BHP Billiton
Sydney Interim Results Briefing
Wednesday 4 February 2009

Important Notices

Reliance on third party information
The views expressed here contain information that have been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This presentation should not be relied upon as a recommendation or forecast by BHP Billiton.

Forward looking statements
This presentation includes forward-looking statements within the meaning of the U.S. Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of BHP Billiton. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. For more detail on those risks, you should refer to the sections of our annual report on Form 20-F for the year ended 30 June 2007 entitled “Risk factors” , “Forward looking statements” and “Operating and financial review and prospects” filed with the U.S. Securities and Exchange Commission.

No offer of securities
Nothing in this release should be construed as either an offer to sell or a solicitation of an offer to buy or sell BHP Billiton securities in any jurisdiction.

Non-GAAP financial information
BHP Billiton results are reported under International Financial Reporting Standards (IFRS). References to Underlying EBIT and EBITDA exclude net finance costs and taxation for jointly controlled entities, and exceptional items. A reconciliation to statutory EBIT is contained within the profit announcement, available at our website www.bhpbilliton.com.

***

BHP BILLITON

SYDNEY INTERIM RESULTS BRIEFING

WEDNESDAY 4 FEBRUARY 2009

MR KLOPPERS: Ladies and gentlemen, welcome to today's presentation of the BHP Billiton interim results for the period to December 31, 2008. My name is Marius Kloppers, Chief Executive Officer of BHP Billiton. I am talking to you today here from Sydney. Alex Vanselow, our CFO, will be presenting from London and, to my left, I have got Marcus Randolph, who is the Chief Executive for our Ferrous Materials Group. Before I begin today, I would like to point you to the disclaimer and remind you that reading this disclaimer is important in relation to today's presentation.

I would like to start off today by giving you a brief overview of our results before handing over to Alex, and Alex will take us through the more detailed aspects of our financial performance, then I will give you some perspectives on the macro environment and how this is impacting, firstly, the industry, and also how it is impacting on us. And then, Alex and I will be very happy to take some questions.

If we go to our highlights, let me, as usual, begin with safety. Over the period in question, we have maintained a good safety performance as measured by what we call our lagging indicators, most notably our total recordable injury frequency rate. However, we have still had four fatalities in the period. That means four families are left without loved ones, and it goes without saying that any fatality is an unacceptable outcome. We continue to be committed towards getting to zero harm and ensuring that a safety culture is embedded across the entire group.

Let me turn to results. There is no doubt that the last half year has been an interesting period and a challenging period for our industry. The very solid result of which you will get a very clear view today during this presentation, demonstrates that our core strategy, unchanged over the better part of a decade, of being focused on tier 1 assets and the diversification across markets, geographies and so on, is a very sustainable one.

Our Underlying EBITDA was up 25 per cent to USD$13.9 billion. Underlying EBIT was up 24 per cent to USD$11.9 billion. Attributable Profit for the year, before exceptional items, were USD$6.1 billion, up two per cent. And, as I say that, I should stress that Alex is going to take us through foreign exchange that has had a major non-cash impact on the tax line, and we will get some clarity on that.

You will also recall that in our December quarterly production report, which we released on, I think, 21 January, we announced a number of actions and, as a result, our Attributable Profit post exceptional items. Alex will talk about this in more detail. But perhaps to reinforce at this early stage, we have said that where demand conditions and we have got assets that are either in a position where they can't sell the output or where they are cash-negative and set to remain so for some time, we have and we will continue to take action.

In particular today, I would like to point you to cash flow, because we have already noted that we are in a period of high volatility with IFRS. There is a lot of non-cash items in our income. And therefore I would like to point us particularly today at cash flow. Cash flow from this diversified portfolio remains extremely robust, increasing 74 per cent to USD$13.1 billion. More significantly this excellent result, given today's market conditions, our balance sheet continues to place us in an absolutely unique position in this industry, and the strength of our balance sheet is illustrated by a net gearing level of below 10 per cent at this stage.

Earnings per share was up three per cent to 110.1 US dollar cents per share before exceptionals and, importantly, given our outlook, on which we will talk a little bit more during the course of this presentation, which is uncertain in the short and medium term outlook, we have announced today that we are maintaining our dividend for this period at the same level as the last period, at 41 US dollar cents per share. So that's a dividend decision consistent with our outlook. But I want to note that this is a very significant 41 per cent increase on the comparable period last year, obviously for those shareholders which form a large portion of our shareholder base in London and in Australia that have seen those currencies weaken against the US dollar. In their local domestic currencies, that will be an even higher uplift.

During the half year we continued our successful track record on project execution. We, consistent with our commitment to invest throughout the cycle, sanctioned four projects during the half year; a very major one in Western Australia in iron ore, and three in oil and gas. I want to emphasise that even in these changed conditions our strategy remains unchanged. We want to continue to invest in value-adding growth in a prudent and disciplined manner. Perhaps the only change is that, to an even greater extent than before we want to focus on tier 1 assets and Brownfield expansion, principally in our back yard.

In the short run, we also want to continue to maximise cash generation from our existing assets, and later on in this presentation I will give you some more detail on our initiatives to do so. To emphasise up front, we are extremely strongly positioned at this point in the cycle, well differentiated from others in our sector. And on that note, perhaps let me hand over to Alex to take you through the details of our financial results, and then I will say a few words again at the completion of that. Alex?

MR VANSELOW: Thanks, Marius, and good morning to everyone from a very cold night in London. I will knock over a number of key areas relating to our interim results and I will start with the top line financials, which Marius has just briefly touched on, and then move into some of the exceptional items. I will also give a brief overview of some of the actions we are taking to further strengthen our financial position. Over six months to 31 December 2008, we delivered a solid set of results under very challenging and rapidly changing economic conditions. Both Underlying EBITDA and EBIT increased, reflecting our strong performance from our diversified portfolio of low cost, long life and high quality assets.

The key highlights undoubtedly are the strength of our balance sheet and our outstanding cash flow, both of which placed us in a unique position in our industry. Net operating cash flow was a record of USD$13.1 billion resulting in a net gearing of just 9.5 per cent. This was achieved with a consistent execution of our strategy, which has enabled us to continue to invest in value-creating growth in a prudent and disciplined manner with, at the same time, delivering outstanding returns to our shareholders.

