tonnes per annum. Energy Coal South Africa is the third largest exporter of thermal coal in the region and has had export sales of 13.3 million tonnes in the 2014 financial year and has significant potential to grow. NewCo's alumina capacity of 5.2 million tonnes per annum is supplied from the modern Worsley and Alumar refineries, and, after the completion of recent expansions in both places, these assets are fully capitalised. Aluminium smelters at Hillside and Mozal have a combined capacity of 1.3 million tonnes per annum. Cannington is the world's largest silver mine, with production of 25.2 million ounces and in the 2014 financial year, it generated a return of over 150% – a truly unique asset. Cerro Matoso is one of the world's leading ferro-nickel assets, with an annual production of more than 40,000 tonnes of contained nickel. Over the last 10 years, on average, Cerro Matoso generated an Underlying EBITDA margin of 49%. Finally, NewCo will be the world's largest and one of the lowest-cost producers of manganese ore. It will also be a top global producer of manganese alloy.

Over the last 10 years, the portfolio has generated around half of its EBITDA in Australia and close to a third in Southern Africa. As NewCo implements its strategy and seeks to reduce costs, there is significant earnings upside. For example, a 5% reduction in operating costs would equate to approximately 20% of last year's Underlying EBITDA. So with consensus estimates suggesting a recovery in most of its major markets, the outlook for NewCo is compelling.

A strong balance sheet will complement NewCo's operational leverage and on formation, the company is expected to have minimal net debt, before finance leases, and would target a credit rating of investment grade. While BHP Billiton will continue its progressive dividend policy, NewCo will be able to consider a dividend policy that reflects its cash-generating capacity. With no immediate plans for major investments, as margins expand, shareholders would be rewarded.

Over time, though, as NewCo develops a proven track record as a strong operator and disciplined manager of capital, it will have the choice of a broader set of options. Attractive, low-risk brownfield investments, such as at Cannington and the Klipspruit energy coal mine in South Africa, become even more attractive. These projects extend asset life and have the potential to create significant value for NewCo, but they have not and would not be a priority for BHP Billiton.

In conclusion, while our current structure has worked well, we are now at a point where the status quo no longer positions us to best maximise value, to fulfil our commitments to grow free cash flow and to be more productive. Change is required. We believe a demerger will maximise value for shareholders, better align the BHP Billiton portfolio with our proven strategy and accelerate simplification. Fewer assets and a greater upstream focus will enable BHP Billiton to improve productivity even more quickly. NewCo will have a competitive position across a broad range of commodities. It will have the best of both worlds, with significant operating leverage and minimal net debt. It will continue to benefit from the legacy of BHP Billiton systems and processes and draw on the pool of talented BHP Billiton people who will join NewCo. From day 1, it will have a dedicated management team and a new direction that will position it to increase the value of its asset base and accelerate productivity gains. BHP Billiton will seek to increase steadily or at least maintain its dividend, which means a higher effective pay-out ratio and on top of this, NewCo will be able to consider a dividend policy that grows with its cash flow.

Overall, we believe returns to shareholders will rise. BHP Billiton will continue to return excess cash in the most efficient and value accretive way possible and NewCo will be structured to do likewise. I believe that this is the value-maximising strategy for our shareholders. These two distinctive companies will meet their customers' demand for the critical resources that underpin global economic growth, play a positive role in their communities, create new opportunities for their people and contribute to sustainable economic growth. With one step, we intend to forge a simpler, more productive BHP Billiton and a new global metals and mining company.

Thank you. So I am now pleased to take your questions.

4. Questions

NIK STANOJEVIC, BREWIN DOLPHIN: You mentioned in the past a $25 billion target to maintain a single-A credit rating. Does the divestment of NewCo change that target?

Have recent movements in commodity prices changed your view of what sustainable or general cash generation the business can generate in the future from the remaining company?

ANDREW MACKENZIE, CHIEF EXECUTIVE OFFICER: As you have heard, we are not quite at that target yet, but BHP Billiton will continue to target a solid A credit rating and clearly we will discuss, as we go forward, the shape of the new company and how commodity prices look, going forward, as we make decisions around capital management. These are under active consideration at our board level. As both Graham and I said, we continue to strengthen our balance sheet and lay the basis for something that may be considered as we go forward, which we think would be both consistent and enduring over a period of years. We want to wait until we are ready and we will look at all the indications that you referred to, in order to ensure we are ready.

