Transcript

BHP Billiton Petroleum

Investor and Analyst Briefing

Monday 24 May 2010

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resourcing the future

1. Chief Executive Petroleum's Address - J. Michael Yeager

Ladies and gentlemen, if you'll allow me, we'll get started. And my name is Mike Yeager, BHP Billiton Petroleum. Thanks for coming out and having a listen to our story and update tonight. We'll follow the usual procedure. I have got quite a bit to cover, and I'll try to march through it very briskly and then get to your questions at the end. Do know that you'll probably have about – I'm guessing that my remarks will be about 50 minutes, maybe slightly less than an hour, and then we'll have about an hour for questions. So if we'll bring up the emergency procedures there on the first one, I've been asked to remind that to my right, to your left, out these doors, down the stairway we'll find the exit and everything. And I'm sure our sponsors will help us with that after the appropriate alarms have been sounded and the appropriate instructions have been given, okay. So without further ado, we'll go ahead and get started.

We have our usual disclaimer there. Certainly everything that we've got today for you has been looked at very, very hard. But needless to say, we do our best and ask you to know that that is the guidance that we would offer up. We're going to have a brief agenda today for – to try to go through. I'm going to give you a little bit of an overview about BHP Billiton the corporation and also a little bit of a petroleum overview within the corporation, then I'm going to move right on in to petroleum performance, try to show you some things over the last couple of years that we're extremely excited about not only in regards to our numbers moving positively but how they've moved relative to our industry peers, also. We are going to then look at near-term outlook, probably centred mostly on FY11, which will start for us on July 1, as you know, and then probably bleed over a little bit into FY12 as we tell you a little bit about how we see the world coming forward.

After that, we'll close with a little bit of our longer term perspective, a little bit of an update on our exploration program, some of the projects that are in both pre-development and yet to stream in FY11 and 12, and then, finally, some of the very, very large undeveloped gas resources that we do have and how we'll see that coming forward. Some of that is absolutely world class, and we'll want to give you some visibility to it. So let's now take a little bit of a look at our – the corporation and then our petroleum piece within that. As most of you know, we run the corporation as a conglomerate. We have these nine businesses, four of which are very large: petroleum, iron ore, the base metals business and the metallurgical coal where we have very, very large dominating positions. The other positions in diamonds and manganese and aluminium and stainless are by no means small. They are world class in themselves, but those nine businesses and the geographies that are represented across the bottom of the chart there in the map represent our corporation.

We have a footprint like no other. We are in the resources business across the spectrum. Clearly our mission statement of finding and developing and producing long-life, low cost, export-oriented assets that are diversified by geography and commodity, we live by that every day, and clearly we are very, very proud of where we sit. As most of you know, many of these we have large market shares that are in a dominating worldwide position. And what I am here today to talk to you about is a petroleum business that about four years ago was ranked around the 23rd to 24th in the world, and as you can all see today we have probably climbed into the top 15 with the gains that we've made. So I am very excited about showing you that. Most of you are aware that as far as BHP Billiton Petroleum is concerned, we have not only a thriving business, but a unique backing that is unique in all of industry.

Here are all the oil and gas companies around the world, and you can see the balance sheet potential that we have as a corporation that I am able to call on. It allows me to sit across the table from the super majors knowing that I have the staying power financially to be right there with them for the next 20 years, but it also gives me a tremendous advantage over those smaller worldwide international independent companies at the bottom that have to live within their means year in and year out. Petroleum has lived within its means year in and year out for quite some time, but having this firepower behind us is enormous. It also shows that when I have a chance to work with these guys, the credibility that I am able to bring behind me transcends petroleum, and it places me in a position across the table, I can say, that is absolutely unique, and clearly we intend to take advantage of this over time.

Our EBIT within Petroleum at the half year was $2.3 billion out of a total corporation of $8.7. That is 26 per cent of the corporation. Certainly a very, very proud element that we have there is the fact that that is growing year in and year out, and I hope you'll see the fundamentals. I'll show you today how we expect that to continue and to continue strongly. But it is not just the EBIT that I think is some of the most impressive part. It is how we stacked up as one of the commodities inside of the leading resource company in the world. I often times ask that academic question about how you fit in. Well, we fit in very nicely. We have a large, large position here on earnings, and we are the highest margin business in the corporation. Not a bad place to be. Our core strategy in Petroleum pretty much mirrors the corporation, with a few additions.

Certainly one of our goals – and we work tirelessly on this every day – is to be functionally strong where we intend to compete. As you know, we are in the deep water. We are in some of the most technologically advanced aspects around the world. Large, complex, multibillion dollar projects, and we don't think you can do that being a generalist. We try to do that in a very, very strong functional way, and I will try to demonstrate that. We are very, very fundamentals focused. If you come inside of our building, you will feel safety and volume and cost dripping off the wall and dripping off everybody. And I'm going to show you what we think that has played out for us over the last few years. We do, like the corporation, want to do large things. We want operative positions that we can control, and preferably with multiple opportunities over a long life to be correct.

We do explore on a worldwide basis in BHP Billiton Petroleum, but we try to have it very much overweighted to proven basins, like Western Australia, like the deep water Gulf of Mexico, where hydrocarbons we know are present. And then last but not least, we do pursue commercial opportunities that fit us, that do what we do well, that allow our geoscience, allow our project management, allow the things that we do well to go forward and be used, and that also add to the corporate diversification, as I've said, by commodity and geography around the world. So within Petroleum we think we've got a couple of unique aspects of this; a very, very strong piece of the business, no anti-trust problems, certainly global opportunities, and the corporation uses us in a very strong way. We have been funded, we are going to spend $800 million in exploration this year, and for the fifth year in a row spend over $2 billion in development capital; so, once again, one of the largest parts of this huge corporation.

Our foot print in BHP Billiton Petroleum is rather unique in a couple of different respects. We have seven large operating locations where we have deep business ties that go back for years and will go forward for decades. You can see those points in red there: the US and the Gulf of Mexico down in Trinidad, the UK, Algeria, Pakistan and then both western and south-eastern Australia. We also have three large positions that we explore in very rigorously that dominate our geoscience time. We have 225 geologists and geophysicists working full-time, most of them centred on the deep water Gulf of Mexico and in Australia, both the Bass Strait and in Western Australia. But we have, over the last three or four years, collected a very dominating position in the South China Sea. It involves the countries of the Philippines, Malaysia and Vietnam, and I will show you how some of that is coming together as we go forward.

So we are also very, very unique, ladies and gentlemen, and I can tell you this for a fact because I've looked inside of every one of our peer companies. We do not have a long tail of small marginal assets at all. Everything we have has material size to it, has the capability of lasting multiple years, has the size to be able to have people developed and move through career progression in those locations, and clearly give us, like I say, chances to go forward and to continue to grow the business. So I have looked at all of our sister companies, and we may be unique. We may have the finest portfolio of anybody out there our size right now. Talk a little bit about how we operate the business, because it is fundamental to who I am, who you're looking at and the 1700 employees that I represent. We run the business in a very, very unique way.

We run it on a global functional basis. And the word "functional" there is the very, very strong piece. We have all of our exploration essentially in one division where everything on the wall is optimised worldwide. That gives us the chance to do the best, stay away from the worst. We do not have exploration teams that are trying to optimise a country. We do not have places where we are chasing little things just to survive. We are organised where all of that is on the wall in a big way. Our development organisation takes everything that has been found by exploration and develops it. We have a group of men and women here who do nothing but build these big projects I'm going to show you and drill the wells to support them. They don't market gas. They don't do other things. They're not in the logistics business. They do that every single day. And when you think about every well that we drill is a hundred million dollars is greater, we think that gives us an added capability to do so.

Once we have got something developed and brought in line, we bring it – cross it over into our production organisation where they focus on the safe and reliable operations of those facilities in a relentless way. As most of you have heard me speak in the past, you know that we have a metric that we call "hundred, hundred, hundred". This where our production organisation measures how close did we go worldwide during the last month to having 100 per cent of our wells flow at 100 per cent of their capacity for 100 per cent of the time. The absolute yardstick for what we are trying to achieve. We have grown that from 88 per cent four years ago. We are now punching on 93, 94 per cent every single year. That is like discovering a new field. And then last but not least, our marketing organisation that most of you that follow BHP Billiton are familiar with, where we try to maximise our realisations in a big way.

These big businesses in themselves, the exploration, development and production businesses are headed up by division presidents. These are CSG president equivalents in the rest of BHP Billiton, large, enormous organisations. By working like this, we have a chance to have, like I said, a global view. We have global standards where every well that we drill is drilled at the same standards. Every project is built to the same standards. Every country, organisation, has the same jobs, the same titles. You can take someone in one position from the UK and move them across to somewhere in Trinidad or Pakistan or anywhere else, and the jobs, the titles, the metrics, everything is going to be the same. We think that gives us a tremendous advantage.

Seventy per cent of our employees are variable paid and everybody has about somewhere between 10 and 20 per cent of their money, their base pay tied to these metrics. Whether you're an accountant or whether you're a drilling engineer, or a reservoir engineer or what you are, you're tied to these big performance metrics that drive our business, and we're very proud of that. And then last but not least, when you look up and down that functional organisation, if you're - I want you to picture it like this.

You've got an executive at the top of that that does nothing but that duty. You go to the vice-president, below that, that run the various parts of the well, they do nothing but that duty. The managers that handle the different countries, nothing but that duty; the supervisors on the ground that do nothing but that. We are very, very pure and very, very strong, and we did that for a very specific reason. We're in the deep end of the pool. We're doing the big things. We're doing the very technologically advanced things, and we think this gives us the very, very best chance of having repeatability and to be able to do the kinds of things that our corporation expects us to do. Very clear accountabilities here, guys. Who's responsible for finding something that's clear. Who is going to build it and make sure that we make every dollar of cost and schedule work. Who is going to produce it and who is going to market it. No blurring of those lines. So this is how we work and we're very, very proud of what it's given us over time.

When you take that one step further, we have two simple principles about what is in a country and what's in Houston, and that is these two principles of excellence and execution. Everything that we're going to do, everything that we - of what we're going to do, all of our planning, all of our financial analyses, all the things that involve what we're going to do tomorrow are centralised probably deeper than most companies that you would look at. We have our petroleum headquarters in Houston. We have grown from about 250 people to now a little bit over a thousand there over the last few years, centralised management and planning as I've described. Very centralised services, common world wide standards, whether it be a SOX financial control, or whether it be how the oil is changed in a compressor; all done there in a centralised way by a group of experts and by a group of people that promulgate this stuff around the world.