Marius will talk about our views on the market outlook at little later, but it is worth stressing a couple of points about the current market conditions. As the global economy continues to deteriorate, we are experiencing softening in demand for all our products. Accordingly, we have taken a number of hard but prudent actions, with a focus of preserving and enhancing long term shareholder value. These actions have included the Board's decision not to proceed with the Rio Tinto offer, production adjustments in line with weaker demand, deferrals and withdrawal of low priority projects, and the suspension of cash-negative operations, as Marius referred to. These have been the appropriate actions taken at the right time, and in the face of a swift and severe downturn in the market. Of course, we will continue to take further actions if necessary. We have always said that all our operations are continually under review, and this remains the case.

The accounting effect of these actions to date are reported under Exceptional Items as a post exceptional loss of USD$3.5 billion, which resulted in an Attributable Profit of USD$2.6 billion. They include charges in relation to Ravensthorpe, Yabulu, Pinto Valley, project impairments and deferrals, and increased remediation of the provision for the Newcastle Steelworks and costs associated with the Rio Tinto offer. The extreme range of economic conditions that led to these decisions also materially impacted at an operating level and is both positive and negative. As we can see here on the slide, the changes to Underlying EBIT for most CSGs were affected in a material way. Some example is the 500 per cent in Metallurgical Coal which was positive and, on the other hand, you have Stainless Steel Materials that are 200 per cent negative. The results again highlight the strength and quality of the BHP Billiton portfolio, with Underlying EBIT margin for the period averaging 46 per cent.

Our Petroleum CSG delivered $2.7 billion Underlying EBIT, an increase of 36 per cent. This was driven by strong volume growth from a series of successful projects, but also stable operating cash costs and a higher realised price. However, EBIT for Aluminium, Base Metals, and Stainless Steel Materials CSGs, the LME CSGs, were all down significantly. In these three CSGs the unprecedented fall in LME prices alone decreased Underlying EBIT by USD$4 billion. And for the CSGs, volume and cost efficiencies were impacted by grade declines and production interruptions at Escondida, the furnace rebuild at the Kalgoorlie Nickel Smelter, and the mandatory reduction in power consumption in South African aluminium smelters.

Our steelmaking commodities contribute $US8.5 billion to Underlying EBIT. We benefited from higher realised prices, record iron ore shipments, and a favourable exchange rate. We have, however, been impacted by the weak steel market, especially in the last quarter of 2008, when we announced reduction adjustment both at Samancor and at Samarco. These weaker conditions will have a more pronounced impact in the second of this financial year. Underlying EBIT for our energy coal business was up 287 per cent and this was due mainly to higher realised prices. Significant price volatility had a material and immediate effect in the revenue line. Input costs have also been volatile, but with a delayed impact on cost of goods sold.

In our last result presentation, I highlighted that cost pressures in our industry had accelerated in the second half of the 2008 financial year. This has continued into the fiscal year 2009. During this half, cash costs increased by USD$1.6 billion compared to the corresponding period. About 13 per cent of these increases are structural; the remaining 87 per cent is either costs that were deliberately incurred to maximise production, one-off incidents, or costs that were caused by the heated market earlier in the half-year. Represented in the graph, we have $298 million in one-off costs relating to Queensland coal flood recovery and the Kalgoorlie Nickel furnace rebuild. We also can see a 592 million of higher costs for fuel, energy, and input materials such as coke, pitch, and explosives.

The benefits of the falling input prices will have a lagged effect on reducing costs, and we are starting to see some signs of easing input in material prices. In addition, labour and contractor costs increased by $368 million. Contractor charges increased because of both higher rates and increased activity. In certain cases we deliberately incurred costs to increase production at times of higher prices. We expect these costs to decrease and to reflect the supply/demand fundamentals as well as lower usage rates. High economic volatility also had an extraordinary impact on financials below the EBIT line. The tax charge excluding exceptional items was USD$5.1 billion. Excluding the impact of foreign exchange and royalty, our underlying effective tax rate was 30.6 per cent.

The foreign exchange impact was approximately USD$1.2 billion, and most of this is a non-cash foreign exchange revaluation on Australian deferred tax balances. Going forward, we expect our underlying effective tax rate, which is excluding royalty and foreign exchange, to be around 31 to 32 per cent.

Interest expense was in line with the December 2007 half, and we achieved a lower average interest rate due to debt reduction and also to lower benchmark rates. Approximately $US2 billion of that is due to mature over the next 18 months, most of this being at subsidiaries and jointly controlled entities. So we have a situation where we have very low gearing, with debt maturity secured towards the medium to long term, and higher margins from a diversified portfolio, and this places BHP Billiton in a unique position to continue delivering shareholder value.

I am pleased to show that our net operating cash flow, which is after the payment of interest and tax, was a record $US13.1 billion, which is up 74 per cent. This is an excellent result given the current market conditions. We achieved this through the disciplined execution of our strategy which has enabled us to continue investing through the cycle and growing our business organically. Capital expenditure for the half year was approximately $US6 billion. Our cash payment of 41 cents per share of dividend declared in August 2008 was about USD$2.3 billion. As Marius mentioned earlier, we have maintained a dividend of US41 cents per share, which is an outstanding achievement in the current economic environment. This is in line with our progressive dividend policy that seeks to maintain or increase the dividend in US dollar terms which we regularly assess based on our expectations of future market outlook and the investment opportunities.

We are very well positioned but also alert to the fast-changing and uncertain economic environment. I just want to take a little bit of time now to try to give you some more clarity about the issues that will impact underlying business performance over the next six months. This slide provides a summary of the production adjustments we have announced so far, in response to this unprecedented deterioration in our markets.

The indefinite suspension of the Ravensthorpe Nickel Operation, and the cessation of mixed nickel and cobalt hydroxide processing at the Yabulu Refinery, the temporary suspension of two of the iron ore pallet plants at Samarco, the temporary reduction in Samancor manganese production, the suspension of copper sulphide from the Pinto Valley mine, and reductions in metallurgical coal producing during the second half of the year. As we have flagged as well, we expect one-off costs of approximately $US500 million in the second half that are linked to the implementation of these decisions. As we have said, we will continue to take quick and decisive action as market conditions change. And with that, I will now hand you over to Marius who will go through our views on the market outlook.

