

Transcript

BHP Billiton Interim Results –
UK and South African Investor and Analyst Q&A
Teleconference
Wednesday 10 February 2010



1. CEO's Address – Marius Kloppers

Introduction

Good morning to those of you calling in for our UK and South Africa question and answer conference call. Thank you for joining us. In order to give us the maximum time for questions I will make a few brief opening remarks.

Safety

As always, I would like to start off with safety and I am saddened to report that we have had four fatalities in the current financial year. Each one of these accidents is a tragic testament that we still have risks in our business and, importantly, is a reminder that we must never let up on our aim of zero harm. However, we are making continued progress and the number of injuries at our operations reduced by 30% on a year-on-year basis, continuing a long-term improvement trend.

Financial Results

Now let me turn to results. During the half year we saw strong recovery in demand and prices for most of our commodities as compared to the first half of the year. The rally in prices was driven by strong early recoveries in China and India and the beginning of restocking across the developed economies later in the period. However, I do want to point out that although commodity prices have generally recovered compared to the first half of the 2009 calendar year, we obviously always report on a period-on-period basis and in the reporting period prices were still lower than the corresponding period in 2008.

These lower prices together with stronger producer currencies negatively impacted our earnings results for this half year again compared to the corresponding period. However, through good operating performance and rigorous cost control we were somewhat able to offset these factors. Despite the price and currency effects, our underlying EBIT margin remained at a healthy 38% and underlying return on capital at 24%, the latter in spite of substantial new investment spending that is not yet productive.

The investment programme continued to deliver volume growth; particularly pleasing was that we had half year production records in two of our biggest businesses, iron ore and petroleum.

The balance sheet remains strong. Net gearing is at a modest 15% and continues to give us significant flexibility to invest in our business and increase returns to shareholders.

Going forward, we remain cautious about the speed and strength of the global economic recovery across the developed world in spite of the positive momentum in developing countries. Our longer term outlook is unchanged and robust, driven by the factors that we have commented on before: the continuing urbanisation and industrialisation of China and other developing economies. In particular, I want to note again the materials-intensive nature of these countries' development. Our strategy has been unchanged for almost a decade and has proved itself throughout the cycle. I want to reiterate again our focus on large, long life, Tier 1

resources with multiple expansion options, assets that are upstream and export-oriented and also diversified by commodity, geography and customer. I want to emphasise that with this strategy we have been able to grow investment, maintain the balance sheet at a strong level and increase our dividend at the same time.

2. Questions and Answers

Kieran Daly, Investec Securities

I have two questions on coal and they are both related to the Tier 1 assets definition that you have. The first one is on Maruwai in Indonesia, the coking coal project. I think you said last year that it did not fit your definition of Tier 1 and you were looking at options on that. What I have heard recently suggests that you might have changed your mind on that and are retaining a majority shareholding. Given your view being very bullish on coking coal, I just wondered what your plan is for that project at this stage.

Secondly, on thermal coal in South Africa, you have been paring back your coal portfolio quite a bit, but you still have about 60% of your coal production in South Africa, which goes to Eskom. Some of that is tied in with mines which also produce for export, but a large chunk of it is the Khutala mine which is just for Eskom. It does not seem to fit in your definition of Tier 1 and it is certainly not export oriented. I just wondered what your plan is for the Khutala mine going forward.

Marius Kloppers

I will answer the second question first. In our speak, we would call the entire South African coal business one asset as we define it, in the same way Queensland coal would be another one, Hunter Valley coal and so on. Therefore, if I classify what we call our South African coal business as a Tier 1 asset it is the entirety of that coal business and that is the business that we are in the process of investing US\$1.5 billion in. I have no particular comments about Khutala as one of the operations within that asset per se.

On Maruwai, you are correct in that you say that we took this asset under review. We have been waiting for growth in the coking coal market via growth in the Chinese opportunities for our business for some time. Our development plans in Maruwai, I would say, were relatively modest. We were going to build a relatively small mine, which we looked at during the depth of the financial crisis, and asked ourselves the question of whether that was something that we wanted to do. I think what you should anticipate there is that we will continue ownership of that business. That does not mean that we will not perhaps bring a partner in as a result of the current process that we are running there, but I think you should also look towards perhaps a little bit more aggressive development of that resource. I am not at liberty to give you much more information than that.

Jason Fairclough, Bank of America Merrill Lynch

I wonder if you could give us a little bit more colour on the ramp up in your capital expenditure. To me, the new numbers look pretty huge, and really I just want to understand the degree to

which the step up reflects new projects and new scope that means increased production versus inflation in capex expectations.