It's all built on functional excellence at being very, very strong down the different aspects of our business. In our countries, and you can see the places around the world that we operate, we have large stand alone strong operating units. But their primary mission in life is to execute. They're not out there writing their own policies. They're not out there deciding what the metrics are going to be for this year. They're not out there spending a lot of time, other than driving or safety, volumes, cost and how the different functional aspects of our business get done. They accept and receive services from the centre in a common way, and they adhere to world wide standards. And as I've said, over the last four years we've added a large number of people to our Houston central organisation, and we've taken the numbers away from our operating units around the world, as they focus just on execution.

What that's allowed us to do - as you can see down here at the bottom in 2007, we were making 310,000 barrels a day. We had 1350 employees, which gave us about 4.3 employees per thousand barrels a day. In 2010 we've now reduced that number of employees per thousand barrels a day from 4.3 down to 3.4, as we've grown the business. This gives us two other dimensions, ladies and gentlemen, and you'll hear a lot more about this from our corporation as we move forward. This organisation is very, very leveragable. We have four rotating equipment experts in the centre there in Houston, and they touch everything around the world. So we leverage those guys. If we were to add two more businesses, those people still get leveraged across the businesses.

This is also scalable. If you were to picture another country out there on the end of Algeria or on the other end of Western Australia, drop in whatever you want, the headquarter's piece would stay the same. So once again, we're trying to build this where it's low cost, but also extremely strong in the functional capabilities that we need. Those are out intentions. Okay? Now, let's bring this forward and take a look at our performance over the last three years in particular, and with an emphasis on internal and external. We like to think we've had three years of annual gains in all these dimensions. We now have excellent safety performance. I'm going to show you some things here that we think are as good as anybody has, and like I mentioned in 2008 - I've mentioned this before. In 2008 we were the largest company who reports their safety statistics oil and gas in the free world that had not a single loss time incidents. We have - outstanding safety record has done nothing but improve.

Our volume record

I know you guys write this number down and just kind of keep moving, but we're not in the minerals industry. Ten per cent volume growth for three years in a row is unheard of in this business, but we've been able to do it. We have not only been able to do it, as I've described; but we expect for that to have a good chance of continuing forward into the next year, if we can get things sorted. But also we do this in excellent fiscal terms around the world, and we do it primarily in liquids, where we've got a full barrel. And if some of you are familiar in different parts o the world, you've got fiscal terms where the government keeps 90 per cent of it. Our business in Algeria would be an example of that. Oil in the Gulf of Mexico, we keep a lot more of the barrel than any dollar - any dollar of price increase, we keep that on top of it.

And then on the liquid side, our growth has primarily been in $70 and $80 dollar liquids barrels, are liquids price barrels. Once again if we were doing this in gas in Algeria, you'd see a much, much smaller number. So we're very, very pleased with that growth number, which is unprecedented in our industry, but also where it's happening. We've had 100 per cent reserve replacements now for three years in a row. We have some of the lowest operating cost per barrel of any of our competitors, and I'll show you that, around $6. And then also for the international independent oil and gas companies, we have some of the lowest depreciation per barrel. That means that the capital we've spent and the proved-reserve we've developed, when you amortise that over the life of the field, we have some of the lowest depreciation that you could have.

All this leads to the following two comments at the bottom. High quality barrels that have top EBIT and per barrel margin amongst our competitors, and then also delivering the highest EBIT return on capital employed, amongst our competitors, and I've already shown you how that's also the case within our corporation. So we're very, very pleased with those. Here's a couple of charts on our safety record, as you've seen. Going back to '06, we had as many as about four and a half incidents per million man hours. At that time probably not an uncompetitive number, but not where we wanted to be. And as you can see now for four straight years we've had a downward vector on that. In 2009 we only had 1.9 total recordable incidents per million man hours worked.

This is not only the best ever in the history of petroleum, but it places us at about the top 10 per cent of industry. Zero loss time incidents, I'll show you a little bit more in a minute. Certainly zero fatalities. And what I would want you to know is that this is not just safety. This is part of our functional excellence approach to the business. I will tell you, like any other executive, the primary thing that keeps me awake at night any time is if our employees are not safe. So our moral obligation on safety is without question. And clearly we've been known to shut things down rather than continue them because we're a bit uncertain. So we do place this first and foremost from a moral standpoint.

But it goes beyond that. Our managers that are able to break their work down into its components, do it safely, do it on time, and do it with the kind of metrics I've described, and have no one get hurt. That's the same analysis we want done on the capital spending. It's the same analysis we want done on people selection. It's the same analysis we want done on any other decision we make. So safety in itself is a number that we feel outstanding about from a moral standpoint and an obligation to have a safe workforce. But it's also a leading indication of a well run business. I promise you from all my experience, and I don't know if any of you have worked around the world in stuff like this, but I've never seen a business with good financial performance and bad safety. Never. They go hand in hand over the long term.

But anyway we're extremely pleased with this, and with this comes a great deal of admiration for our employees and our supervisors and our managers as they get it done.

But now let's look at a more serious piece, and this is the part of a lost time incident. A lost time incident is where someone gets hurt and they're not able to come to work the next day. They're out for some period of time, either in the hospital, or home convalescing or some other period. And this describes in a blind analysis done by the Oil and Gas Producers International. This is an independent group that we all submit our data to. It's only out for 2008. It will be out for 2009 here soon. You can see the participating companies there. But look how the number of lost time incidents prorate over time down to the very, very low pieces. And then last but not least, look at the little black diamond above many of those companies, and that's where they've had a fatality in their business, whether it's in some form or another.

And as you can see, BHP Billiton Petroleum is the only company of that peer group to have zero lost time incidents during the entire of 2008. We have had one in 2009, but once again, we're down there in low, very low single digits, and clearly we went 18 months without a loss time incident. And this shows the competitive nature of how we feel about this. And as I've described to you, this is not just safety; this is our internal way of working. Our volume history: as most of you know, we've had a great run here over the last several years. We told you that we would average 10 per cent compounded annual growth rate over this period of time. We have. I don't want to give you a definitive number for the end of this fiscal year.
That's why that grey bar sits on the top of FY10, which will be over on June 30 of this year.

But as you know we are having a very, very strong fourth quarter. We've now got Pyrenees up and it will flow for the entire quarter. It's producing at over 95,000 barrels a day, plus our base business around the world. So we'll have some new volumes here in the fourth quarter. So we are expecting a very, very strong fourth quarter. And yes, when you do that math, it's well in excess of 10 per cent. So don't think that that's not there. But 10 per cent was our commitment, and we will have that, we feel, in hand very comfortably through this four year period. We're doing this, as I mentioned, in strong operating centres around the world. Not a lot of little stuff involved here, and like I say, we're extremely proud of this, particularly with the three big operating areas of the Bass Strait, Western Australia and now the Deepwater, Gulf of Mexico.

But we're continuing to invest in similar opportunities. I'm going to show you a long list of projects here extended over the next five to eight years that mirror this, that are big; they're high impact. As I mentioned, everywhere we drill is about $100 million. A small project for us now is a billion dollars, and they extend into the multi-billion dollar range, and once we're doing this in multiple countries around the world in a very exceptional way. So very, very proud of this performance, this volume performance. Operating cost: I think we've mentioned this in the past. Down there slightly below $6 is a very, very good place to be. That means on any given day you name the oil price and we've got $6 on it on a cash basis on that day.

So our cash margins prior to spending our capital are extremely strong. This is a three year average from FY07 through FY09. These are all of our international oil and gas company peers against us, and you can see how we sit there. Clearly we're - this has also been done through the cycle. Ladies and gentlemen, you've got $70 oil going up to $140 oil, now back down to $80 oil. And cost and inflation and the number of aspects of stress and over-heatedness follow that curve. So that our ability to keep that flat, keep it focussed during this time is something we're extremely proud of. I mentioned the fundamentals. You see there at the bottom, the things that we measure everyday. If you came inside of our building, you know, you'd see every piece of equipment around the world being measured for its uptime and I've already described to you how that's grown from the upper 80s into the low 90s. Ninety-five per cent is world class and we have many of our businesses around the world that average 95 per cent for the year, several above that. So we're very, very pleased with that.

Maintenance and shutdowns

We can tell you on any given month the exact amount of planned maintenance we've done, the exact amount of unplanned maintenance, how many barrels it cost us, how we were down, what we can to improve it, what was the root cause of that unplanned maintenance and how do we fix it. And as far as word "shutdowns", our goal is we don't. We occasionally have to for regulatory reasons. But other than that, our goal is to repair equipment on the fly, through what we call an equipment strategy, where we do not use the word "annual shutdown" in our business at all.

We abhor that. We think that's bad management to have to do that. Like I said, there are regulatory components may drive you to have to get inside our vessels periodically or something. But clearly, our goal is to not shutdown, and that's absorbed in the numbers I've described at around 94 per cent uptime for the full year. Aviation and marine logistics: if you're in the oil and gas business, you've become quite adept at understanding the various helicopters of the world, all the safety regulations, how costly they are, and we measure bums on seats in those helicopters in a very rigorous way. We are able to be efficient there, be safe and keep all of our rigs and all of our offshore facilities supplied. Same way with the marine logistics.

You don't have discipline on that; you're paying large boat and marine charges for no reason. So we measure very bit of that rigorously. And then our product transportation; whether it be our pipelines, we're down to every barrel that we ship. We know the cost per barrel to get it down the different avenues, the different pipeline options, what the different shopping options are on the VLCCs and the tankers we use, and we even measure if a vessel comes in and it's a day early and we charge ourselves for that demurrage cost. And we try to make sure that that demurrage in any other form of operating expense is kept to a minimum. So once again, our operating costs are not just that; they're a way of working and we're real, real proud of that.

Depreciation

You ever want to look in the oil and gas business – and it's probably true of everything – and say, "Have the investments over time and have the decisions over time been sound ones?" This is the one. This is the one where we take all the capital that we've ever spent and we divide it by all the proved reserves that we've developed. Early on in the life of these large off-shore projects these days - as you know, Shenzi, that picture on the front cover - the SCC does not allow you to book many proved reserves until you can prove that they're there. So our depreciation in this from always has fields like the Bass Strait that have been online for many years, and have depreciated down to a very low level, to Shenzi and Mad Dog and Atlantis and Stybarrow and Pyrenees and these things that are brand new that have very high depreciation costs until the proved reserves are fully booked.

But as you can see, we're not at the very bottom of the pack, but I will tell you that this is the end of FY09. I'm seeing a number of our competitors right now who are pulling their FY10 numbers, and their depreciation right now is in the $20, $22 a barrel range. I will tell you that if you were to take this graph and look at what we have reported through our half-year, we're at about $12.50, so we are above this, but we've got every bit of our new high cost stuff in here, and still extremely competitive. When you take the cash cost and this cost, these are the two total costs that go against EBIT, and everything else is margin. So that's what we're trying to do, is keep these two under good control, and I think you can see that we're very proud of what we've done.