MR KLOPPERS: Thank you Alex. Perhaps to highlight a few points, six months ago we started off this section of our presentation with a slide titled Short-term Global Challenges Exist. On that slide we noted that global economic activity was moderating, financial market instability and inflationary pressures were apparent, and we started, importantly, to see flow-on effects of these two emerging economies. Like most observers, however, we did not foresee the speed of deterioration that we have now witnessed. It is unlike anything I have seen before, and it’s unlike, I think, what most people have seen. To illustrate, this slide shows commodity prices over the six-month period between July and December.

In just six months, across most of the main commodities that we produce prices have gone down between 50 and 60 per cent, and some of these commodities have suffered further declines on the order of 10 per cent or so since the beginning of this year. Today, weakness, uncertainty, and volatility in the outlook exists not only in the short term, but also in the medium term. Demand for our products is being impacted globally. Because of this, we have noted the adjustments we’ve made in production, maintenance schedules, and projects. And we will continue to review our projects, operations, capital investments in the context of this fluid demand environment. Our view from six months has not changed in one regard, and that is that momentum and risk, in our view, is still probably to the downside.

Now, just as the world has been too optimistic about the extent of the deterioration that we would see, it has also been too optimistic about the medium-term impact and timing of the recovery. Growth forecasts continue to be revised downwards, and the turning point for any eventual recovery continues to be pushed out. Now, just to illustrate, we have put on this slide a consulting company called Global Insights and their last five predictions for year-on-year forward global growth. As you can see, there has been a marked change or deterioration in their forecasts, particularly in the last two forecasts; and this picture would have been, in structure, no different had I used the forecasts from any other forecasting consultancy.

Our sense, in talking to many market participants, is that on a global basis, which constitutes the markets that we operate in, very few are prepared to give a view of when that turning point will occur. But let's talk about what it will take to improve, particularly with respect to our industry.

We've spoken about China for a long time. Most in our industry have spoken about China for a long time. And most of us are aware that in terms of raw demand growth, China has outpaced any other country or region. For that reason, China will continue to be very, very important in our industry. But we cannot let ourselves forget that we operate in global markets and demand or consumption outside China, as we show on this slide, still constitute the largest component of absolutely consumption.

This chart shows that between 65 and 70 per cent of most of the commodities that we produce are consumed in the global market outside China, with an emphasis on OECD consumption. With only 30 to 35 per cent of absolute commodity demand, China alone cannot be relied on to support overall global commodity demand. For global commodity markets to perform well, a synchronised improvement in both the OECD and China will be required. But let's take a look at China. On the short term, de-stocking in China seems to be nearing completion and we are starting to gain visibility of the underlying level of demand for the first time in many months.

While growth clearly slowed in China over the last few months of 2008, China has not experienced some of the dimensions of collapse that other, more export oriented, economies in the region suffered. China has also largely avoided the credit and confidence collapse as seen in the West. China has got a government that has got the ability to boost infrastructural spending and with the lack of household and corporate debt and government debt, we would therefore expect China to be relatively more resilient than the West. But, of course, standing in against these positives, China's economy has been impacted by the reduction of export demand.

Over the longer term, while we continue to reveal this, our story for China is unchanged. It remains at a relatively early stage of its development. Its absolute intensity of use of many of the products that we produce remains low and therefore, in the long term, our view is not very different to what we've said before.

But let's take a look at how our industry has been impacted, as we take a look at all of these things that have impacted on our industry. This is a reasonably complex chart, so let me take a moment to explain what it means. On the Y axis, the Y axis represents return on capital, improving as you move up the scale. So it's an indicator of absolutely asset strength higher up on the scale. The X axis represents balance sheet strength, improving as you move from left to right. Each of the individual bubbles on the chart represents a company in the sector. And the size of the bubble is scaled to the enterprise value of the company. Just for reference, the bubble in the legend in the top right-hand corner, that shows that red bubble, is scaled to about $10 billion. So what can we conclude from this?

BHP Billiton is extremely well positioned with both a quality set of assets and a quality balance sheet. The majority of other companies in our sector are going into this downturn in a condition of financial distress or weakness. Their asset quality is also variable. Balance sheets are highly leveraged and significant amounts of cash will be needed just to service ongoing debt commitments.

Therefore, many of the companies in our sector have, unlike us, no option but to switch their focus from long-term value growth to managing in the short-term. And this change in focus will have an impact on future supply of fundamentals. In today's environment, for those companies, preserving cash is crucial as we've noted. And the industry, as a result of the stretched balance sheets, has promptly acted to minimise cash outflows.

Production cuts have been made swiftly and severely across a spectrum of commodities in response to the downturn in demand. Particularly, with a view towards the long run, investment in new capacity is being deferred with dramatic capital expenditure cuts announced globally and continuing to be announced.

These production cuts, investment delays and cancellations of projects across the commodity spectrum, will mean that the future capability of the supply side has been severely impacted. Those of us in the industry, like us, who can continue to invest throughout the cycle in readiness for eventual market recovery and do not have to trade long-term optionality for short-term expediency, will be perfectly position to grow market share and shareholder value when this business cycle upturn comes. So our longstanding strategy has uniquely positioned us for the events that we are witnessing. While on average the industry has been facing funding pressures and deteriorating credit ratings, our strongly diversified cash flow, strong asset quality, has allowed us to improve our gearing position.

I particularly want to draw your attention to the 74 per cent increase in net operating cash flow; the fact that our balance sheet has never been stronger; the fact that during the half we've reduced our gearing from 18 per cent to below 10 per cent, and; that our interest cover stands at 87 times. In this market there will be numerous opportunities to purchase assets more cheaply than in the past. Of course, very few of these assets will fit our unchanged strategy of a focus on tier one assets. But if and when these opportunities arise, we have the capacity to act. But these opportunities are not mutually exclusive to growth in an organic way.

We will continue to invest in value adding growth throughout the cycle. And in addition to that longstanding strategy of investing in our business, keeping the balance sheet in tact, and returning surplus cash to our shareholders, the strength of our diversified cash flows has underpinned our ability to maintain our progressive dividend policy. However, being in this strong position does not mean immunity from the strong winds that are blowing. We continue to systemically and methodically review all aspects of our business and in this regard you have seen a number of production and project announcements. Most recently, on 21 January, in our production report, we've announced a number of sensible, prudent and responsible measures.