Marius Kloppers

It is a little difficult to obviously make a long-term comparison of what you get for the dollar, but I would comment on the fact that everything that we have sanctioned and is currently in execution is pretty much tracking within budget and on time, as we commented on in our exploration and development report a couple of weeks ago. Therefore, I think that with respect to costs and projects that are in execution you can cross that off as a cause. By your definition, the additional spend that you are seeing there is a combination of perhaps things that fall under the threshold of US\$250 million, which is the level at which we disclose individual projects and then projects that are currently in feasibility that are not yet approved, but on which we are spending money and then projects which we still hope to approve.

Jason Fairclough

If I read between the lines there, it sounds like we should expect a raft of new project approvals this year.

Marius Kloppers

I think you have seen a number of announcements on our side. I am certain that our investor relations team would be more than willing to work with you in terms of the detail on what we have disclosed in our capex programme. It is not really a tremendous ramp up; it is just a continuation of that progressive growth in spend that we have detailed before.

Rob Clifford, Deutsche Bank

I have two questions. Firstly, you mentioned overnight the depth of the iron ore spot market being hundreds of millions of tonnes. I wonder if you could just comment if you thought that was growing from here or if you thought that that was due to some near-term anomaly.

Secondly, following on from Jason and the increase in capex, we are seeing other miners do it as well. We were caught out a couple of years ago with a capex spike including poor quality and overpaying. How are you managing going into this next capex ramp up with quality of work and spend control?

Marius Kloppers

The first thing is that the emphasis today was obviously where our capex is trending, but I think the bigger message was on the progressive nature of the capex. I think what you should take away from the data that we discussed today is that we are probably not a company that is going to slash stuff when downturns come and you have seen that last year; nor are we going to announce one day that we are doubling something. There has been a progressive growth over many years of the capability to deploy capex, which I think partly answers your question.

The second point on capex is that obviously there is a spend trajectory of projects that are currently in execution where we are spending money at the moment. We are not starting afresh. We have not made a final investment decision on the iron ore, RGP6, but there is approximately a US\$10 billion programme in total in the Pilbara that is currently being executed. In many of

these cases the teams are on the ground, things are being built and it is not as if we have to commission them from scratch.

I also just want to point out that in the capex for 2011, which is the forecast of, I think, just over US\$20 billion that we have given, the JV spend, the equalisation spend with Rio is in there and I just want to make sure that you remove that when you consider the underlying spend.

Will the iron ore spot market grow? I think that the trend is towards the incremental iron ore volumes, certainly from a number of players going into the clearing market. The way I look at it is, it is the domestic Chinese production, any growth from that, and the Indian production. Clearly we have stated that we want to sell all of our incremental production on the clearing market. There is obviously the other major Australian producer, but I cannot comment on what their plans are. I think the combination of what I have just outlined does tell you that over time, that market is going to take a bigger portion of the total.

Olivia Ker, UBS

I have some questions on copper growth. The copper market, from a longer term point of view, looks structurally very attractive, but since the Escondida Phase V and maybe some other opportunities along with Olympic Dam are really your major options which are rather longer dated, does it make sense for you to look at Tier 2 assets? These assets would be higher margin than the nickel and aluminium businesses, and then you could try to optimise them and bring them down the cost curve.

Marius Kloppers

No.

Olivia Ker

For Olympic Dam, how long do you envisage it will be until there is sufficient reactor build out in China to support the amount of uranium that you would need to put into the market from Olympic Dam Phase 1?

Marius Kloppers

The way I look at the Olympic Dam project is that the determining rate limiting step here is the pace at which we can get through the EIS. We obviously want to make sure that as we contemplate building that mine that we are not going to run into anything unanticipated in what will be a multiple project sequence, as we have outlined before. Therefore, we want to make sure that we exhaust all of the questions there. I think that obviously gives us, I do not know, another 18 months or so before that is complete and, as we have seen, the reactor build programmes continue to be revised upwards.

Going back to your first question on the Tier 2 assets, I kept the answer very short because we are absolutely focused on only having Tier 1 assets in each of our industries, and we probably do not make the comparison between margin in one business versus margin in another business. We just always want to own the best assets in each of our chosen industries.

David Fleming, Macquarie

I wonder if you could just give us a little bit more colour on cash costs. I see that the cash costs' performance was pretty good in this period. Can you just tell us where the pressure points are

and if you are seeing, in fact, cash costs continue to go down in various businesses, or are they going up? I am talking about the level of increase.

Marius Kloppers

What we always emphasise is that one should not look for what I would call cash reduction programmes in your business. We believe that we try to run the business lean every day. Obviously, we take decisions on a daily basis in order to try to optimise these assets. We have shied away from announcing a cost reduction exercise because we do not think that that is the way we run our business. However, as I emphasised again today in the last part of the presentation that I made, that does not mean that we are not extremely focused on making sure that we do not put any costs in our businesses that need not be there. However, we do know that one of the major drivers on a period-on-period basis for our asset cost performance is the input costs of the raw materials and therefore we have always emphasised that if prices go up to talk of costs structurally going down is probably not going to happen and we have never done that. We have also emphasised over time that input costs tend to lag prices, so what we have seen during this six-month period is the costs of the raw material that we purchased six months or a year ago when the market was down manifesting through our cost line. If the product prices for our products hold up, and we consume many of those products as inputs, in due course those costs will again work through our cost structures.