Reserve replacement three years in a row

It's a very viable measurement. This shows the health of the business. If we produce more than we replace, that means at the end of the year the business is smaller than it was when it started. As you can see now, for three years in a row we've been able to make the business slightly larger at the end of the year than it was at the start. So we're replacing 100 per cent of our reserves organically through the drill bit, through our own assets. We've had no major acquisitions in here whatsoever, we're extremely proud of. Unlike mining, we have to go find this stuff. The miners do too, but they oftentimes have 10 or 20 or 30 years worth of resource. We do not, so the ability to replace this is probably, once again, the single greatest measure of the health of the business, and is it rejuvenating itself. And obviously, we're proud of this.

And I would also bring to your attention: not only have we replaced 100 per cent of our reserves, but we're replacing an ever-larger number every year, as our production grows. At the end of the year, right now I will tell you that we don't know exactly what our production number will be. I've shown you a pretty tight range, because we're three-quarters of the way through the year, but we're very confident that will replace 100 per cent of our reserves again for FY10. And these ever-larger amounts get more difficult, but that's what we're paid to do.

So I described to you that over time, over three years, you can see the EBIT per barrel at the top. We have the strongest of any international company, with the exception of Murphy. Sixty per cent of Murphy's corporation is tied up in one field in Malaysia, the Kikeh Field, if any of you follow that. It's a great field that they've brought online to about 125,000 barrels a day, but they are in a more single asset. Ours is spread out around the world, and as you can see, exceed the EBIT margin per barrel on all of our major competitors. The bottom graph on the left, you can see our three year average of EBIT margin. I've already shown you how we're the larges margin business inside of BHP Billiton corporation, and as you can see, we have the largest margins of all of our competitors there, and there are some very, very fine companies there that we're proud to be compared to.

A few comments on the right

Some of this goes back to what I've said before. A lot of it is because we've had volume growth with liquids. We have volume growth in US gas right now. You're getting about $4 per MMBTU. You convert that to a barrel by multiplying that times six, so your revenue in the US right now if you're in the gas business would be around $25 a barrel. You're in the liquids business, it's $70 or $80 a barrel, as you can see. So ours are primarily liquids growth, and as you can see, we were 62 per cent liquids back at 310 barrels a day four years ago, and now 73 per cent liquids or liquids-priced barrels at 450,000 barrels a day that we produce now. Top quality barrels are described, as I have described, and then combined with low cash and low operating costs, gives us the margin that I've described that we're extremely proud of.

And then, of course, you, as investors, are not only worried about those things, but what is the return on our money, and once again, here, over a three year average compared to our competitors, we have above 50 per cent EBIT return on capital employed. That's not only efficient, as I have described, but I can promise you that our project costs have come in around an industry best here. We're occasionally a little bit above, we're occasionally a little bit below, but an industry-bad project is where you have a train wreck and you're off by a year or you're off by $500 million, or some technical miss that you had. We have not had that. We have not had drilling wells that blew out and where we lost the well and had to start over. We've had none of that, and we're very, very proud of it. And our drilling performance that I'll show you a little bit more of in just a second is clearly something that, in today's world, is vital to us, so we're very, very proud of this.

But as I mentioned to you, these returns are probably a little bit too healthy, in my opinion. We have not done much exploration over the last few years. We do not have much dry hole expense, where we've gone out and tried to grow the business. We do want to expose you to the fact that that piece of our business we are rejuvenating. We will have a little bit of dry hole expense going forward. It's going to be bigger than we've had before, but that's necessarily in order to grow the business and keep it healthy for the long-term. So although we're proud of this, I do want to let you know, you know, clearly, you can make your EBIT and your return very, very high by liquidating the business, and that is not our intention. So do know that we will be looking at that as we go forward.

But as I mentioned to you, all of our industry leading performance is not just numerical, and it's not just financial. Let's take a look a little bit at our drilling organisation here in the deepwater Gulf of Mexico. This is just the wells between 2000 and 2008 that were drilled, and of course, we have two rigs running every single day at $1 million a day per rig in the deepwater Gulf of Mexico, drilling on Shenzi and Neptune and these other places, and then we have two other rigs that we share with BP that drill on Atlantis right now. So – but these are the wells that BHP Billiton has operated. We've drilled 24 wells during that period of time, and what this is, ladies and gentlemen, is a chart of how many days it takes you to drill 1000 feet. So if you were to take that number of days times 30,000 feet, you'd multiply it times 30.

This is saying that the faster you can drill here and be safe, the lower cost your wells are going to be, and the more efficient your capital spend is going to be. So as you can see, we, on average, take less time to drill 1000 feet of new well bore than our competitors there. And once again, what I'm also proud of is we've never failed to reach TD. We might have a little problem uphole but we've never had any big stuck pipe or other loss of technical prowess that causes you to lose the well, and we're very, very proud of this. I go back and I would just remind you of our functional organisation. The men and women that drill these wells, they average 30 years of experience. We've had the same rigs working for us for seven years now.

When you go onto the cementing unit or you go on some parts of that rig, it's got our BHP Billiton modifications on there to do it exactly like we want to do it, and we do every well in exactly the same way. Our offshore supervisors work for a drilling supervisor that is more experienced than they are, that works for a manager that's more experienced, that works for a worldwide president of this that's more experienced. This is a deep, rich, functional organisation, and I don't mind telling you that since the spill in the Gulf of Mexico, the regulators have been out, they've function-tested all of our equipment, they've gone to Shenzi, they've gone to Neptune, they've made us emergency shut down our facilities, they've made us do all the offshore functioning of our safety systems, and we've passed without one single incident so far. So not only do we do this well, the safety part of it is outstanding.

Clearly, we expect to continue to work through our problems today. Our management of this activity is outstanding, and we're going to look and learn from everything that we can from the incident that's occurred, cooperate with the regulators, and I'm very, very confident that the things that we do every day, the blowout preventer design that we have, the wellbore design that we have, the way we sediment our wells, any regulation that flows, we're very optimistic that there's a good chance we already do this, because we do a number of things in this area that are beyond the call of duty to be safe and be efficient, and also look at how fast it is. So very, very proud of this.

And then I think I've shared this with a few of you in the past, not only on the drilling side, but we've built two of the deepest, most complex facilities in all of the world. The Neptune and Shenzi facility, both of them are in deeper than 4300 feet of water. Both of them are tension leg platforms that have been done on cost, on budget. These are great achievements, and you can count the number of companies that do this, ladies and gentlemen, around the world, on both hands. There's not many, and we're one of them, and we do it extremely well. So between this work and that drilling I've just shown you, that's where 95 per cent of the capital spending that you see us go out and do resides, and we do it very, very well.

So this allows us to do a number of things, and let me just, kind of, wrap up on my first point here. We've got a scalable organisation. We've got very, very low overhead. Our employee count per barrel, as you can see, has come down, not gone up, as we've grown the business. Our production growth of 10 per cent per annum, since '07, very, very strong and we're on target to do that again this year and clearly expect that to be the case as we report our end-of-year numbers, probably above that. Cost control, I hope I've demonstrated that not only are our cash costs and non-cash costs outstanding, in our view, they lead our competitors in many respects, and the focus on the basics and the focus on those fundamentals, we'll never regret doing that. We're very, very good at what we do, and all this has led to our highest EBIT return on capital amongst our peers and it's also the highest in BHP Billiton, as I've said.

So ladies and gentlemen, I'm going to talk to you about, kind of, three, pretty messages today, and I hope I've given you the first one. We feel like we're at the top of our game. We feel like we're very, very strong. We're very competitive. We've rebuilt our credibility in industry. We've got great credibility within our corporation and, certainly, going forward, we expect to be able to use this to great advantage, but I hope I've demonstrated to you very, very strongly where we sit.

So now let me move into the second piece of our story today, and that is to give you a little bit of our near-term outlook. I'm primarily going to focus on FY11 and, if this conversation would have been month ago, I would have said one thing, and now I'm going to have to tell you a little bit of something else, but, clearly, the things I'm going to show you today are large and robust and, although they may move around in a couple of months or so, they're the envy of our peer group, as far as what we have in inventory. As I get into this, let me just, kind of, reground you. Here are those places that we operate around the world and the good footprint we've got, and the first area that I wanted to update you on was our deepwater Gulf of Mexico.

We have these three, large opportunities that are continuing to go forward in Mad Dog, and I'm going to show you a chart on Mad Dog in a minute, but Mad Dog is a very, very unique story. We have now for, obviously, this project – and this field's been online since '05 – but during the last three years, we've continued to step out and expand the Mad Dog field now in a way to where it's now one of the largest oil fields in the world, and I'm going to show you that in a minute. What that means is: it's got significant new development that has not been shown to you that's going to be near-term barrels, as well as longer-term projects in the Mad Dog field, but it's very, very big and clearly, like I say, an extremely important part of our future.

Atlantis

This big 200,000 barrel a day facility, is sitting out there. Atlantis has had a primary development of the south part of the field, most of you are familiar with. We have found more oil in place there in that project than we anticipated, so the oil field is enormous. The problem with Atlantis has been the reservoir pressure has been lower than we thought. We had thought we would get natural aquifer support to keep the pressure high and we haven't, so we've had to install water injection. I've reported that to you in the past, but that waster injection boost is really ahead of us, and the additional barrels we're going to get and the keeping of our plateaus high is still ahead of us. So we're going to get, new better barrels from Atlantis from the water injection.

But the real story on Atlantis is another big discovery. It's on the north side of the field, and I'm going to show you that and how we now have an enormous amount of new, near-term barrels that are going to flow from Atlantis. Then of course, Shenzi; Shenzi is the picture on the front of today's program, as you saw there. Very much our pride and joy, extremely strong base performance. So strong that, when I show it to you in a minute here, we're proud of it, and we're continuing to drill in Shenzi and we will continue to go forward there.

Mad Dog

So now let me take a minute and show you a little bit about some of these things, and let me start with Mad Dog and how it continues to get larger. When Mad Dog was first discovered, you've got the areas there in that colour that were part of the original development. You can see the Spar location on the east side of the field and a couple of areas under the west side of the field that were originally put in place. Mad Dog, originally, was a giant, giant field, over 1.5

billion barrels of oil in place, but a huge, huge base to work from. Over the last couple of years, now, look what we've added. We extended a well two years ago and we pushed the oil in the west down several hundred feet. What this has now done is added another billion barrels of oil in place now that was not part of the original Mad Dog development. The wells to drill it have not been drilled yet and certainly this is what we'll be doing over time.