We will continue to tailor the production of our product if we are unable to sell the products or if any of our operations are cash-negative and set to remain so. We've also, as I said before, refocused our capital spend which has always had a high bias towards Brownfield expansions in our backyard to an even more increased manner to focus on tier one assets, Brownfield expansions in the backyard. But I also want to emphasise here today that our business strategy is always to live within our means, and not only on the production side, but also on the capital side. We will continue to review and make adjustments necessary, consistent with the environment in which we operate.

So, in summary, we had a robust first half. Our production to date has been strong. The market outlook has been deteriorating and together with the production adjustments that we've made already will impact results over the balance of the year. We don't expect any relief in the short and medium term from uncertainty and volatility. The timing of any recovery is unclear. But while that global outlook is uncertain, I again want to emphasis the quality of our assets, the strength of our balance sheet and the cash flow that is generated from this diversified portfolio, uniquely positioning us for when this business cycle turns.

We will continue to, as we've done, act proactively and with a high degree of decisiveness to preserve and grow shareholder value ensuring that long-term value is not compromised.

On that note I would like to finish and take questions. Last year I embarrassed myself by addressing questions to London in the middle of the night, so today we will start here in Sydney. We will rotate to the phone. If you could address the questions to me in the first instance. Please state your name and I will pass them around to Alex as required.

MR GOODWILL: Just a question really on the aluminium and nickel part of your business and the strategy going forward. I see that you're still investing in alumina assets. The aluminium business is obviously under a lot of stress. Your average price in the last half is $1.04 and it's down to, you know, 60-odd cents now. So I just wonder where you're going with that business in terms of, are there any decision points coming up where you stop your expansions in alumina? And also in nickel with the removal of Ravensthorpe, just what is the strategy going forward for the Australian assets?

MR KLOPPERS: On those two businesses nothing really new to talk about today. I think at this point we've taken the decisions that we thought we would take. Obviously we're going to continue to review and we note that in aluminium, you know, the price is continuing to decline and in alumina, you know, I think stock prices on the order of $190 per tonne. So we will continue to review. No immediate actions - nothing to do today. With respect to the nickel business - sorry, and we don't have any immediate decision points, Neil, coming up in our alumina portfolio. I should note that the Brazilian project is getting very close to completion, in line with the dates that we said before.

On the nickel side, you know, no - equally unfortunately nothing to add. With Ravensthorpe indefinite suspension means exactly that. We do not see reopening of that plant at this point in time. We don't have any material decision points coming up in the Nickel West business, which is the other business, nor do we have anything to add on the Yabulu Refinery in today's terms. With respect to both of those products, you know, we certainly notice some speculation about our commitment to various commodity products. And I will take a leaf from one of my predecessors in saying that the decision to exit an asset or make an asset decision is a relatively easy one.

For businesses it's a much more protracted and difficult decision and we are committed to order the products that we've got in our portfolio, including these two, including petroleum and all of the other products that we've got in our portfolio with no plans to exit any of those products at this point. Perhaps the next question.

MR CAMPBELL: Craig Campbell, Morgan Stanley. Marius, just looking at the capital spend, it looks like it's just wound back a little bit from where it used to be, but with Petroleum, in particular, you had spoken previously about spending up to maybe $1 billion on exploration. I'm just wondering if you can give us some guidance on the exploration spend for Petroleum over the next year or two? Also in the results, Olympic Dam recording some losses there. Just wondering if you can give us an update on how Olympic Dam is travelling and where the studies are up to and how you think that will progress. And then, finally, just with the capital spend, commodity prices where they are, if I read the release correctly I think you have about $3 billion of undrawn debt facilities at the minute. If you need to go beyond that would you be willing to increase debt to keep your capital spend going?

MR KLOPPERS: Yes, Craig, perhaps on the third one I can comment first. Perhaps also on the others, but Alex might have a contribution to make as well. I made the comment of living within our means very deliberately and I made the comment about adjusting capital spend in line with economic conditions very deliberately as well. Where we would broadly - and I'm not giving an absolute guidance here - but broadly we believe the cash that you generate from your ongoing business is the cash that you have available to spend on organic growth and that's really what you've seen Alex, myself, other members of the team do.

That's on the third point. On the first point I don't think we've broken out the Petroleum spend separately. We've given an update of what we expect is spent on Brownfield, Greenfield and Petroleum spend in aggregate and I think Alex - but you will have to correct me here - that number is probably about $200 million lower than the guidance that we've given before?

MR VANSELOW: Yes, the guidance we gave before was around USD$700 million. We are looking between USD$600 million and USD$700 million now, so at about USD$100 million difference.

MR KLOPPERS: For Petroleum alone. And then there's some impact on the overall ones as well. On ODX nothing to add from 21 January. We've largely completed the initial phase of our study. We're into the filing of the EIS now. The timing of approvals certainly is reasonably uncertain and consistent with that we are throttling back the burn rate on the project to reflect the completion of a phase of study and the waiting period on the EIS. Obviously in the eventual decision to invest or not to invest will have to be taken on the balance of, you know, can we set up the project as we want it? Are customers available? What is the state of the world, demand for the product, capital and so on and so on?

Again, to emphasise what we've said over the last year or year and a half is that in our five year volume forecast that we've shown previously we have not included anything from Olympic Dam.

MR McTAGGART: Hi, Marius, it's Paul McTaggart from Credit Suisse.

MR KLOPPERS: Paul, I can't see you. There you are.

MR McTAGGART: Cheers. Firstly, just a question around clarification on the tax rate, was that 31 to 32 per cent - and I missed it, sorry - was that inclusive or exclusive of the royalty impact?

MR KLOPPERS: Exclusive of royalties and exclusive of this deferred tax asset translation which comes as a non-cash adjustment, which can go up and down, obviously. And just to reflect on that a little bit more, Paul. And Alex might want to add. We've got US dollar functional currency for all of our - most of our asset base, which effectively means that what goes into most other company's balance sheets up and down comes through our P&L as a non-cash item. Alex, I don't know if you want to add anything to those comments?