JASON FAIRCLOUGH, BANK OF AMERICA MERRILL LYNCH: I do not know if this is a question for Andrew or for Graham, as the CEO of NewCo, but could you talk about the strategy of NewCo? Is it just the BHP's strategy but applied to different markets or will there be some nuances to this? Do you dress it up so that Glencore will buy it?

ANDREW MACKENZIE: I do not want to answer that question today. We have only created the beginnings of a new team, which will look after NewCo. They have to form, and they then have to work out their strategy and come to the market with that in due course, but not today.

JASON FAIRCLOUGH: The strategy is not defined yet?

ANDREW MACKENZIE: Many of the elements of the strategy about unlocking free cash flow through running high-quality assets better, using a BHP Billiton approach, are the basis of it. How they then step up from that basis to do other things requires better definition, before we attempt to fully answer your question.

MENNO SANDERSE, MORGAN STANLEY: US Onshore will be a very big swing factor for the BHP Billiton in terms of earnings. How happy were you with the performance in the last financial year? The company just missed its targets, but you expressed some confidence for next year. You also showed that $10 billion of capex has been determined already and there is a $4 billion gap still to be filled. When will the company be ready to give us more insight into how you are going to spend that $4 billion?

ANDREW MACKENZIE: I am very satisfied with the performance of the Petroleum business, and particularly the Onshore business, in the second half of the year. We delivered an EBITDA of $1.4 billion which, if you annualise and look at it as current capital spend, with what I have suggested, we are well on track to being cash flow positive in FY16, as well as EBIT positive in

FY15. We have a lot more to do, but the gains that we have spoken about in productivity, well performance and in fact well yield continue to impress on the upside.

I have been filling in the detail of some of how we will spend the capital up to, in the long term, the $14 billion ceiling, which I will remind you is a ceiling; we may not spend all of it. I think it will come over the months to follow. You are probably aware that we have an investor tour to Iron Ore at the beginning of November, and I will certainly have more to say then, as will Jimmy Wilson. As the year matures, we will add to that some of our ideas for small-and large-scale projects that might come to fruition in the coming periods.

CRAIG CAMPBELL, NORTHCAPE CAPITAL: With regard to the assets going into SpinCo, I have just noticed, flicking through the accounts, that the depreciation on a number of assets seems to have increased a bit more than I would have expected, in particular South African coal. Is there something in there that is causing depreciation to rise amongst those SpinCo assets for the new listing, maybe to bring down the valuation and perhaps make it a better return on equity, or is it something to do with asset quality that has caused that depreciation to rise?

ANDREW MACKENZIE: I am going to ask Graham to answer the detail on that question, but it is certainly not preparing for the transaction. This is normal course-of-business accounting, that closes out this year.

GRAHAM KERR, CHIEF FINANCIAL OFFICER: The big one in energy coal in South Africa with BECSA was a $292 million impairment at South Africa Energy Coal, which was included in non-cash charges.

ANDREW HINES, COMMONWEALTH BANK: I have a question about the assets that have not been included in SpinCo. I would imagine that assets like New South Wales Energy Coal and the Cerrejon Colombian coal assets must have been considered to be included, and they have not been. Then of course Nickel West, which you have just mentioned in comments, remains under review. Can you talk about why those energy coal assets were not included in SpinCo and why they remain in the main BHP, even though they are not really significant assets for BHP? Can you give us some more detail around the Nickel West process and what is happening there?

ANDREW MACKENZIE: Nickel West is not really a good fit with either the high-quality assets that we want to have in NewCo or the high-quality business that we are trying to create within BHP Billiton. It is a mature asset, and it has other natural owners other than those two companies, so the sales process continues. I am not able to comment on that at the moment. The decision to include very high-quality – some of the best energy coal mines in the world – in the BHP Billiton portfolio, reflects our broader strategic thrust, which is suggesting that, as the world and particularly China moves into more of a consumption phase, we are likely to invest more in energy relative to the past than we have in steel making. We do not yet quite know how energy futures will play out and the role that coal will play, but that is why we have retained the very best coal assets in our portfolio, as part of our longer-term thinking about how we can use skills of BHP Billiton people to maximise returns for shareholders.