So we've now had another billion barrels field, essentially, added right under our feet and then, in the last year, we drilled a well in the south. BHP Billiton, we actually came over and drilled this well ourselves. You can see it there, the Mad Dog South appraisal well and sidetrack, and now we've pushed our limit down further to the south and we've add what we feel is another billion barrels. So now you've got a field that started off as enormous and now it is huge, and one of the most giant fields in the world, so large that this Spar facility there cannot drain it. Now, ladies and gentlemen, it's the last bit, the little line that separates the yellow and the green from the blue over on the west side of the field, there's nothing there. So we're going to go up to the north and drill in the next six months and see if the oil wraps around to the north and, if it does, you're talking about adding another large piece of business. So I hope you can see that these fields are very, very difficult. It takes quite some time to figure them out.

Let me give you a couple of comments now to, kind of, set that in perspective. This field is now so large that the current Spar cannot drain all the discovered oil. The west and the south areas cannot be fully reached from the rig that sets on the Spar. So we've got optimised development schemes right now being worked that could double the oil in place. What we're probably looking at is another spar. Right now, the general size on that will be between 80 and 110,000 barrels a day, but we'd be looking at another big add on. This is like discovering another Shenzi, or two Shenzis, right here. So I cannot describe to you – some of these barrels will be near term. They can be tied into the existing spar over the next year or so, and then some of them will be three to five years out, after we add the second spar. But when you look at our project inventory going forward, this is not in there yet in its fullest because we are still doing the concepts, but, obviously, adding the second Mad Dog phase 2 is an enormous piece of business that underpins our growth and our development over the next few years.

You know, when you think about it, we're out there trying to – we would give anything to go discover 500,000 million barrel oilfields and we've discovered three of them here, adjacent to Mad Dog, over the last couple of years, and now they'll move into development. So we're very, very excited about that. The same thing for Atlantis. The Atlantis field is primarily within the red, dotted lines there. Originally, the south part of the field was – when we talk about the "Atlantis development", the $4.5 billion that we originally put into it, it was to develop that piece in orange. The south is an enormous field, over a billion barrels in place, a very, very large amount oil.

The problem is, then, that the blue area to the south, water did not come in as strongly, so we're drilling water injectors and adding water injection capacity on the platform. Those are the three areas that are marked down there on the bottom perimeter, where we'll put water in there and push and push more oil out of the Atlantis South. But Atlantis remains one of the largest fields in the world. It's the second-largest field in the deepwater Gulf of Mexico, an enormous thing. But now, the area to the north was very, very hard to see. It's under a very thick canopy of salt, but we went ahead and we've now drilled two wells in the north. Ladies and gentlemen, out of just two wells in the north, we're now producing over 50,000 barrels a day from that.

We've got five more wells that are being planned and, of course, this adds to the enormity of the field. Then, of course, to the east, we don't know what's there. We hope to drill a well in the east in the early part of the next calendar year, in 2011, but, as you can see, there's no reason why that should not have tremendous upside to it also.

So when you bring all that together, you've now got the second-largest field in the Gulf of Mexico's history. It's now even larger, with more upside. We'll be doing this development drilling here in the initial area, as we move forward, and the south water injection will give us a good shot in the arm, two wells that, like I said, have been drilled in the north, 50,000 barrels a day, five more planned, and all this leading to a ramp up at that facility to what we hope will be 200,000 barrels a day over the next 18 months or so. Then, of course, the east appraisal gives us a chance of adding even more to that. So you know, when you think about BHP Billiton Petroleum, certainly, these big things that we're sitting on, and those are getting larger, is in addition to Western Australia, in addition to Bass Strait, in addition to the things that I've just described.

Shenzi

Let me just take a minute to update you on Shenzi. Shenzi is a phenomenal success story for us. As most of you know the Shenzi field, there's a map there on the bottom. It's got three, basic segments to it. The east and the west are on production at this time, but the east and the west were designed and the wells were drilled, and we hope to get 100,000 barrels a day out of the facility. As I mentioned to you, we not only got 100,000 barrels a day, we got 140,000 barrels a day – was the initial start-up rate. Here we are today, as I speak, we're still around a hundred and ten to hundred and fifteen thousand barrels a day out of Shenzi. So one year later, we're still producing what it was originally designed to do. Very, very proud of that.

We do have some additional drilling that's going on now. These are hopefully going to allow us to continue to keep the Shenzi production strong, but also hopefully open up some new horizons that are up-dip from what we've done. Then now, we think it's also prudent, based on our learning experience in the deepwater, to go ahead and add the water injection. So we have that in progress now and then that will allow us to keep the plateau higher and keep the decline rate of Shenzi lower into the future. So Shenzi continues to be a very, very big part for business. So when you think about Mad Dog, when you think about Atlantis and you think about Shenzi, these large, new, near-term barrels, Mad Dog, with possibly a new spar to double the field, Shenzi staying strong and Atlantis North being added to, where a single well produces 20,000 barrels a day, I hope you can see how confident we are in a large amount of continued strong performance, and that's just the deepwater Gulf of Mexico.

Trinidad

Now, adding on a little bit, Trinidad, most of you are familiar with the Angostura project. We've done the oil production in Trinidad, now we're going to do the gas, so we accept the Trinidad operation to double over the next 12 to 18 months. In Pakistan, we're adding new compression that will add to our reserves capture there. We've now built the Pakistan business to 500 million cubic feet a day, and this will allow us to stay there for several years to come. In Western Australia, the Pyrenees project that we're so proud of, we've brought on three months ago. It's producing around ninety-five to a hundred thousand barrels a day, and that will continue into the next years. We certainly have a large amount of that business there, over 71 per cent of it. So big barrels as we go forward.

Western Australia, five big trains, as you know, in the North West Shelf, and now we have the gas being developed to keep those five trains fully loaded and maximised over the next several years. Eastern Australia, we continue to have the Bass Strait infill development, where our gas flow through our facilities there are maximised as much as they've ever been. We still have decades to go out of the Bass Straight. Then lastly, at Liverpool Bay, we'll begin the late life management of the gas blow down of that facility that will keep it strong over years to come. So as you can see, the blue is oil, the green is gas, and the red is LNG. You can see the large number of barrels that we have that are liquids – in nature, are liquids priced. The LNG is priced in liquids, as most of you know, and this continues to give us a very, very strong view of our performance, going forward.

We do have a few areas that are a bit of an intermediate issue for us. Let me first encapsulate, as we look into FY11 here, as you can see, in almost all circumstances, we see the business growing next year. That's because of a full year of Pyrenees volumes, these Angostura gas project start up that I mentioned, the Atlantis South drilling and water injection that I've described to you, these large wells in Atlantis North that we'll continue to drill, the big Shenzi field and how it continues to have some infill drilling and then, of course, keeping the Bass Strait and the North West Shelf and Pakistan at maximum capacity. So if we had gotten, you know, certainly, another 8 to 10 per cent of volume growth, potential is there, but I don't want to let you know, we have been indirectly impacted by the BP incident in the deepwater Gulf of Mexico.

The two rigs that are going to drill the Atlantis wells that I've just talked with you about, they've now been removed from Atlantis. They've been taken over and both of them are drilling relief wells on the BP blow out. These are called the Development Driller 1 and the Development Driller 2. They're both Transocean rigs. If you were to look at any cartoon in any newspaper, you'll see that two rigs are now over there, drilling down to the horizon where the blow out is occurring. If you're not familiar with a relief well, that's how these blow outs are contained, if they can't been contained mechanically. The well will go down and actually intercept the well bore of the well that's flowing in an uncontrolled manner and try to redirect that flow back up into the well, or into the rig, where it can be managed and shut in.

So we do have our two rigs over there. In addition to that, you've probably read where the government has said that, right now, the US government is not going to issue any new drilling permits in the deepwater Gulf of Mexico while this entire thing is being investigated. As I mentioned, we have been part of that investigation in every respect, all of our equipment visited, all of our platforms visited. We've received hundreds of questions from the MMS and from the Department of the Interior. We've answered all of them, so we're contributing in every way we can to try to get at root cause here, but the US government is saying around 28 May is the first window that they're going to have a report out, stating how they are going to handle, regulatory-wise, the follow-up drilling permits for companies like ourselves to drill in the deepwater Gulf of Mexico. So we'll be in abeyance on that.

So this does give some significant uncertainty to our near-term drilling. I hope you can see it gives no uncertainty to the wells that we will drill. They're all firm. They're all large, but, whether or not we are on hold right now for three months, which is what BP is telling the world that these two rigs will be needed, or could it be longer, I don't know, but we will have some uncertainty here. So as you can see, I do want to let you know that, rather than the 8 to 10 per cent volume growth with high confidence, we would want to tell you that the low end of that range is probably. Certainly, whether we lose our drilling capacity for just three months or could it be longer, we don't know. Whether or not our drilling permits are reinstituted in June or whether there's a further delay on that, we just don't know.

So as I mentioned, we were able to have a capacity story that is very strong. It's depicted there in the bar graph on the right, but we'll just have to see how long we're on hold before we can recommence this activity. I want to tell you this, ladies and gentlemen: the deepwater Gulf of Mexico is 1.6 million barrels a day. It's vital to the worldwide economy. It's 30 per cent of the US production, and I think there are a number of things that cause that to be highly motivated to get back online, but we are impacted.

Key messages, though, this is the second thing I want you to know. We have the capacity to have a great FY11 and into FY12. I hope you can see that we continue to have these very, very large opportunities. We're not a one-trick pony. We don't have one thing and, if it all falls over, everything is in trouble. We have a large number of fields, the largest fields in the world, and we continue to enjoy very, very robust returns from them. Also, the Pyrenees, the North West Shelf and the Bass Strait continue to perform very, very well and, as you can see, Trinidad and Pakistan, even our smaller businesses, are growing in size. So I want you to know that the statement at the bottom is, you know, very real to us. We'll back to you as soon as we know when the Atlantis wells will continue to be resumed. But while we're on a pause there, this will impact our outlook for next year and, certainly, we want you to know that it will guide downward a little bit. Very, very healthy outlook from a potential standpoint, but we'll just have to deal with this uncertainty and then go forward.

So that's the lion's share of what I wanted to talk with you about today. A great, healthy business, at the top of the game; a large number of near-term opportunities that are sound, and let me just close out by mentioning a few things around our longer-term opportunities. This graph is a lit bit of symbolism of BHP Billiton Petroleum Exploration. You can see the small bar on the far left. Back from 2000 and 2006, we did very little capturing of new acreage around the world. We were drilling these things that I've just described, but we really just, kind of, paused on our exploration program.