MR VANSELOW: That's correct, Marius, and I - the only thing I would add is that a large base, a large part of our asset base is Australian dollar currency, and what you have is future depreciations which is a tax asset impacted by the foreign exchange. So as the Australian dollar comes down, that asset diminishes in US dollar value. As the Australian dollar increases, that asset increases in US dollar value.

MR KLOPPERS: Yes, so it's basically like a marked to market, summary 3 comments, 31 to 32 per cent, royalties obviously price dependent and then, you know, that non-cash impact will go up and down, principally as the Australian dollar, you know, changes relative to the US dollar, sort of on a market-to-market basis almost.

MR McTAGGART: Thanks, and the next more difficult question was, can you give us an update of what's going on at Atlantis? You were doing some water injection. I just want to get a sense of; do we take this as potentially field degradation, inability to kind of get the production out and ultimately inability to get the reserves out?

MR KLOPPERS: Yes, I don't think it means any of those things, but in order to give you a complete, you know, sort of technical picture of what we're doing, why don't I ask Mike, who is on the teleconference, not visible here, but I think you should be able to hear comments from him. Mike, Mike, are you there?

MR YEAGER: Marius, yes, can you hear me?

MR KLOPPERS: Yes, we can hear you fine.

MR YEAGER: Yes, we are in the process of commencing the drilling of the water injectors in Atlantis. We will have the first well hopefully in here in the next three or four months, have all the funding in place, have the rigs in place, and as you know, we've already pre-injected or pre-invested, excuse me, all of the facilities on board the Atlantis vessel, so this was always contemplated as being an option, and we're in the process of executing it – are all in place, and all the other physical parameters that we measure are all exactly as we've hoped for, and we're very confident that this water injection will give us the reservoir drive it takes to cover the reserves that we have funded, but we're well in progress and off to the faces on this piece.

MR KLOPPERS: So perhaps, just to - complete picture there is very positive. Obviously there is some impact on the capital investment that you have got to make in drilling the wells up-front, and then there is obviously some operational cost impact, but as I said on the media conference earlier, we are extremely pleased with our petroleum business where that guidance of, you know, on a cash and non-cash basis, cumulatively post-commissioning of all of these new projects, we see costs below $20 a barrel. I mean, we remain extremely pleased with that business and the growth potential that lies ahead of us, thank you.

MR HARRIS: Hello, Marius, it's Brendan Harris from Macquarie. Interested in obviously outlook for the steel industry and obviously the difference in your approach between iron ore and Metcoal, very different markets. The iron ore market gives you the ability to send excess product around those deferrals, if you like, but you can move into that spot market, and interested in your approach in terms of how you will address that. But more so, when you look at coke and coal you don't have secondary option, and Japan is, you know, the number 1 player, if you like, for you as a customer. I'm interested in how you see that developing, how you see the 10 to 15 per cent production cut that you've announced in the context of, you know, cuts to steel production in Japan of sort of 30 plus per cent. What options do you have? How worried should we be about your sales volumes for the second half versus that production guidance? Just any clarity you can offer, thanks.

MR KLOPPERS: Yes, Brendan, obviously the business of forecasting is fraught with dangers for us, but I think just a few words on how we view these two markets differently. The iron ore market, as we said, with this massive growth in Chinese domestic production, we've seen a cost curve with people having different costs on that curve. It's also a market therefore where the market clears far more rapidly. As the third player in the industry, our explicit strategy is to sell every tonne that we can produce because simply put, if we don't, an Indian high-cost producer or the domestic Chinese producer will produce it, which doesn't create long-term value for our shareholders.

So we want to sell what we produce, and consistent with that, if you look at what we have said today, our sales volumes in the second half, will, for iron ore, we hope, be equal to the first half. You have also seen that when everybody was talking about market clearing, sorry, whether we would sell all of our products in the last quarter, we actually placed product. Now, the way I see that market developing is that strong distinction between the benchmark price and the, let's call it the market clearing price, will blur. You will have different contract structures and you will have blends of contracts and so on, which means that those prices will approach each other as we go forward, and we look forward towards a market that clears more on its fundamentals as we go forward, principally based on the fact that there is some swing capacity in the system or that there is volume response in relation to the price.

On the seaborne metallurgical coal market it's a little different in that a different mix of customers, therefore any reduction in north Asia, you know, Japan, Korea, Taiwan, in India, in Brazil and in Europe, flows basically directly through absolute size of the coke and coal market and there is not the same differentiation of operating cost curves therefore the volume response is different, and as the market leader we have very little choice but to not produce product that people physically cannot put in their stockyards. I don't see that market structure changing over the year, over the next couple of years, Brendan. So perhaps I can just out of courtesy, take one or two or three calls just from the phones and then I will come back here to Sydney, if I may have the first call from the phones, please.

OPERATOR: Thank you. The first question is from David George from JP Morgan. Go ahead, please.

MR GEORGE: Yes, thanks. Marius, just in respect to your comments on tier one asset, Escondida has always been considered one, but recently it has been a fairly poor operating performance and going through a declining grade period. Is it still regarded as a tier one for BHP and if you could get your hands on more would you be interested in buying it, and when will operations pick up?

MR KLOPPERS: Yes, on the question do we consider this as a tier 1 asset, absolutely. I think Alex tipped his hand fairly decisively when he said a couple of weeks ago that we wouldn't mind owning more of it. I have nothing to add to those comments, which were very well commented on at the time. But let's take a look at the operational performance of Escondida. We've got a Sag mill that has had some issues. There are a number of these identical Sag mills in the world. All of them have got the same issues and we are limping along until we can affect a complete repair. We haven't fixed the date of that repair completely, but it will be probably some time in our next financial year when we will repair that completely and then that asset, that's probably had, I don't know, about a 15 per cent or so production impact. That will revert to normal. I also have no update on the lower grade material which Alex, and you have to correct me here, we said it's about a two-year period of mining lower grade. So in two years' time we should have the grade back and we should have the sag mill repaired we should essentially resume the trajectory that we've had before. Alex, anything to add there?

MR VANSELOW: The grade comes back from the lows of this year and next year but not fully to where it was in 2008. So it's just a partial recovery and then flat from then on.

