

Transcript



**BHP Billiton
Interim Results Presentation
Wednesday 16 February 2011
Sofitel Wentworth
Sydney**

1. Chief Executive Officer, Marius Kloppers

Ladies and gentlemen, welcome to today's presentation of BHP Billiton's interim results for the six months ended December 2010. I am speaking to you today from Sydney and Alex Vanselow, our CFO, will be presenting from London. We are also joined by members of the BHP Billiton management committee and have Mike Yeager, Marcus Randolph and Andrew McKenzie on the phone lines and I have Alberto Calderon here with me in Sydney. Before we begin, I want to point you to the disclaimer and remind you that this is important in relation to today's presentation. I will start by giving you a brief overview of what has been a very strong six months for BHP Billiton. I will then hand over to Alex who will take you through the detailed financials and then I will talk to you after Alex has spoken about how BHP Billiton is positioned to continue to deliver value to shareholders.

Today we announced record results for the half year. Our underlying EBITDA was up 60 per cent to US\$17.3 billion and the underlying EBIT was up 74 per cent to US\$14.8 billion. Attributable profit was US\$10.7 billion before exceptional items and that is up 88 per cent and our operating cash flow was up by 123 per cent to US\$12.2 billion. The strong cash flow and healthy balance sheet meant that we were able to increase our interim dividend by 10 per cent over the corresponding period and today we also announced the substantial capital management program, expanding our programs to US\$10 billion which we expect to largely complete within this calendar year.

Now, let me turn to our operating performance. In addressing performance, I would like to start with safety. Health and Safety performance is critical to the well-being of our people and to the success of our company. The substantial effort that we have made in this regard as our number one priority continues to show up in our statistics through a continued improvement in our safety performance. However, despite these efforts, we had a fatality during this period and one fatality is one too many and I want to express my regrets to the family, friends and colleagues. On the operational side, BHP Billiton produced a strong set of operating results and importantly produced that across our portfolio. Pleasingly, our iron ore business set a half yearly production record and our Western Australia Iron Ore business ran at an annualised rate of 148 million tonnes per annum during the December quarter.

And the Samarco business, our pellet business in Brazil, also continued to operate above nameplate capacity. Copper production was higher than the comparable first half of the 2010 financial year and reflected solid performances across the operations, including record milling rates at our Olympic Dam and Antamina operations. The ongoing ramp up of our Alumar alumina refinery in Brazil positively impacted our alumina production and we also achieved a half yearly production record for manganese ore on the back of significant improvement in market demand for this product. In Energy Coal, we saw the first production from our MAC20 Project in Australia as well as the ongoing ramp up of our Klipspruit Project in South Africa.

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However, despite best efforts, not everything always goes according to plan and following severe wet weather that impacted our Queensland metallurgical coal operations in 2008, we invested heavily in pumping and drainage capacity and these actions did help but the heavy rainfall that we have had in Australia significantly restricted the mining activities, particularly because we have got a portfolio of large open cut mines, and the net impact was that production declined by 30 per cent in the December quarter in this product compared to our September quarter. And when we combined these impacts with the disruptions in external infrastructure, we expect an ongoing impact on our metallurgical coal operations and on sales and on unit costs for the remainder of the 2011 financial year. Of course, another event of note was the Gulf of Mexico drilling moratorium and the resulting permitting delays. But again, here I must congratulate Mike Yeager and his team for being one of the first operators to return to drilling in the Gulf. Now, with that, let me hand over to Alex who will give you more detail on our financial results and then I'll talk to you after Alex has spoken.

Alex Vanselow, Chief Financial Officer

Thank you, Marius. We are very pleased to see our well tested strategy delivering another record set of results. Importantly, this was achieved during a period that presented a number of unique challenges to our management team. Their readiness and pursuit of best practice has ensured that the impact on our business has been minimised. The same external events have further impacted an already tight commodity market and the resulting stronger prices were a dominant driver of our results for this half year period. I'll start by looking at these drivers in more detail. As you can see from our usual EBIT chart, waterfall chart, the stronger commodity prices, net of price link costs, increased underlying EBIT by US\$8.5 billion in the December 2010 half year.

Higher iron ore and copper prices were the two major contributors for the period and increased underlying EBIT by a combined US\$5.4 billion. Such a significant benefit at the revenue line can only be delivered by a strong operating team, consistent operating performance and disciplined investment in growth through all points in the cycle. And in that context, let's take a look at volumes in closer detail. You will notice that volumes in aggregate increase underlying EBIT by US\$372 million. This positive contribution was achieved despite a US\$464 million reduction in petroleum based volumes that largely reflected the deferral of drilling in the Gulf of Mexico. As Marius noted, record iron ore production and sales volumes were a major contributor as Western Australia Iron Ore exports rose to an annualised 148 million tonne rate in the December 2010 quarter.