Since then, as you can see, the cumulative acreage that's been captured now, we've tripled the land since the '86 period, focussing on large, core areas, just like BHP Billiton's hallmark of doing large, long-life things. Everywhere we explore can be a significant business and it can be around for decades. Everything we try to do, predominantly, we operate it and it will have world class size and then, because of the nature of BHP Billiton Corporation, we don't go after the small things. We try to do things that are large and material to BHP Billiton Corporation.

Here are the top 20 oil discoveries in the deepwater Gulf of Mexico. In orange are the ones that we participate in. No other company out there has any kind of a track record like this of finding. I've already shown you how Atlantis and Mad Dog, when they were found, were enormous, and now they're even larger. Shenzi is one of the top 10 in the deepwater Gulf of Mexico. Cascade is a field we discovered and sold. It's in the Palaeogene, but we have an overriding royalty on that when it gets produced. Then right now, we're drilling the follow-up wells on Knotty Head and Freedom, and those will be future developments as we go forward. So we have had a very, very robust set of circumstances there and our same team is still in place now.

Here's a map of the deepwater Gulf of Mexico. That orange area is the area of all of our finds to date. If you were to look inside of that, you would find Shenzi and Mad Dog, and Neptune and Atlantis. The acreage we've now been able to capture, that's in blue, extends to the west and slightly north. You can see how we've now added that acreage there and we're now extending our geological developments that way. We have drilled a couple of wells out here this year. The Knotty Head well, the second one in the field, moving a mile or so away from the original well, was very successful.

We've had two, though, that were not successful, Double Mountain and Fire Fox. Double Mountain found hydrocarbons, but they were just uneconomic. Fire Fox had very minimum amounts of hydrocarbons and we would classify it as dry. Deep Blue is still in progress. I think we'll be announcing over the next few days, if you haven't already seen that, that we have had found some hydrocarbons in that well and will be doing a sidetrack to confirm the original discovery. So it looks like we've still got a good chance of Deep Blue having some economic hydrocarbons, but this is one of our major areas and, as you can see, we've had tremendous success there and we'll continue to do that.

I mentioned the South China Sea to you earlier. This has a look of not only Malaysia but also Vietnam and the Philippines. All that orange area there is one geological province. This is the way we like to do business. We'll take a position there and then try to make sure that it's large and establishable. So we've drilled one well in the Philippines and made one small gas discovery, and we've drilled our first well in Malaysia and it was dry. We'll continue to drill in the second half of the year, but we've got a large dominating acreage position here and some large world-class fields around us, so I do want you to know we continue to pursue these large areas.

I've told you how most of our exploration is in areas of proven acreage and proven areas of oil and gas commerciality. We will occasionally drill a few wells that are a little bit more remote than that. We've drilled one this year off the east coast of Canada. We found gas, but it's uneconomic. We will drill up to five wells in Colombia. This is adjacent to the large Venezuelan fields there in Colombia, also we'll drill over the next couple of years, and then certainly over the next month or so, we expect to drill one of the many wells that are being drilled in the Falkland Islands right now. Two have already been drilled, and we have the third well in a slot of a number of different operators down there, and we will take that one forward. We're running seismic in India right now. We've got a very, very large acreage position right down from proven discoveries, and then although it's not a frontier location, I did put on here the fact that we've drilled a very, very significant step-out well in the Bass Straits this year, and found over 250 feet of pay, large enough to be a new standalone facility. So, you know, some very, very good exploration success there adjacent to the Bass Strait. So we're going to continue to explore some of these frontier areas.

As I mentioned to you, probably do 75 per cent proven and about 25 per cent frontier. We've rebuilt our acreage and we'll continue to do that. You'll see our activity increasing, as well as our spending, and this is the first real exploration we've done in eight to 10 years. Our initial results this year are a little bit below what we had planned. We'll have slightly higher exploration expense going into our EBIT, but that's necessarily as we continue to grow our business. As I've said, having returns that are liquidating is not what we want, and obviously, we think we've got a good three year program doing this in good locations around the world, and with good partners. So we'll be back to you over time and let you know how it goes, but certainly we're doing the kind of things that give us business.

Now let me wrap up with our true longer-term opportunities on the project side. I've already mentioned Mad Dog and Atlantis and the large new projects that will flow from there in the Gulf of Mexico, but in addition to that, as I mentioned, we have the Knotty Head discovery and the Gunflint, or it's sometimes called Freedom, depending on – there's two different names for that success. Those things are being appraised now, and we're optimistic of those coming into a project fold in the not too distant future. In Western Australia, many of you are familiar with the Macedon project. We're in the final stages of doing our detailed design and we hope to move that in execution in the next couple of months. In Eastern Australia, the Longford plant will be expanded over the next couple of years, and we're building the Kipper and Turrum projects offshore to make sure it stays loaded. As I've said, our Bass Strait complex is still at its maximum, and these are the projects that it takes to keep it loaded.

And then in the North West Shelf, all five trains now have large gas volumes that are being developed offshore in order to keep them full. Give you a glimpse at a couple of these in the North West Shelf. This is called the Greater Western Flank. Look at that. That's a two to three trillion cubic feet of additional capacity that's going to flow in over the next couple of years. This helps underpin those trains, as I've described. It keeps the plant full, and we're right now continuing to evaluate the subsea and the developmental nature of how to bring that gas ashore. But very, very large. These things are so large that when I talk about them, certainly, you can't get lost in the fact that most companies have none of these, and we have several of them.

North Rankin B is the same way. Already been funded: $850 million. A very, very large amount of gas that will flow into those trains and keep them loaded, and this one starts up in the very near term in calendar year 2012, right around the corner. I mentioned Bass Strait Turrum and Kipper. The combined BHP Billiton net investment on those two is over a billion dollars. This will add liquids growth to our business and also keep the plant full. Fairly simple, fairly straight projects. We do report that the cost and schedule are under review, but when we say that, we're talking about months of movement, not anything of an alarming nature. There are a few things in the execution that have been a bit rough, but we're optimistic that that will get lined out and get back on track. But very, very large.

And then, as I described to you, the Macedon project in Western Australia: a small gas field, subsea, piped into the shore and then the gas plant being built there onshore. We'll sanction that here about the middle of this calendar year. Expect the first gas in calendar year 2013. Right now, all the engineering is in the final stages of completion. The regulatory approvals are moving forward, and this will be about 200 million cubic feet a day, a really good shot into that Western Australia economy. And then, of course, here's the big stuff that I think most of you in Australia are aware of, but now I want to make sure you can see that, because it is moving forward.

Our reserves picture is the best way to describe this. Our proven reserves, which are listed on the left-hand side there, about 1.4 billion barrels, or around eight to 10 years of future production, we have in the proved category. But that pales, as you can see, in comparison to about two and a half billion barrels that are already discovered, already there, not speculative, but just do not have funding behind them yet. And as you can see now, we're now ready to tell you that the Browse and Scarborough big Western Australia gas is moving into a funding nature. In FY11 we will start spending on that in a capital nature, and as you can see, raise those expenditures by 2015 to over two to two and a half billion dollars a year. So these are large projects that are enormous, and clearly now moving into our longer-range view. These things will stream in the latter past of this decade, but as you can see with everything I've shown you, and now these things out in front of us, that's why we know our future, you know, still remains strong for some time to come.

The LNG is being sold into extremely strong fundamental demand. As you can see, the Asia LNG supply here in calendar year 2010, in calendar year 2030 has enormous growth in it, as is depicted in the graph in the upper left-hand side, and then China and India, you can see the gas demand that they have in calendar year 2010 on the left for China, almost quadrupling over that period of time, and then on the right for India, where it will clearly double. So we expect to have large amounts of consumer demand here. Our negotiations on the LNG barrels that we have today stay strong. All of our sales have been made without any problems, and as we go forward and negotiate new sales into these same markets, we continue to capture 90-plus per cent liquids parity on those sales. So our barrels and our prices continue to stay very, very strong. The market really likes the strong performance that we have.

A couple of comments on Browse

As you know, it's really three fields offshore, very complex, a long way from the beach, about 14 trillion cubic feet, and this is an independent third-party number. Ours is slightly different from that, and others would be different from that, but clearly, that's in the ballpark, so extremely large. Over the next couple of years we'll spend $1.25 billion getting the work program and getting the design done. This is the industry participation that will be going on, and then we hope to have a basis of design and be able to go into sanction in the next 24 to 36 months there. There are a number of technical issues on Browse that are not yet solved: a very long pipeline route, clearly some softer seabed issues out there and how to anchor the facilities. These are things that can be solved, but it does indicate that we've got a little bit more work to do before we can have a firm project schedule.

As you know, this is the project where several of the industry partners wanted to wait and bring this gas to the North West Shelf when that infrastructure could handle it, but the government has asked us to bring it to Kimberley and to build a new facility up there. We are complying with that demand, and we'll have to see if we can get all these technical issues and still have a viable project as it moves forward there. But we are complying and moving forward with this large project.

And then here is Scarborough. Offshore out there, as you can see, the furthest out to the top of the picture is the Thebe and Scarborough gas fields. They are in a – these are very, very large, some 10 trillion cubic feet. BHP Billiton owns 100 per cent of Thebe and we have 50 per cent of Scarborough that we share with Exxon Mobil. This will be a very large, very expensive project. 15 to 20 billion dollars is our very best estimate. We have a large number of concepts that are being looked at. Do we build a standalone facility for ourselves? Do we try to partner up with someone else? Do we build a facility onshore? Do we build a facility offshore? We and Exxon Mobil are looking at all those things now. Our concept studies are progressing, and we hope to commence some sort of FEED and definitive project schedule in FY11.

But in addition to that, as you can see, outside of that area of Scarborough and Thebe, the other blocks there are BHP Billiton exploration acreage. WA-351 and 335 are big exploration acreage for us, and then inboard of that, you can see this is where Stybarrow and Pyrenees and Macedon sit. So this corridor in this part of the world is extremely valuable to our company, and clearly a major piece of further growth as we move forward. Scarborough is so large, ladies and gentlemen, it will produce about between 150 and 170 thousand barrels a day on an LNG basis. That will be done in millions of tonnes per annum, but it will be very, very large, and we'll have 50 per cent of that toward the end of this decade. So that was the third major point I wanted to make, is a very, very strong outlook.

So ladies and gentlemen, let me wrap up with this chart. As you can see I don't think I have to spend a lot of time on how we're an integral part of BHP Billiton Corporation. We have extremely strong performance and key commodity of being a global resources conglomerate, and strong functional capability to execute what I've described. Our performance over the last three years has been what we consider to be top of the pack. We've delivered against all of our internal metrics. We hope we've met your expectations, and as you can see, all of our volumes and cost in capital performance measure up at the top of the pack compared with our peer group.