MR KLOPPERS: But definitely it's a tier one asset and one where we have got new exploration discoveries and we're going to continue to invest money there. Thanks, David. May I have the next question, please?

OPERATOR: Thank you. The next question is from Peter O'Connor from Deutsche Bank. Go ahead, please.

MR O'CONNOR: Good morning, Marius. Could you ask Alex to just reconcile the EBITDA trend versus the underlying cash flow trend to the company over the last three-and-a-half-year period?

MR KLOPPERS: That is properly left to the CFO, I think. Alex, did you hear that question?

MR VANSELOW: Can you repeat that, I could barely hear it?

MR KLOPPERS: Can you reconcile the trend on EBITDA, which is a cash flow proxy, to the actual cash flow. Let me just make one comment on that, as Alex goes in. Obviously your cash flow is impacted by the size of your receivables book, which - and by the size of your investments, or your work in process. So when prices go up, as they've done, you dramatically expand the size of your balance sheet because even though your debtor's book remains at the same days, you're sucking in cash, and when prices moderate, that cash is released again, which we've seen here. Loose of those two affects, Alex, I don't know if you've - if there's anything else to comment on?

MR VANSELOW: That's basically it, Marius. The key differential there between Trent and the cash generations around it is the working capital, and one of the key features in this half year was the accumulated balance from last year's iron ore price change. There was actually cash received this year, and that was to the tune of $1.8 billion.

MR KLOPPERS: Thanks, Alex, and just, you know, just as guidance, you know, our days of receivables remain at about the same level as everybody in the industry. We keep a very close eye on overdues and so on, and certainly the effort they required is bigger now than it was before, but we see very little change in the days. So, you know that - it just scales with price, basically. May I have the next question on the telephone, and then I'll go back to Sydney after that.

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

MR KLOPPERS: Thank you. So if I may take the next question from the audience here?

MR LAWCOCK: Hi, it's Glyn Lawcock at UBS. Just a couple of quick questions. Firstly, I think, if I remember correctly, Alex said 1.6 billion in costs increase in the half.

MR KLOPPERS: That's correct.

MR LAWCOCK: About 13 per cent structural.

MR KLOPPERS: Yes.

MR LAWCOCK: Just wondering given what we're seeing in the market, a lot of other people are really ripping the costs out of their business. I mean, just wondering, looking at that…

MR KLOPPERS: Yes.

MR LAWCOCK: Of that 1.6 billion, do you think can rip a fair bit it out, like the 80 odd per cent that's not structural. That's the first question. And then the second one is just going back to the bulk markets. You know, clearly, great prices last year; a complete reversal of what everyone had thought. Just wondering how, you know - I know you can't comment on the pricing outcomes, but I'm just wondering if you can give some sort of colour around how things are progressing, given it is, you know, a very, very unique market right now.

MR KLOPPERS: Yes, Glyn. I actually feel optimistic that, what we've called the non structural costs, we're going to get out. The raw material trends, you know, within our input costs. Within the fact that we basically try and follow markets and don't try and cut through them, that will tend to revert. That's, you know, I don't have the exact figures in my head like Alex, but let's call it $600 million out of the total for caustic, pitch, coke, and so on and so on.

Then the next piece that I would say is clearly off, are the nickel furnace rebuild and the flood events in Metcoal. And then the third piece that is clearly directly production choice related are where we put in contractors to open up the pits in Metcoal in order to recover from the floods, but also to position for increased production.

Because we don't run deferred stripping accounts, that all comes through the P&L, and a lot of that is differential contractors that have got to be put in. Same in manganese; we truck manganese in order to get it to market when we could realise, you know, 80 per cent or 90 per cent margins of that product. Clearly that has been wound down. So all of those structural things we think are going to come out. Less easy is wage moderation. Some of the other costs, but the last bit that I would perhaps comment on is maintenance, sustaining CAPEX, and smaller products, and you can rest assured that Alex and I and the Group Chief Executives have got a very jaundiced eye on that category of spend at the moment. And some of that is reflected in the overall capital spend that Alex's shown, or already reflected in the capital spend that we've shown today.

MR LAWCOCK: Another question on the bulks markets.

MR KLOPPERS: My apologies. On the bulks I think there is a difference between iron ore and Metcoal that in that the cycle is probably more advanced for iron ore than it is for Metcoal. I mean, just quickly referring to one of the slides in your pack, which is the one that shows how much China consumes of specific commodities, you see that iron ore on a world wide basis, it's 50 per cent, or close to it, and in Metcoal, obviously, it's a lot less, a tiny little fraction. We've said that China, de-stocking is essentially complete in iron ore, which means that the market clearing price trading through the marginal cost has already happened, and it's now trended up to marginal cost, and the market is clearing at I don't know today, but 10 or 15 per cent below last year's contract price.

In Metcoal we haven't yet seen that de-stocking complete. People have continued to run the coking batteries in order to keep the heat and electricity and so on going, and those events still have to be manifested in a market where - which is still trading above marginal costs of production. So in terms of pure volatility I think that the outlook is probably different in those two industries.

MR LAWCOCK: And sorry, just going back to the cost, can you give a sort of an indicative number of what you think you can ripped out of the business end, right now?

MR KLOPPERS: I don't think we've got additional guidance at this point in time, Glyn, but probably at our quarterly production report we'll give as much updates as we can. I should caveat that by saying that there are so many moving parts at the moment that getting a clear picture of how that is going to come through is probably quite difficult at this point in time.

MR VANSELOW: All right, thanks, Marius.

MS KERR: Hi, Marius.

MR KLOPPERS: Hi, Olivia.

MS KERR: Olive Kerr from Merrill Lynch. Just a couple of questions on growth in iron ore.

MR KLOPPERS: Sorry, on?

MS KERR: Growth in iron ore.

MR KLOPPERS: Yes.

MS KERR: You've shown commitment to grow the business this year.

MR KLOPPERS: Yes.

MS KERR: And you've got a number, you know, exciting Brownfield opportunities, RGP5, Quantum Beyond.

MR KLOPPERS: Yes.

MS KERR: Given the weakness in the market, should we expect to see any delay in the timing of those expansion programs that you've given us? And secondly, following your decision to let the offer for Rio lapse last year, looking on the long term basis, when the fundamentals of the market improve, do you still see unparalleled value that can be unlocked through a combination, taking into account any commentary by the EU?