ANNA MULHOLLAND, DEUTSCHE BANK: You mentioned that your core assets, so those remaining in BHP, have attracted most capital over the years. How much catch-up or maintenance capex do you think you would need to put into the NewCo assets? You have given us a life of mine for most of the core assets; do you have that for NewCo as well? The third is just to understand why Illawarra is not staying in BHP but going into NewCo.

ANDREW MACKENZIE: In answer to your first question, I said that these are assets that are built, run and operated towards BHP Billiton standards, so there is no element of catch-up capital. For the capital investment there, we are working on NewCo developing a track record of investing capital with discipline. It may well then be we that they will have opportunities to invest in growth and growth options that emerge. Let us wait to hear more about the detail of NewCo before we talk to you about the life of the mines of the assets in NewCo.

The inclusion of Illawarra is for scale. Although these are competitive assets and strong assets in their industry, as I have said, they are generally smaller scale than the assets that we are retaining in BHP Billiton, and that is why Illawarra is included in NewCo.

PAUL YOUNG, DEUTSCHE BANK: On your $2.3 billion controllable cash cost target, it seems to me that the majority of opportunities will be in Iron ore and Copper. Can you provide us with a rough division or split, or talk about the opportunities and split for that $2.3 billion?

Can you also talk about the Petroleum growth pipeline and, in particular, discuss the reason for the recent $10 million value downgrade in US Onshore volumes compared to the scenario you presented in Houston in December? If I look at Devon Energy's second-quarter results, so your JV partner's results, I know that Black Hawk is performing better than expected, which indicates to me that Hawkville and Haynesville well performance is under-performing. Can you just talk through that?

ANDREW MACKENZIE: In order to break down where the future productivity gains will come from, we should talk to you in the more detailed presentations we will do around the business in the coming months. The first one will be with Iron Ore and Jimmy, in early November in Pilbara. Clearly Iron Ore has a big contribution to make, but all our businesses are working hard on productivity. All of them have a number of potential options up their sleeve. Who comes first, thickest and fast depends on a number of things, but I will give you more updates in future.

You half-answered your own question on petroleum. During the course of this year, we had some challenges with the wells at Hawkville. They had been wrongly tubed and they had quite high H_2S. We needed to take them offline to put a more effective methodology in the well and make them safe. That was very much in line with our principle to think about things for the long-term, and for the integrity of our assets. Haynesville is a business where we are increasingly learning, through the fracking process, as to how we can contact a greater amount of the potential reserves. Like Hawkville, again we are winning this. Increasingly, you will see that we, as a company, are outperforming the industry in terms of reserves per well and the nature of our decline curves, as we take our time to master this very new technology and to do it in a very safe way.

SYLVAIN BRUNET, EXANE BNP PARIBAS: First on potash, could you update us on the process there? How much closer are you to approval? Is there anything to report on the shareholder structure?

When we were last in Houston for the Onshore shale businesses, I remember you were exploring some asset swaps. Has there been any progress there? Do you feel any interest from the industry there?

ANDREW MACKENZIE: I do not have much to report on potash. We are taking this very slowly. We want to do it right, in terms of the technology for developing the shaft, which is the most difficult part. We are also watching the market and we continue to rework the capital. No decision will be imminent on that for some time. It is something that we will continue to look at as a team and as a board, but I would not expect any announcements beyond the commitments that we have already made to complete the shaft over the next couple of years.

Actually, trading happens all the time in the petroleum acreage. We believe, as many others do, that we are understanding better and better where the sweet spots are. If people have different views or perhaps they want to enter this, trades are available. In a small way, we continue to do that to upgrade the quality of our portfolio, particularly in the Permian.

FRASER JAMIESON, JP MORGAN: On the debt you intend or otherwise to put into NewCo, could you maybe clarify your comments? You talked about targeting an investment-grade rating but also about carrying minimal net debt. That business could probably carry a degree of net debt while still retaining an investment-grade rating. Could you make some comments around that and how you are thinking about this in terms of multiples relative to free cash flow or to where BHP as an overall group is currently positioned?