Nearer term

We have an enormous amount of near term barrels and intermediate term barrels in Atlantis and Shenzi and Mad Dog. We have major additional projects developing a second Mad Dog facility going forward. A full year of Pyrenees, you know, all the different projects I've described, so the intermediate term stays healthy. Our biggest concern is the next three to six months, being able to get the two rigs back to work at Atlantis off of the relief wells that are being drilled on the BP blow out. We hope to do that, but obviously that adds some uncertainty to our FY11 volumes, and some uncertainty to how this will play out over the next year or so. But there is no uncertainty, as you can see, from the fact that we've got big, large, strong things to go after that are the envy of our peer group, and we'll be doing that.

You can see we do not expect a big volume falloff. We have a lot on our plate. Our volumes should grow here in FY11. We'll have to come back and talk about the growth rate beyond that. But we have no big precipitous falloff, as some of the investor groups have talked about, and we will remain extremely strong. And then we've got the big Western Australia gas that will happen here in the next five to six to seven years. In closing I would just mention that, you know, when you look at the mining business and you see, and I know many of you follow that and you've got the big long flat volumes, the oil and gas business is different here. It's lumpier; it happens in bigger pieces, it's not quite so linear. Oftentimes it's hard for us to look more than about 24 months out and give you a highly strong degree of predictability in the types of things we'll be doing.

I can tell you that many of the things I've shown you today I could not have shown you 24 months ago. Now they're affirmed. Now they are large. Now they're going to happen. I'm very confident, as our corporation funds us with an enormous amount of its capital expenditure, that we'll continue to grow this, and as you can see we've got a much firmer foundation than I think the average investor sees and much bigger, much more robust opportunities that will continue to keep our economic and financial performance at the top of the pack. So that's where I'd like to finish up. There'll be a few quarters that will bump up and down. Sometimes you guys are not aware that in the Bass Strait the gas demand fluctuates tremendously. I'm sure you know that. But when that happens in your winter, it's up. When it happens in your summer, it's down a little bit.

It's got nothing to do with the underlying reserves. So we'll have a few quarters that will move along. But as you can see, with the exception of the next three to six months on getting these rigs back and getting them back to work in Atlantis, we've got a very, very strong outlook, and we look very, very forward to seeing it executed. I'd be glad to answer your questions now.

2. Questions and Answers

Lawrence Grech, Austock

I just have related questions about exploration and appraisal well drilling. We talked about excellence in operations and that's been very commendable. I'm just wondering if you can talk about excellence in exploration and looking at techniques which you've taken so you can image, particularly in the Gulf of Mexico, where you have to infer reserves with relatively small well bores and few penetrations of the reservoirs. I'm just wondering if you can talk about some of the developments there so you can image and get an idea of these resources, and whether you're applying any new techniques, particularly in the South China Sea that may advantage you?

J. Michael Yeager

Well, that's a great question on how the industry is progressing and we're doing about it. Ladies and gentlemen, I guess probably about five or six years ago the reason the Deepwater Gulf of Mexico came into light was the geoscience and the seismic ability to see below the salt was beginning to evolve. As you know, that's what makes this part of the world unique. It's got this great big interval of salt that you've got to see through, and we can do that better now. Back five or six years ago seismic would be one vessel, probably one set of streamers trying to get one direct image. Now, Laurence, the new things are multiple boats, sometimes as many as five, or we'll five boats side by side. What that gives us is the advanced mathematics of having a seismic signal where the computers can now take that signal down and measure the image of the earth, but also measure boat to boat, and this allows us to look around the corners.

It's not perfect yet. Clearly the imagining is still difficult. That's why the Gulf of Mexico continues to be one of the very best places in the world to explore. We know there are large amounts of hydrocarbons that are not explored. But that would be an example of something we're doing. The other things, of course, is I go back to that drilling organisation. When I can go out there and drill safely and securely and get to bottom time after time, and do so in less days per thousand feet, that is the other piece. The mud systems, the way things work, the way these rigs are evolving, they're so expensive that being able to that and get on and off a well test without being hung up out there for six months is very, very vital.

So I think geoscience piece continues to progress. We're applying some of these same techniques in the South China Sea. We'll take on a deepwater rig in the South China Sea in the latter part of this calendar year. We'll have multiple slots over the next year or so. We'll partner with PETRONAS, the Malaysian company, and we're running the 3D seismic in the same way and interpreting in the same way. Very optimistic. Yes, sir.

Mark Greenwood, Citi

Good day. Mark Greenway from Citi. I just have a couple of questions: one on Browse and one on Scarborough.

First up on Browse, you said there's some technical issues there, but some of the other JV partners are sort of moving ahead. Have you started marketing that gas yet?

J. Michael Yeager

The Browse piece, we have not started marketing yet. Clearly as we get more definitive on the concepts here - I mean, when you talk about the partners moving ahead, you know, what you read in the newspaper about the acceptance of the Kimberley and then what needs to happen in the project to get these things figured out are two different things. So yes, we are all moving ahead in compliance with the government's guidance to go the Kimberley with the concept. But now we're working a number of technical things. Like I mentioned, the pipeline diameter here and the distance; when you put those two together it hasn't been done before. When you go to buy that pipe, you're going to either - you could occupy as many as one to two to three steel mills and occupy their entire production line for a year. So these are enormous things. When the sea floor is soft, the ability to anchor out there and have floating vessels, it's more difficult than the Gulf of Mexico.

Once again I don't think these things are insurmountable, but they're not yet solved, and solving them, then, it is necessary to get on a predictable project schedule. That's not to say we're not trying to work that, but when you get down to what year and how it's going to work, there's a number of things you have to figure out.

Mark Greenwood

C02 been resolved yet?

J. Michael Yeager

No, the C02 is not resolved and the C02 will be sequestered in some sort of way. Obviously being able to put that back in the ground is the method that was given to Gorgon Project, as you know, and that's not easy. That involves geology and figuring out where to put that stuff. So that would be another example of something that's yet to be worked. Once again, time to solve it. Not pessimistic about solving it, but just not there yet. What about on Scarborough.

Mark Greenwood

On Scarborough, just in terms of the most likely development concept, is that still to bring that onto shore at Onslow where Chevron is developing?

J. Michael Yeager

Yes. You know, bringing - we really have a couple of three or four different concepts there that are all very attractive. We can bring the gas onshore there in the Onslow area by ourselves and do something. We can bring it onshore and maybe work with Wheatstone or Woodside up at Pluto. We've examined those, and we can do something that is slightly offshore. And all of those things are being worked at this time. So I would say that we hope to land on a concept in the next six to nine months and then be able to go forward there. They're all attractive. We think they're all economic. Clearly it's a matter, because of, you know, how the risk is on the stuff of getting it right. I will say this: if you're used to following the mineral side, this is the one thing that's different about the oil and gas business.

We spend every bit of our money, guys, before we ever get one cent of revenue. So that concept selection is the science of oil and gas that is different, and it is by and large what separates the good oil and gas companies from the poorer ones at getting that right. So we'll work this really hard, and ExxonMobil is outstanding there.

Mark Greenwood

Thank you.

J. Michael Yeager

Great question. Yes, sir.

Adrian Wood, Macquarie

A couple of my questions have been asked already. But it's been suggested that oil and gas assets not currently under PRRT might be able to opt into the PRRT system, rather than go into RSPT. Obviously we've seen Don Voelte over the weekend suggest that Pluto wouldn't work as an RSPT project, yes, and the new build doesn't look attractive. But can you talk a little bit about whether the North West Shelf would prefer to under PRRT as opposed to RSPT? And just as a second question on Browse, just as follow up: has there been a fundamental change of heart within BHP towards the Browse project, or at this stage are you merely just complying with the more stringent government regulations surrounding the project?

J. Michael Yeager

On the tax issue, I'll start with that – in the North West Shelf, as most of you know, the North West Shelf is the only part of the oil and gas business in Australia that was not under PRRT. It had a slight exception of a royalty and an excise tax that dates back into the 1980s, and it will now either need to come under the RRT scheme or move under PRRT. You know, certainly, we are looking at those numbers, Adrian. I will just tell you that, you know, moving from the current system to the RRT system is not a huge movement out there because it was already being hit pretty hard, but there is a loss of value on the North West Shelf. All the modelling I've seen right now, we've just modelled it as if it would move under, you know, one or the other, and we'll look at how that refinement moves forward over time, as we look at those investments.

As you can see, there are still investments to be made in the North West Shelf, whether it be that western flank gas, or whether it be that North Rankin B. These things obviously having timing and different aspects associated with them, but you know, we'll be looking at that over time, but the rest of the industry and the rest of the projects that we operate are already under PRRT. On Browse, as far as a change of heart, no, you know, we sat down with Minister Ferguson and we talked nothing but project management. Minister Ferguson has been a very strong advocate of the market and, certainly, this project is no different. We are complying right now with the Kimberley notion.

We're working hard with the operator to make that work as good as it can, but, obviously, at the end of the day, the idea of building brand new, greenfield Kimberley infrastructure and having, right down the road from it, North West Shelf infrastructure that may or may not be full, is the real dilemma. That's why we wanted to not go ahead and declare whether the Kimberley or the North West Shelf should be the right option at this time. As I go back to, that concept selection is so vital. We just wanted to work both of those, simultaneously. A separate decision was made by the federal government to directing us to go to the Kimberley, so we are complying with that and we'll just see if we can work these technical issues and see how it will go from there. Yes, sir?

Clarke Wilkins, Citi

Sort of, two questions interrelated. When you look at the production growth, sort of, the 10 per cent per annum, how many years out do you think you can, sort of, maintain that growth rate with what you've got in the portfolio at the moment and, given that organic growth, how does M and A fit into the equation, in terms of is it something that's still within the picture and, you know, what sort of things would you target in M and A?

J. Michael Yeager

Well, Clarke, as you can see right now, this thing in the Gulf of Mexico has thrown us a curve ball, as far as being able to even predict our volumes ourselves. As you can see, we were ready to tell you that FY11 looked extremely strong for being able to do the 10 per cent volume growth again, but now, with those rigs being taken away from us for a while, we're going to have to guide down from that and we'll have to get back to you. If they're gone for three months, we lose so much volume for next year. If they're gone for six months, it's even larger. What I can tell you is: the worst thing that will happen is those wells will just get shifted three or six months and they'll just get right back in the queue, but it would affect next year's volume growth and then probably would affect FY12 because of just how large these are. Remember, those Atlantis North wells, each one of them are coming in around 25,000 barrels a piece, and we're 44 per cent of that. So moving those six months has a knock-on effect.