MR KLOPPERS: Okay. Olivia. We've got a series of projects which we call RGP5, RGP6 and then Quantum. RGP5 to 205 million tonnes on a hundred per cent basis. RGP6 to markets what 250, something like that.

MR RANDOLPH: I'm not sure. I'd put a number at about 240, 245.

MR KLOPPERS: Yes. And then Quantum. On RGP5, on which we've got the commitment, you should expect that we're going to try and bring that project on as quickly as we can. Which is the only speed that Phil, who runs the projects there for the last 10 years knows. No change there. Obviously the ones beyond that we haven't approved yet. So I don't want to give an update on that today.

So Olivia, just remind me what the second part, Rio. The assets remain the same assets that we've looked at. No further guidance to what we said at the time our deal lapsed. While I don't want to talk about that too much today, we said that we didn't see, from the EU perspective, anything that wasn't manageable under normal conditions, and we pointed more to divestment risk, low point in the cycle and so on. I would say that, you know, clearly the synergies that the industry has been trying to achieve for the last I don't know, 15, 20 years are still there.

MR HARRIS: Marius, if I can go again. Brendan from Macquarie. We've seen an enormous amount of positioning in the LNG space. People come in to coal seam methane, the majors playing a big part acquiring assets etc. We haven't heard much from BHP on LNG for some time. It's obviously an important part of your business, but you don't control it as such.

MR KLOPPERS: Yes, yes.

MR HARRIS: What are your plans, given it is a core component of the energy outlook for Asia, particularly, and I know your positive views on are Asia in general, longer term.

MR KLOPPERS: I can answer the first part of the question definitively. I may ask Mike to make a few comments about what we are doing, particularly out in Western Australia. Mike always describes, I guess, in gestures, the coal seam methane business as a "pfff" (sound effect) business, and we are in the "hooo" (sound effect) business. So that view is unchanged. You know, we view the coal seam methane business probably not as having the large low cost, and so on. It's actually operationally quite an intricate business to pump - to drill, pump and drain. In the west, you know, we did have that announcement at Thebe. But - and we obviously have the joint ventures. You will have seen on our growth chart, we put that somewhere in the middle of the next decade, but, Mike, perhaps any additional colour there?

MR YEAGER: Marius, I think you've described our views on the coal seam gas. Clearly, not something that is at the top of our list. That's not to say that others don't have a good angle that they're taking, but it's just that our - in our circumstances, we have things that we think are more robust and more certain. Our Western Australia gas is anchored right now with the large discovery at Scarborough, and then, of course, Thebe is an extension, another discovery that's 100 per cent BHP Billiton, some 31 kilometres away. We have active team working on this right now with Esso, and we're working on the various options there and aggressively pursuing those, and hopefully we'll have more to say about that in the near term. So very optimistic about bringing that forward and actively working it.

MR KLOPPERS: Thank you.

MR TAKAZA: Tamoyo Takaza with Nikkei Japanese Paper. I think that this is very good result comes from the contracted price with Japanese or Chinese steelmakers, iron ore or the coals last year - last April, I think. This time, I think the Chinese or Japanese steelmakers expected to cut the price of their ore or the coals coming this April. I think it's under negotiation, but do you think it's inevitable to cut the price of iron ore and coals?

MR KLOPPERS: I unfortunately can't give you price predictions, but I just want to point you at the comments that I made in response to Glenn's question. I have nothing to add on the coal market to those comments. On the iron ore piece, perhaps to reinforce the one comment that I did make, which is that we saw the price during the de-stocking cycle trade below the marginal cost of production, but the price - because the de-stocking cycle in iron ore is almost complete in China, you've seen a trade up, you know, to within not very far of where prices were settled last time. And we regard this market clearing price, which is based on many transactions of the physical cargoes, as the best indicator of where the market is at the moment. I'd just like to point you at that.

Hi, Lawrence.

MR GREG: Lawrence Greg, LG Consulting. I have a question about carbon markets, and carbon markets in three different jurisdictions in Australia. I'm wondering what your investment activities may be in response to the recent developments out of Canberra, the EU, which is into a second range of developments, but also the US. And I note that Exxon call for carbon taxes, as opposed to carbon markets, to clear that mechanism. I'm wondering if you can have some comments on those three jurisdictions and BHP's potential responses?

MR KLOPPERS: On the Australian proposals, white paper, you know, our comments are in the public domain. We don't have anything to add to that. We commented on how the period during which, you know, the energy content is determined, pricing periods, and so on. We spoke about how coal mines are treated around the world or where the trend is, and so on. But I don't have anything to add on that, and clearly, we are in a period where it's not yet firm of where we will end up. In the EU, we clearly have some exposure on - small exposure on some of the North Sea and Irish Sea oil and gas activities, but I wouldn't describe that as material. In the US, I think, while I'm not an expert on that, where it seems to me to be moving is a sector by sector approach, where some sectors might have carbon trading. But it doesn't seem to me, while it's early days of the new administration, that it's moving towards a global - sorry, a US-wide economy approach. It seems to me that they're moving, regulating buildings, regulating car efficiencies, and then taking up the generation sector and perhaps looking at stuff there. Lawrence, reflecting on that answer, it's probably not that satisfactory, but that's probably the extent to which I can comment on it.

MR LAWCOCK: Thanks, Marius. Just one question that hasn't been touched on at all, but, I mean, given the current environment, I can understand you're trying to be conservative on your balance sheet. But capital management now, with gearing less than 10 per cent, I know it's tough times, but you have got an exceptionally strong balance sheet now. What's this company's position now? You've got an outstanding buyback that you announced, I think, probably 18 months ago.

MR KLOPPERS: I think our actions speak louder than words. Basically, you should always take our actions that we take, consistent with our outlook, and I've got an old banker as a chairman, Glyn, so between those two factors, I think that probably indicates that we probably, you know, are always on the prudent side of where balance sheets are. At this stage, we have given no indication that we've got any intentions to restart that buyback. Clearly, as this business cycle unfolds, as it will, and becomes more clear, our single A return surplus cash is going to come into feature again, but not today.