ANDREW MACKENZIE: It needs to wait until we have a more detailed plan and strategy for NewCo, which will emerge in the coming months. By minimal net debt, I mean that there is a range of financing leases that will be included and some associated liabilities with the assets that will be transferred. Beyond that, I would rather wait until Graham and his team have formed, and can talk to you about that in more detail.

GLYN LAWCOCK, UBS: Firstly, you talk about some impediments to the demerger and that you need a lot of relief from the regulatory authorities. I would have thought tax is the big one. Is there an issue or a risk that some of the assets, maybe Cannington, with good earnings and a low book value, will be unable to gain tax relief, so you may not be able to go ahead with this; or are you confident that you can obtain the required relief?

Secondly, you said earlier that the DLC brings complexity and cost burdens. I understand it is not right for NewCo, but what about BHP Billiton? You do not access equity markets; you cannot deploy franking credits fully. Can you rule out that the DLC will not be collapsed in the future or is that further down the track?

ANDREW MACKENZIE: You heard me right: the DLC clearly has a certain complexity but, for a company of the scale of BHP Billiton, with our ability to access strong capital markets in London, as well as in Australia, it is a valuable way of structuring the capital of our business and something that we continue to enjoy. We think there is value for BHP Billiton in that, so there is no change there. Maybe Graham wants to say more about the tax issue in Cannington.

GRAHAM KERR: Building on some of the points that Andrew made, rather than giving you specifics, we talked about the NewCo listing in the middle of next calendar year. We talked about providing an update from the board sometime in November, about what we are doing in terms of next steps. Obviously now that we have announced this publicly today, there are a number of regulatory hurdles we have to look at, a number of other JV agreements and a number of steps to go through. There are obviously things we still have to do, but we have a high degree of confidence, otherwise we would not be announcing this today.

PETER HARRIS, JCP INVESTMENT PARTNERS: Thank you for the presentation and a fantastic effort on health and safety. Also, congratulations to both Graham and Brendan in your new roles. You did not touch on franking credits in your presentation. Do you think the demerger will impact BHP's ability to liberate the $13 billion of franking credits you have on the balance sheet more quickly? People are attributing that $13 billion to the value of NewCo, and that is sitting on your balance sheet in franking credits. Will the demerger impact your ability to get those to shareholders more quickly?

Following from that, are you worried about the Murray inquiry and Treasury rumblings about the potential to end the ability to frank or issue an invitation for franking credits and, therefore, the need to liberate those credits more quickly?

ANDREW MACKENZIE: I am not going to comment on the second part, because that is such an unpredictable area. We will obviously monitor that, as will you. Let me be clear: this demerger has no impact, one way or the other, on whatever capital management programme we plan to do. We have made no decision, if and when we start, other than that it will be consistent and predictive over a period of years, so that we can start in a way that we are not going to have to interrupt it. We need to be ready with the mechanism, and therefore the role, that franking credits will play. In my view, there is no impact from those plans on our capital management plans.

LYNDON FAGAN, JP MORGAN: Why did you decide to give PLC shareholders a proportionate stake in NewCo perhaps rather than shares as compensation, given that some of the mandates of those investors will not allow them to hold the listing? Perhaps that might put some pressure on the share price of the new listing immediately?

You have talked about 290 million tonnes as a new iron ore capacity target. Can you perhaps shed some light on which mines that might come from, the potential timing or new project announcements, so we can better understand that?

ANDREW MACKENZIE: It will mainly come from the expansion of the Jimblebar mine and then investments in de-bottlenecking and increasing the efficiency of the port, backing off some of the investments we are making at the moment. We will provide more details around that when we do the investor tour to Pilbara in November.

The choice of the listing of NewCo was to de-merge. Once we had actually created or decided what we thought NewCo would look like, we then had to make a decision on what we thought was the most appropriate place to list. As you heard earlier, we rejected the idea of a dual listing, so we had to make a choice. As 50% of the assets are based in Australia, and because of the complexity of approvals, incorporation and so on, it made a lot more sense to primary list in Australia. It was the highest value-creating process for all shareholders to do it in the cheapest and most effective way possible. The secondary listing in South Africa is, in many ways, recognition that a strong relationship between this company and South Africa, and its governing processes, is critical to its success. We did not work backwards from where we wanted to list; we worked forward from what the de-merged company looked like and what was the most value-accreting way of doing that listing for all shareholders. That is why we ended up at the ASX.