When you look out past that, all I can tell you is: once that's sorted, I think we'll be able to get back to you and tell you a little bit of an update. You know, staying at 10 per cent forever is not going to happen. You know, our corporation, as a total corporation, we try to grow at about 5 per cent per annum across the entire business. I don't see Petroleum being much different from that in the longer term, but let us get through this impactful thing, this biggest, most traumatic environmental thing that's happen in modern times. Let us get through that and we'll get back to you, but I hope you can see that all we're really talking about is timing here. We're not talking about what we're going to do. That's extremely strong.

When it comes to M and A, I've been with the company now four years. I was asked to do certain things when I came in, and I hope you can see that we've tried to address those and, Clarke, I could say that, in the first three to three and a half years of my time here, we spent no time looking externally. We were looking at building our organisation. I cannot tell you how difficult it is just to explore in five places at once, to build these multibillion dollar projects in multiple locations at once, and we do that. So we're very proud of the company we've built and the fundamentals, and we probably didn't have the ability to look over the fence, nor did we have the credibility – it's out of our corporation to do that - until we had re-established ourselves.

I think, now, I can honestly tell you we do look over the fence now some. We do have some people that would explore that and it brings us back, of course, to the most valuable thing that I feel we have; not only being part of a great corporation, but the balance sheet we have. We have the fire power to do enormous things. We are a big, high-growth business, for this corporation. We have no antitrust problems like the other big three businesses do. We have a great deal of capability that we've built, but it takes two to dance and it takes the right timing and it takes the right thinking, but I will tell you that we are full time in an evaluative mode now and then, clearly, with the world backing off a little bit, we'll have to look and see if the timing is right for something like that. Having said that, our primary mission will always be through the drill bit, through the drill bit, through the drill bit. That's how you get those low costs. That's how you get those great returns, but we're not going to be foolish. We're going to be looking over the horizon now that we've built our company to where we think we can handle that. That's a great question. Thank you. Yes, Operator, can we go and take a question from you?

Paul Young, Deutsche Bank

Yes, good evening, or morning, everyone. Mike, I have two questions on your activities in the Gulf of Mexico. Firstly, I'd like to focus on your pullback on Wildcat Exploration in the GoM in recent years. You have around 300 exploration blocks in the GoM, which I think it actually ranks you around the ninth-largest acreage holder in the GoM, but I observe that you've only drilled six Wildcat wells since 2006, and the Double Mountain and Firefox wells in Green Canyon this half have been dusters. So assuming the BP spill is solved and that permitting of drilling resumes, are you planning on increasing exploration in the GoM to leverage off your acreage position, particularly in Green Canyon basin, or are you primarily focussed on proving up Atlantis, Mad Dog and Shenzi first?

J. Michael Yeager

Paul, why don't you go ahead and give me the second question and I'll try and do them both, or was that both of them?

Paul Young

No, that's the first. The second question, Mike, is on the 250 million barrel Gunflint or Freedom project and, actually, your ownership level. You said that you prefer operator provisions, and I thought you actually owned fourteen and a half per cent of that project, but, in your presentation, you state 32.3 per cent. So the question is: can you clarify your ownership and have you increased your stake and, if not, do you have plans on trying to increase your stake?

J. Michael Yeager

Paul, good question. As far as the Gulf of Mexico is concerned, certainly, you know, you saw that list of discoveries that we part of, of the top 20 fields that had been discovered out there. Clearly, those things date back to the late nineties, all the way into the early 2000s and then, now, with Knotty Head and Freedom/Gunflint here, in the last year or so, but yes, the Gulf of Mexico remains a very, very vital part of our repertoire, Paul. We have not only not drilled many wells there in the early part of this decade, on an exploration side, we had not acquired a lot of acreage and we had not acquired a lot of seismic. So we've spent the last couple of years reinvigorating all that and now we feel like we've got as modern a seismic as anybody's got.

There are going to be successes, there are going to be failures. Obviously, we're delighted with Knotty Head and that step out, which now gives us a very, very strong ability to call that commercial here in the not-too-distant future, but when it comes to the others, we'll just have to see how they go. Double Mountain, we're still hopeful – Deep Blue, we're still hopeful, therefore. So these are the things that we'll continue to focus on, but you will see us continue to spend an awful lot of our time in the deepwater Gulf of Mexico.

As far as Freedom is concerned, yes, there is a little bit of confusion there. Certainly, the block that we have interest in, we have a higher working percentage. What I think you're talking about is that that block could get brought into other blocks for a larger development, owned by others and, if that were to happen, we probably would have a smaller interest, as you said. But in the block that we're in, we have this percentage and we're also the operator of that block. So we'll just have to see if that gets brought into the entire prospect and how it gets sorted, but, as you know, in the Gulf of Mexico, that has to happen in order to have a good project and, if that were to happen, we would come down in size a little bit.

As far as the operated is concerned, we'll still have a few non-operated things that we'll clear up, but you can look at our acreage around the world that we've capture and, clearly, 80 per cent of it now is operated and has much larger, working interest positions. So everything we've done over the last three or four years is much more material, and we're moving away from doing the smaller things. Great question and I appreciate the chance to clear that up. Operator, can we have one from the phones?

Stuart Baker, Morgan Stanley

Just a question on strategy regarding gas. Some years ago, BHP was the reasonably active unconventional stuff here, coal steam and I think also in China, and didn't take that forward, and now we've seen the unconventional gas in quite a few countries, such as the US, fundamentally shift the dynamics in the gas industry and, of course, all the super majors are getting back in – or getting into that – now. So just wondering what BHPs thinking is, in terms of unconventional gas? It doesn't seem to be featuring much at this point.

J. Michael Yeager

Well, Stuart, thanks for bringing that up. As most of you are familiar, you know, in the last five or so years, particularly in North America, the idea of the unconventional gas in the shales has now taken a big technological leap. Where the wells can now be drilled down and drilled horizontally, they can be fractured and we can get commercial amounts of gas from rock that – for the entire previous history, the oil and gas business was too tight and too trashy to give you commercial discoveries. This phenomenon has advanced so much that now, literally, North America is self-sufficient in natural gas, so much so that there's gas-on-gas competition, and the consumer is now enjoying the lowest prices of natural gas that they've had in quite some time, down around US$4 per million BTU. So the technological advancements that have been made there are strong. ExxonMobil's purchase of XTO, the $41 billion commercial arrangement that they made there is a testimony to the length of this and the long-life nature of it.

So I will say this, Stuart: you know, we're not in that right now. We've had our hands full in the larger things. I think you will see that when you go back to our mission statement with the word "diversification" in there, it doesn't take anything off limits. We do want to diversify by geography. We do want to have a safer set of cash flows going forward, but we're also a conservative company, if you will, in the discipline side, and we don't jump into things that we don't understand. So if you were to see us take a step forward there, you would see us take a step forward, more than likely in a way that allows us to learn and then move forward, because a disciplined part of our investment means an awful lot to us.

But, Stuart, we're open minded, and it's because of the diversification part of our strategy. It's just how we do that and how we make sure the business is strong and healthy. And right now, for the next several years, that US gas business could be a bit soft, because of the oversupplied nature of it and the low prices that are being realised. It gives me a chance to make the comparison, guys – I hope you can see – at $4 per million BTU, if you're exclusively in that US gas business, to convert that to a barrel you multiply it by six. So you're talking about a $24 or $25 dollar revenue barrel, while on the liquid side that we're in, you know, we're in something much stronger than that. But we're a long-term company, we've got a long-term view. We could take a position there and make sure that it was good for the long-term, Stuart, so once again, I would never say never, but we want to be smart about those things and make sure we do them right.

When it comes to the coal seam here in Australia and taking that up to LNG, we just have chosen not to be there. Here in Australia, we already have so much investment that is tied to the Bass Strait, we have so much investment that's tied to Western Australia: Pyrenees, Scarborough, Macedon - all these are billion dollar projects or above - our interest in the North West Shelf and those five trains, now our interest in Browse and our interest in Scarborough and Thebe. So we've got an enormous amount of exposure to gas out of Australia, an enormous amount. So once again, going back to our diversification, you know, we're going to think long and hard before we add more position to something where we've already got such length, and that brings us back to fiscal terms around the world and the very best opportunities and the exposure to that, and making sure that our company stays diversified over the long term. Thanks for that question; good one. Guys, can we go back here in the room now?

Peter Chilton, Constellation Capital Management

Peter Chilton, Constellation Capital Management. Mike, just on the Gulf of Mexico with the recent BP troubles, are there any long-term implications for development work in the Gulf of Mexico and your cost structure, and any further regulation that may come through from this?

J. Michael Yeager

Peter, obviously that question will unfold. I can tell you this, that what will happen here – the investigation will be – you know, you've got tens of thousands of us looking at it. The investigation – we will finally go down to what exactly – what buttons were pushed at exactly what minute, what the thinking was, what happened, what failed, did the computers work, did the – we'll know everything. I'm very, very confident on that. The reason I feel that is not only because it is such a monumental issue that the industry needs to know, much less any government body - we need to know what's happened here – but as I was mentioning to several of you, since the incident we've had the investigators out. We've had to function test all of our equipment. We've had to do everything. We've even had to do an emergency shut down, which you normally don't do, where you push the button and the regulators sit there and watch: does the platform go to a complete shut down or not? We've done that.

So we're in an unprecedented level of interrogation, investigation, and I'm confident that we'll know. What will come from that? We'll obviously be a safer industry. If we find out this is all human error and it was all the kinds of things that we should be able to avoid, that obviously leads you one way. If it leads us in a different way, the industry will learn and it will evolve and it will go forward. I can tell you this: as BHP Billiton, you know, we do as many fop these as anybody. We have deep, rich, functional knowledge. We have multiple barriers in place at all times. If we have an issue, we have an issue with one of our barriers, not with things of this nature. So these things can be done safely. There have been a thousand wells drilled out here, and there has not been a problem. So I'm confident that the solutions are there. I'm confident that the regulations, whatever happens, will be absorbable. I'm confident that our strategy will stay whole and this will be a very viable province, but I'm also confident that this will go to the very bottom of the barrel and we'll know every bit of it before it's all over. But because of that, there will be this moratorium and we will shift things out a little bit. Thanks.

Tim Gerrard, Investec

A couple of questions. The first one is where do you see yourself weakest? I mean, we've heard a really good story, quite an exciting story, but where would you see yourself as being relatively weak, and hence, areas that you might focus on? And can you tell us a little bit about your exposure in Algeria, in Ohanet for instance, those contracts must be due to finish shortly, and what's the plan in a place like Algeria? Thanks.