Alex, anything to add?

MR VANSELOW: I would just add, Marius, that we haven't changed the priorities in the way we manage cash. The first priority is to invest in the business, invest in long-term value. The second priority is to manage the balance sheet, and I think we have done a pretty good job at that. And then the third is to return value to shareholders - return funds to shareholders, which buyback is one way of doing it. We have maintained the 41 cents dividend, and I think that, in itself, shows a great differentiation between us and the peer group.

MR KLOPPERS: Thanks, Alex.

MR CARTWRIGHT: Marius, Graham Cartwright from The Independent.

MR KLOPPERS: Hi, Graham.

MR CARTWRIGHT: In the last couple of weeks, there's been a couple of reasonably large asset transactions in Brazil and Argentina. BHP's name wasn't against those. Do we take that they were assets that, sort of, don't fit your current state of mind, or is it value that's really the issue there?

MR KLOPPERS: Difficult always for me to comment on any specific transaction, because then I get chased down the line, "What about this one? What about that one?" So I wouldn't like to do that, but I would point at the Tier 1 export-oriented nature of our business, and - in this particular case.

I think we may be complete, here. Let me just check on the phones to see if there are any additional questions on the phone.

OPERATOR: We do have a question from Rob Clifford from Deutsche Bank. Go ahead, thank you.

MR KLOPPERS: Hi, Rob. Rob? Rob?

OPERATOR: Rob has just left the queue, so we'll now go to Peter O'Connor from Deutsche Bank. Go ahead, thank you, Peter.

MR O'CONNOR: Marius, I'm done, too.

MR KLOPPERS: Okay. Well, Operator, are there any additional questions?

OPERATOR: We do have a final question, Ray Chantry, from Baillieu. Go ahead, thank you.

MR CHANTRY: Good morning, Marius. Good morning, Alex.

MR KLOPPERS: Good morning.

MR CHANTRY: I think you've done really well, Marius, to get through this briefing, and the R word wasn't used once, "Ravensthorpe."

MR KLOPPERS: It was used in the audience extensively in the weeks of run-up to this, but please go ahead with your question.

MR CHANTRY: Okay. In light of Ravensthorpe, and then in light of your withdrawal from the Rio Tinto bid, has there been forensic analysis within BHP in terms of the decision-making in terms of new projects and acquisitions?

MR KLOPPERS: I don't see how that question particularly relates to the Rio transaction, so I can answer that part first. We obviously have an investment process. Alex is the custodian of that investment process. As it pertains to Rio, the only thing that I want to point out is that it was our decision to lapse the bid, which is, perhaps, sometimes not commented on enough. You should take it and read that as we started that process, the duration, the risks and so on were analysed, and we always knew what our options were as that process unfolded. I think that probably answers our approach to the Rio piece. In terms of the Ravensthorpe investment decision, I'm not going to go back to what I've said before, but reflect on, perhaps, the single-line sentence that I've used to summarise, that out of 44 projects that we have completed since the company was put together in its current form, it probably wasn't our best decision.

But having said that, I also want to note that the nickel market has changed very dramatically over the last year and a half, two years; new technologies; seaborne nickel ore is a new force in nickel; Chinese pig iron and rotary kiln producers capping the upside in nickel price. There has been dramatic changes on top of what assumptions were when that project was started. But certainly you should take it as an organisation that always tries to learn from not only its own mistakes, but also from the mistakes of others. It has taken all of the opportunity that it can in order to learn from the decision-making modes around that project.

OPERATOR: Thank you. The final question is from Rob Clifford from Deutsche Bank. Go ahead, thank you.

MR KLOPPERS: Changed your mind, Rob?

MR CLIFFORD: No, I got cut off before. Quick question; on the old Western Mining assets, the nickel operations that you just described probably don't look as good as they once did in your own eyes. You've written down Corridor Sands; is Olympic Dam still as good as you originally thought?

MR KLOPPERS: I would say that there is no real change in that. We always knew what the Western mining assets were. Corridor Sands is a minor piece of the equation. I wouldn't say that there has been any material outlook. If anything, if I reflect back on the uranium market, probably the rate of reactor build is probably a little slower than I would have thought. But at the same time, I probably think that the awareness of greenhouse emissions and so on probably gives more upside going forward. So there has probably been a little bit of a change there.

MR CLIFFORD: Okay, thanks.

MR KLOPPERS: Okay. I might conclude on the phones there and do one more round here in Sydney to see if there are any additional questions here.

MR CAMPBELL: Marius, Craig Campbell, Morgan Stanley. Just to finish off, when you look at the base metals complex, most of the base metals are at a point where the industry as a whole is suffering. But you look at copper, while the copper price has come down a long way; it really hasn't impacted to the extent that you've seen in aluminium, nickel and zinc. And I'm just wondering if you could offer some comments on why that may be the case, that copper has held up relatively so well compared to other base metals.

MR KLOPPERS: Yes. Craig, I obviously can't prove any causality here, but we did go into this cycle with very different stock conditions. We've commented on the fact before that the mines themselves, you know, we haven't seen any major investment in new copper mines, big, large copper mines, where we've seen extensive investment in aluminium smelting capacity. And I think that, you know, those few factors definitely play a role here. The more interesting thing for us as we go forward is to see how the interplay being a very industrial metal plays with the supply conditions. But I have gone and looked at, historically, what ratio copper and aluminium are traded at.

I think it's fair to say that aluminium technology where it was more proprietary before is sort of now opened up and is reasonably available to anyone. So if on balance - on balance, aluminium's fundamentals, barriers to entrance, probably have decreased relative to copper. But apart from one period in the eighties where differentials between copper and aluminium were very modest, only a thousand dollar differential or so between the two was probably what you were looking at, and on balance, you would probably expect that to be a little bit higher given that - the changes in the aluminium market. But, again, I can't prove any of this, but that's how I think about it.

Okay. I think we might conclude here. Alex, thank you very much for staying up - and Mike. Thank you very much Marcus. Thank you all, ladies and gentlemen, for coming out here this morning and sitting through these results with us.

In conclusion, we are very proud of BHP Billiton as a company, of the options that we've got, and we hope to stand here in front of you in six months time and illustrate that to you once again.

Thank you very much for coming.

END