PARTICIPANT: Just to follow up on that, in terms of the spinout of NewCo, is there any possibility that we could see a book-building process and can you rule out the possibility of BHP taking any stake in NewCo, in terms of any shares that might come out of the UK market at the time of the initial listing?

ANDREW MACKENZIE: Graham might want to add to this, but there are a lot of things that we now need to talk to regulators about to gain real clarity around the mechanism. I would rather not speculate at this stage about some of those issues until we are in the open, when we can have a lot of those discussions.

GRAHAM KERR: The only comments I would make, when we think about the PLC shareholders, on which we have not quite touched, is that one of the fundamental aspects of the demerger and the DLC is to treat shareholders equally, the equivalence concept. When we looked at the demerger – Andrew is exactly right – the first point was what suite of assets we want to de-merge. What do we think creates the most value? What is the most logical listing location? Then we have to think about all the other issues. Now that we have actually made the announcement today, we can start working with the regulators around all the issues and things that we need to consider. We will come back to the market when the board looks at it later in this year.

PARTICIPANT: Both of those are potentially on the table at this stage?

ANDREW MACKENZIE: Give us a bit of time. There are a lot of discussions that we now need to have with regulators about the detail of the mechanism, which is why we are not explaining that today: we are not ready.

TIM HUFF, RBC: On cash flows and working capital gains, you have talked a lot about how you are going to be saving on the cost front, going forward, on the core set of assets. I was just wondering, from a net debt reduction standpoint or a sustainable basis, if you have taken a close look at not only how you can swing your working capital from the first to second half of the fiscal year, but also how you can sustainably reduce your working capital going forward? Does that play a large or small part in sustainable net debt reduction for BHP core assets, going forward?

ANDREW MACKENZIE: Working capital management, in order to reduce net debt, is absolutely core to everything we do. My prime aim is maximising free cash flow. I do not know whether Graham wants to add anymore detail to that.

GRAHAM KERR: There is a natural cycle around seasons about how working capital balance looks at the calendar year versus our financial year, in terms of the timing of shipments and sales. We certainly do a lot of benchmarking work around our average debtor days, our average trade creditor days, etc., and we think we are performing very well there. We have a continued focus on it, but there is a natural underlying seasonality in some aspects as well.

MYLES ALLSOP, UBS: You have been reasonably clear in the past that M&A is very much not on the agenda. As your balance sheet strengthens, you may be in a position to think about it again. Can you update us on your thinking in terms of acquisitions?

Secondly, there was a bit of a disappointment today that you do not believe you are in a position to launch a buyback. Can you clarify whether the timing of a buyback will be driven by the timing of the spinout? Are you prepared to do it before the spinout is complete in the middle of next year? Is that driven by divestments such as Nickel West? If you received $1 billion from Nickel West, would that trigger the start of the buyback?

ANDREW MACKENZIE: Your question on the Nickel West proceeds has probably been answered by the room. I do not have a lot more to add to that.

On M&A, nothing has changed – and that is also going to be my answer to capital management – by this demerger process, other than our ability to generate free cash flow quicker in BHP Billiton. We are and BHP Billiton will remain a strongly internal-focused company. You have seen through our presentation that we have 100-year resources and the potential to develop them, on average, at returns in excess of 20%. I find it very hard to imagine any deal that would be as compelling as that so, as far as you are concerned, you should assume that M&A is off the agenda for a considerable period.

On your question on the buyback or capital management, to broaden it a bit, again this is not something that will be dictated or affected by the demerger process, which is part of our simplification agenda. As you pointed out, we are not quite ready, in terms of our forward look and the current shape of our balance sheet, but our balance sheet is getting stronger. We want to ensure, when we start, that we are ready, as we want to do something over and above what we are doing, which is something that we can do consistently and predictably over a period of years. It is not just some sort of one-off.