J. Michael Yeager

Thanks, Tim. Our weakest area. Tim, I think the weakest part of our story and our actions is what we didn't do. You know, we didn't stay aggressive in the exploration path between 2000 and 2006. We had a large amount of success there in the late nineties. BHP Billiton Corporation at that time – or BHP at that time was a very different place, as far as capacity and balance sheet was concerned. Obviously, when you go through something like the BHP and Billiton merger, senior management time gets tied up, if you will, and the long and short of it is it's not just the Gulf of Mexico, but even in Western Australia, for about – from the late nineties to about 2006 we did not continue to capture new opportunities, and now we're aggressively having to do that. We've tripled out acreage; we're going to drill some dry holes, as you've heard some of the guys talk about; we're trying our best to get large material operative positions, but we're doing so in a little bit of a catch-up manner.

So I wasn't here. No one – you know, it's nobody's fault, it just is what it is, but we're now having to run a little harder. So we're probably going to have a little more risk in our exploration program, a little more dry hole expense, but also it gives us a chance, as per the other question, to maybe look at what others own, and the fact that we are such a juiced-up company, financially, can we take advantage of that in some way to maybe use that as a big piece of our catch-up? Once again, that's not automatic. That's not something that I'm going to spend the lion's share of my time on, but our capacity - our corporation's different now, our antitrust issues and the fact that this vehicle has none, and if this industry – and if the world backs off a little bit and becomes a little softer economically, we're in the best position of any company on the list that I've shown you today to do something about it. A lot of those companies have low revenues, have higher debt. Nobody has our financial fire power, and of course, that's the wonderful thing about this petroleum business inside of this great corporation. But that's probably the weakest part of it.

Ohanet Algeria: To speak candidly, I went into Algeria – I've been into Algeria twice in the last six or nine months. I've sat across the table. We've talked about what we were going to do on Ohanet, but I will have to tell you, if you're not familiar with it, the head of Algeria's oil and gas business was removed from his job back in December, and about half of the top executives in the Algerian E and P business in Sonatrach were removed from their positions. There is some investigation going on. So the opportunity to talk about Ohanet and go forward have not been able to be done. I'm confident that we operate what I think the Algerians would say was the cleanest, safest facility in Algeria. We do so in a world-class way. We bid everything. Every bit of what we do is squeaky clean. We give the Algerian operations credibility and we give them substance, and I feel like when it comes down to whatever we're going to do on Ohanet next, it will be on an open book basis.

But Algeria is a very small part of our business. Tim, as you can see - I've not highlighted today - the government takes there are very, very high. It's very onerous; it's very slow to work. We would love to do something if they want to, if it can be competitive and if it can be commercial, but we've got a lot of other places around the world to go to that would probably be a bit preferable than that right now. Thanks for that question. What else, guys? Okay. We'll go back to the phone.

Tobias Woerner, MF Global

Yes, good evening, gentlemen. I'm not an oil specialist, but could you maybe give us an indication of where you see the marginal costs of production for the oil industry if you remove the Tar sands businesses out of the equation.

J. Michael Yeager

Okay. Well, Tobias, if we remove the Tar sands out, we remove several million barrels a day. So you know, I say that because clearly the Tar sands do have a fairly significant impact on the long range marginal cost of the last barrel that's being produced today. As you know, right now those Tar sands have cash break even of thirty-five to forty dollars a barrel, and an investment cost that's probably in the $65 a barrel. So clearly there is something that's going to happen if you were to take the Tar sands out of that equation. You get beyond that, and you're into the deepwater parts of the world. Many of those are very expensive. Clearly it's not uncommon for our, as you can see, our peer companies to have depreciation of twenty-two to twenty-five dollars a barrel, cash cost in eight to ten, and we're well below that.

So you know, I think when you get below the Tar sands, you know, you're into that long range margin cost right now. You know, the next group of barrels are going to be in there at around $30 or so. And that's going to have some fluctuation to it depending on how much downstream and water you have to handle and other things like that. When you look at - the other thing that we look at is what it takes for many of the OPEC countries to balance their budgets, to have their societies cared for, and that takes you back up there into the Tar sands related number. So none of us know what prices will be. None of us know - and we do know that they'll oscillate; we do know that they'll have some volatility. The Chinese demand remains strong. Liquid hydrocarbons remain the fuel of transportation for decades to come.

Gas remains extremely strong in regards to the environmental parts. So I think the energy business stays strong. But the liquids piece, you know, we certainly feel like you get much - you know, you start looking below the Tar sands and a big piece of business comes off the map, so much so that it's probably not totally accurate, in our opinion, to ignore them. I hope that helps. Operator, can we take one more over the phone?

Grant Sporre, Deutsche Bank

Good afternoon everyone. It's really a follow up question from my colleague, Paul. You presented a great chart showing the days per thousand feet drilled and the number of wells drilled by yourselves and your competitors. I was just trying to get a sense from your sort of capacity to drill more wells and to, indeed, increase your sort of frontier exploration. So on a sort of similar basis, my understanding was you have five rigs at your disposal in the Gulf of Mexico. How does that compare to some of your peers, if you, you know, in the Gulf of Mexico, and on perhaps a global basis? And I'm guessing, you know, to conjure up a new rig is not easy. What is your sort of approach into getting more drilling capacity? Is it just simply efficiency out of your existing fleet or are you looking to contract some further rigs in?

J. Michael Yeager

Yes. Well, Grant, that's an excellent question. Let me make sure I clarify. You know, we have the two BHP Billiton operated rigs that we've had under contract for quite some time that drill Shenzi and Neptune and our operated developments. We have two rigs that we share with BP that drill on Atlantis, and then normally we have a rig in Mad Dog with BP that works. So you're right that we've got about five working on an average rig year, and over the story that I've described today, that's about what we would have as a base load. Everything that I've talked about can be managed with those five rigs, so do know that there's not any big gaps in this to getting it done.

Now, having said that, we are seeing a little bit more rig capacity come on the market now than has been available over the last couple of years. The deepwater drilling rigs have been at 100 per cent utilisation. There have been zero available, and now we're certainly seeing where different companies are opening up a slot here, a slot there, and so on and so forth. So in the Gulf of Mexico, our ability to take on an additional rig for a period of time is much more probable now than it was, say, a year ago, and probably will be much more probable a year from now than it is now, particularly if prices soften and if the global financial crisis causes smaller companies to have higher debt and have higher cost of debt. So I do think it's really in our hands to have additional rig capacity when we want it. We want to take that on when it's smart. We want to do multiple wells.

You know, Grant, the safest rigs are the ones that you have long-term. The most effective rigs – the reason we're so fast to bottom is because we've had the two rigs that we have for so long. Like I mentioned, all the techniques, all the people were all intertwined with each other, were depending on each other. They're also the safest rigs in the Gulf of Mexico. So that longevity means a lot to us. We don't want to go out and pick up a rig for 90 days. When we go out and pick it up, we want to pick it up for multiple wells so we can have learning curve and we can have efficiencies. We will pick up another rig in Malaysia, here in south-east Asia in the latter part of this year. We'll have it for the better part of the year and it will be able to drill in multiple countries if we choose to do that, and at any one time we've got one to two rigs active in Western Australia. So for a smaller company, we have a pretty big handle on our rig fleet. But back to the Gulf of Mexico, we're self-sufficient for the plans I've described to you, and should we choose to augment that, the market is starting to evolve to do that. It's a great question. I appreciate it. Because that is very different than it was 12 or 24 months ago. Okay. Can we move back in the room here? Yes, sir.

Scott Ashton, BBY

Mike, just so I understand clearly, you're spending $800 million on exploration over the next three years. Can you, sort of, give an idea of maybe, sort of, potential volumes that you hope to capture from that? And then, as a second question, just trying to understand where WA-351 sits in that portfolio, given that you said you're sort of up to he gills in gas in Australia.

J. Michael Yeager

Yes, yes.

Scott Ashton

Is there a timing for drilling, potentially?

J. Michael Yeager

Scott, excellent. On the $800 million, that's – we're spending about that this year on exploration, maybe a slightly bit more. What's important, Scott, is that's up from $350 million that we average for the whole first part of this decade, so we've really stepped that up. We've yet to do our budget for next year, but I'm optimistic it will be in this same range or slightly above, and what I will tell you is that you really need to judge the exploration program on finding over about a three year period. So when you look at the large discoveries we've had there at Atlantis, when you look at the discoveries in Mad Dog, when you look at the discoveries this year, you know, certainly, you know, we're going to be able top pay our way on this in a really big way.

You've heard several of the guys ask, "What about brand new wild cat drilling where there's nothing around you?" and that is the piece that we're going to step up. That will have higher risk, you know, and normally those things are successful as low as one in 10, so we will have a little more dry hole cost than we've had in the past, but you'll see us do very little outside of this 75-25: 75 per cent in big things in the Gulf of Mexico, in the South China Sea where we know that oil and gas is there, and 25 much more remotely, but that's where we'll go forward. Going now to WA. When you go out to Western Australia, near-shore we've got Scarborough, Pyrenees and Macedon, a nice little business that we operate. You've got this exploration acreage around that, and that's what you're talking about, and all that exploration acreage will probably move up in our priorities, even though we're awash.

If that turns out to be liquids or gas, obviously bringing it in to some of these developments now would be the cheapest thing we could ever do. So we would like to know what's there. You'll see us go about attacking that over the next 24 months or so. If it's smaller gas we bring it to Macedon, possibly; if it's larger gas, we try to use it in some of the other ways. So its strategy will be carried out and we'll see what we've got, but we're going to build a great big pipeline right over the top of it, and we're going to have developments inboard of it and outboard of it. So that's what gives us a little bit more reason to know where we are. Great question. Guys, we've got time for about one more. Yes, sir. Coming in behind you.

Mark Busuttil, UBS

Real simple question: can you give us an idea of what your capex and exploration budgets are for this year and next?

J. Michael Yeager

Sure, Mark. As I mentioned, this year we'll spend about $800 million in exploration, and a little over $2 billion in major project capital on all the things we've described. Next year, I would say that although it's not released and the board has not endorsed that, I don't think you could expect big movements from those numbers. Guys, I appreciate the opportunity to come talk with you. As you guys know, our investor relations department is available to you 24/7. We would love to answer anything you've got. We want you to see the exposure to this business. I hope you've seen the three big things I tried to describe: a very, very healthy oil and gas business, internally and externally, really hitting its stride; a very strong set of things in FY11 and FY12; big, multiple places. We've got some uncertainty in the Atlantis piece, but no uncertainty on what we're going to do. And then, as you can see, a fairly healthy set of circumstances: projects, opportunities leading up to the big WA gas in the latter part of this decade that will be enormous. So when you put all that together, we really like our position, we've got the financial backing of a great corporation, they want us to do more, you'll see us in the hunt, and we hope to be able to show you good things. Thanks for having me over, okay? Appreciate it.