David Fleming

In terms of the Aluminium business, obviously the business is under pressure because of the weak aluminium price. I think we all know the reasons why. Do you still have faith in this business?

Marius Kloppers

We do consider this business as an essential part of our portfolio and the diversification offering. It is not a business where there is currently a very large share of the capital out of the total capital programme targeted. It is probably therefore not a business that you should look towards dramatically growing in size. It is obviously dependent on where energy prices in China go and where the Chinese currency goes. At this stage, we are happy to hold the size of the business that we have.

Peter Davey, Ambrian

Looking at the flattening of the cash dividends and the lack of any message of any resumption of the buyback programme, this is causing some investors to speculate that you are building a war chest again. It might be simpler than that, however. You have a need perhaps to keep money back to pay Rio for the equalisation payment if the WAIO JV is successful.

Marius Kloppers

I talked about part of that question when I answered Rob's question. The Rio equalisation is included within the US\$20 billion that we have earmarked to spend next year. What I also tried to indicate today is that we are going to spend a substantial amount of capital expenditure going forward. The third point that I always emphasise is that we review this every six months. In light of the capital programme we are seeing, the equalisation payment that we have to make to Rio, with opportunities that we are looking at, and with a reasonably sanguine outlook for the

world economy, we have today elected to only progress our dividend in the way we normally do, without rebasing it or launching a buyback.

Peter Davey

In terms of the quantum that you have put into the US\$20 billion, is it the original figure?

Marius Kloppers

It is approximately US\$5.8 billion or the number that we originally announced.

Kieran Daly

At the end of the earlier presentation today, you spent some time talking about being a simple organisation and the business model. The way you were talking, it sounded as though you do not have the right business model or organisational structure yet. Am I misinterpreting that or do you think there are things that you still need to do with the organisational structure and the business model to be more efficient?

Marius Kloppers

The fact that we have had an unchanged strategy and an unchanged base organisation – which divides us into product based business units, plus a shared marketing and a shared mix organisation – means that we have an extremely high degree of stability in how we are organised. What is perhaps not seen every day is that the management team and every employee have a number of initiatives to continually try to reduce drag in the organisation, simplify further, stop unnecessary activities, and so on. It is not something that is talked about with investors on a day to day basis, but I can assure you that there is a great deal going on there.

My comment was merely to further punctuate what we have said over the last couple of years. We try to run a simple portfolio of large assets, remove the smaller assets from the portfolio, and beyond that we work very hard every day to have a scalable organisation. This work is ongoing. I would describe our position in this respect as the best, not only in our industry, but also against comparable industries.

Sam Catalano, Macquarie

With reference to the capital expenditure guidance and your bubble chart, there are many large-size bubbles in the 'future options' section. Conceptually, do you think the mining industry is heading towards a scenario where the very large investment projects are going to be necessary to generate effective returns? Is that the theme you are looking at?

With reference to the Tier 1, Tier 2 asset question, is it not unreasonable to think that BHP Billiton, with its expertise and access to capital, could take assets that are currently perceived as Tier 2 and transform them into Tier 1 or is the nature of the asset inherent with what is in the ground more than anything else?

Marius Kloppers

There are a variety of ways in which you assess what a Tier 1 asset is. I am fond of quoting another CEO in our industry. He once said to me that a Tier 1 asset is like the Messiah. You cannot define it, but you know it when you see it. There are many dimensions which ultimately make up an assessment of whether something can be Tier 1. A Tier 1 asset is certainly never

small. Largeness is an integral part of being a Tier 1. There are obviously other parts to it as well, but perhaps that gives you some guidance as to how we think about it.

To answer your question on larger-scale projects, I agree that the industry is heading towards larger-scale projects in general. Our focus has been on creating what I would call Tier 1 assets where you have multiple mines in one basin and multiple investment opportunities in one basin. Looking forwards, we expect multiple iron ore expansions, multiple coking coal expansions in the Bowen Basin, multiple expansions in Olympic Dam, multiple additional projects in Escondida, multiple potash projects, and so on. This gives you an idea of how we think about this.

Unless there are any last-minute questions, I realise that, for many of you, this call comes some hours after we have released our results. We appreciate your call. Our Investor Relations team and others are ready to respond to any additional questions. I would like to emphasise that we do think that this is a good result. The strength of the company, the quality of the assets, and the opportunities that the market will give us over the long term in supplying additional products we believe puts this company in an unparalleled position to continue to create value for shareholders. On that note, I would like to thank you again and close the call.