I do remind you that there is capital management in this announcement. Point one is that we are not going to rebase the dividend that we pay at BHP Billiton when we de-merge NewCo. We are setting up NewCo in a form that we think will be able to generate dividends relative to what we think will be its strong cash-generating capacity. If, in what we have announced today, it turns out that we have been a bit conservative, of course that will bring the possibility of doing something in a consistent, predictable manner forward, but we need to make sure that we are ready. There are factors that we control, our productivity, management of capital and everything we have discussed about maximising free cash flow, but there are other factors that we do not control, like foreign exchange and prices. These of course are things that are also considered by rating agencies as they look at our credit rating. We have to bring them all to bear to be ready so that, when we are ready, we can do things over a period of years. These things are discussed almost continually in the boardroom of BHP Billiton.

CLARKE WILKINS, CITIBANK: This is for Graham. How much has the NewCo contributed to the cost savings that have been achieved to date from that $6.6 billion? Is there any concept of what potentially could be achieved? What is the strategy of this new company? Is it to run these assets as hard as possible? Is it to use them as a potential vehicle to generate cash flow to be able grow through M&A, which would not be material to BHP? What is Graham's feel for the strategy going forward?

ANDREW MACKENZIE: I will let Graham answer your questions. I think we could both do that, but you have addressed them to him. I do not want us to say too much today about the strategy of NewCo. Graham is here not as the CEO of NewCo; he is here as the CFO of BHP Billiton. With that said, maybe Graham could answer the questions.

GRAHAM KERR: There are a couple of points I would make. We look at the financial results this year. The aluminium, manganese and nickel business is talking about a $300 million reduction in controllable cash costs. If people remember, at our half-year results we also talked about the strong improvement in that business. While they are not necessarily the same size and scale of our BMA or iron ore business in the Pilbara, they certainly have been leading the way on productivity and improvements.

Andrew is right; it has just been announced today and obviously you need a bit of time to look at the strategy but, if you look at it in a nice simple way, there is opportunity for the assets in NewCo to continue to improve. We spoke about the org structure that Andrew showed, where we had a regional model, so running a different operating model. It is about adjusting the systems and processes to fit the size, the scale, and the type of the assets that exist in NewCo. So I do feel there is more opportunity on the productivity side in the new company, but also in BHP Billiton, as Andrew mapped out today.

JAMES GURRY, CREDIT SUISSE: I have just got two quick questions. Your capex guidance for the next year is $14.8 billion and $14 billion, excluding SpinCo. I think that $14 billion also coincides with the upper limit of what you want to spend in the future in terms of capex. Do you think this is the right time in the cycle to be spending the maximum amount of capital on investment projects within the industry, or do you think it is time to actually have a lower spend going forward? Also, just a quick factual question for Graham: on the franking credit balance, how much of the current balance is actually attributable to the profits generated by the SpinCo assets in Australia?

ANDREW MACKENZIE: On the capital side, the $14.8 billion includes NewCo while it is with us, and the $14 billion excludes NewCo, which is, of course, the state that we think we will find ourselves in from at least the whole of financial year 2016. I think it is important to remind you that we have no commitment to spend up to that. That is a ceiling; it is not a target, and as we continue to work capital productivity and we assess the projects coming forward, it is perfectly possible that we may spend less than that, for the reasons that you outline.

GRAHAM KERR: On the franking credit, obviously, they are related to the Australian assets that we have in the portfolio today, and I do not have the exact split in front of me, but the vast majority would relate to our biggest earner in Australia, which is iron ore. There would be a little bit associated with Cannington, Illawarra and Worsley, but predominantly, they are all related to the big core pillars of BHP Billiton.

HUNTER HILLCOAT, INVESTEC: You mentioned that the balance sheet is not quite ready, in terms of capital returns to shareholders. Is there any sort of target you have in mind in terms of our thinking on when you are going to be ready so that you can make those returns?

ANDREW MACKENZIE: I would rather not get quite as specific as that. There are a number of factors that we have to consider: obviously, the forward-looking price and the view of the rating agencies; the view of the rating agencies, in some respects, of the new BHP Billiton. But you are right: we are not quite ready, relative to where we said we might be, and you know the reasons for that. It is not because we have not tried. We have delivered $1 billion more in terms of cash from our productivity savings, and we have cut capital by $1 billion more, but against that, we have had a number of reductions in price, which tells you that you cannot be too certain about the predictions, because we are at the mercy of uncontrollables as well as the things that we control.

DAVID BUTLER, BARCLAYS: Under the DLC structure, is there any regulatory limit to the asset value attached to the Limited side versus the asset value attached to the PLC side? I.e. Can all the assets be housed under BHP Ltd, and yet there still exists a DLC structure?

ANDREW MACKENZIE: It is more complicated than just the regulatory side. Graham, that is very much a financial question; I do not know if you want to answer. I can help you, but the reality is that it is not a regulatory issue: it is obviously also to do with availability of funds to pay dividends out of both companies.

GRAHAM KERR: I will look at it slightly more practically, and say that if you look at the asset split today, even before you got into the regulatory issues, if you decide to move from one side of the company to the other in terms of the DLC, there is going to be imposts involved around, potentially, capital gains tax; perhaps it triggers a pre-emptive right in some of those assets, and then you would have regulatory approvals. There are certainly so many obstacles in the way that you would not look to do that.

DAVID BUTLER: But there cannot be much left under the PLC side?

GRAHAM KERR: If you look at the assets today that will stay part of BHP Billiton, there are a number that come from the old Billiton side that are on the DLC side, including Antamina, Spence, Cerrejon, and New South Wales Energy Coal. They are large, tier one quality assets.

ADRIAN WOOD, MACQUARIE BANK: Just two questions: first of all, on the Permian, last year you were producing just under 12,000 barrels a day, and as of year-end I believe you only had four rigs in the play. I notice that you are still talking about a 100,000 barrel a day medium-term target. First of all, can you put any timeline around that, and is that going to be focused on the Delaware basin or the Midland basin? I just noticed that Devon has 23 rigs in the play at the moment and Apache has 37. They are producing much nearer to the 100,000 barrel a day that you are targeting. When are we going to start to see the capital flow into the Permian?

Also, just following on from some of the questions on franking credits, I just noticed that back in 2002, when you de-merged BlueScope, you gave them no franking credits. Given that this is going to be an Australian listing, and those franking credits are perhaps worth more in Australian hands, I wonder if there is the ability to carve out some of those franking credits? Back in 2002, you had less than $1 billion of franking credits; today, you have obviously got considerably more than that, and perhaps, therefore, could distribute some to the new entity.

ANDREW MACKENZIE: Those are two very detailed questions, I would say. Your questions around the Permian, to be honest, would be slightly commercially sensitive if we were to answer them, because they reflect our view of acerage that is still very much actively traded. I'd rather not be drawn on those things. We're taking our time on the Permian, to really assess the potential and make our move, but you are right: when you look at what others are achieving, we do see the capability there, if we get it right, to more than replicate the kind of liquids performance we are getting in the Black Hawk. The detail of how we do this, I think, has to remain partly our secret until such time that we feel more able to share it with you.

On the franking credits piece in that question, what we have to do – and what we have done today – is announce that we will treat all shareholders equally. The BlueScope transaction was more complicated, because it was provided for in the way in which the merger was done, and to some extent, it was presold as part of the whole merger process, in equalising things between

BHP and Billiton shareholders. We have none of those requirements at this time, and so we have to treat all shareholders equally. As I have said elsewhere, now that we are free to talk to the regulators, the exact mechanism by which we do this has to be part of discussions as we go forward, rather than speculation today.

GRAHAM KERR: The only thing that I would add, Adrian, is that clearly franking credits is a challenging issue in Australia, and there are a lot of anti-avoidance issues around how you can stream franking credits. I think Andrew's point is right: now that we have actually announced the deal, we need to go through all of the different regulatory assessments and hurdles and talk to people, but just set expectations. Streaming or moving franking credits is not an easy thing to do.

ANDREW MACKENZIE: I think that is all the questions. Very good. Well, thank you for listening, and I look forward to our roadshow in the next three weeks. Graham, myself, and some of my colleagues will be talking to many of you again in slightly more intimate sessions, but hopefully this is a taster of things that will come in more detail in the next three weeks. Thank you very much, and this session is closed.