In addition, half year production and sales records for Samarco laid the foundation for future capacity expansion beyond the existing three pellet plants and you will no doubt be aware, our team at Queensland Coal is working hard to ensure a safe and smooth recovery from the recent weather related disruptions. And in that context, it is worth remembering that our Queensland operations were consistently performing at or above capacity before persistent rain and flooding restricted our activities in the period. In total, the estimated impact of the weather related disruptions in the December 2010 half year approximated US\$100 million and given the stressed nature of our operations, a more severe impact is expected in the June 2011 half year.

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Now, let me turn your attention to the other side of the equation, which is the costs. As we have pointed out over the years, capital and operating cost pressures are a very real and unavoidable consequence of the strong commodity cycle and weak US dollar and BHP Billiton is not immune to that trend. And we have also highlighted before, the lagged relationship that exists between prices and input costs, given this linkage to raw materials and energy costs. That being the case, industry-wide cost pressures are only likely to rise in the near term. BHP Billiton is, however, a significant net beneficiary of underlying tighteners in commodity markets, despite the price cost linkage. That relationship is well illustrated by comparing the \$US8.5 billion benefit that was generated by higher prices, to the \$US0.5 billion increase in cash cost for the period.

However, it is such an environment that there is no room for complacency, and our global procurement initiatives will become increasingly important if we are to maximise the conversion of high prices into operating margins. Another important factor that actually relates to the geographic spread of our portfolio, and the fact that many of our business have a heavy component of their costs denominated in local currencies, such as the Australian dollar, the South African rand, and the Chilean peso. While we continue to contain costs in local currency terms to the very best of our ability, the conversion of those underlying costs back to US dollars has significant implications for our own performance, and perhaps more importantly, to industry wide cost curves.

In total, the devaluation of the US dollar against the basket of producer currencies in the December 2010 half year, reduced underlying EBIT by \$US1.1 billion. And while the influence of a weaker US dollar on cash costs is relatively well understood, its impact on balance sheet translations is often overlooked. As you can see, for BHP Billiton, the weaker US dollar has important implications for the restatement of balance sheet items, such as payables, provisions, and other monetary items. What should be evident from this chart is the significant impact that such restatements have on our underlying costs. Most notably, in Western Australian iron ore, and Queensland metallurgical coal.

In fact, the restatement of monetary items across the portfolio totalled \$US743 million in the December 2010 half year. Perhaps another way to think about it is to consider that in the absence of such adjustments, our underlying EBIT would have been in excess of \$US15.5 billion. That is not to say that there aren't other offsets that flow through to the bottom line. Currency driven restatements, as they relate to net interest and tax balances, increased attributable profit by a combined \$US1 billion. Now I would like to turn your attention back to our strategy and, more specifically, our diversified portfolio. Firstly, what should be most evident on this slide is the superior level of diversity that BHP Billiton has across the mix of ferrous, non-ferrous, and energy products.

What is perhaps more notable is the current stew of our earnings mix and margins towards the ferrous group of businesses; that's iron ore, metallurgical coal, and manganese. Such a bias towards these infrastructure-intensive commodities is hardly surprising, given the current state of urbanisation being witnessed in emerging economies, such as China and India, and BHP Billiton is clearly benefiting from that trend. That said, in time, we do expect a progressive shift from infrastructure-intensive commodities to conception-driven commodities, in those same emerging economies. That is why our unique level of exposure across the range of

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commodities, with varying intensities of views, is at the heart of our diversified strategy. And while diversification is central to our strategy, the quality of underlying assets base is as important.

And I would like to draw your attention to the right-hand side of this slide which, with the predominance of high-margin businesses, highlights the world class nature of our portfolio. That leads nicely into my favourite chart, which most of you would have seen, which is our Jackson Pollock chart. It clearly highlights the power of our diversified Tier 1 upstream strategy, and what you can see is that despite significant volatility in the external environment, our business continues to deliver consistently high operating margins, and for the December 2010 half year, our EBIT margin exceeded 45 per cent. So strong margins which are a function of the quality and diversity of our business led also to equally strong cash flows, and for the December 2010 half year, net operating cash flows exceeded \$US12 billion, for a cumulative \$US23.6 over the 2010 calendar year.

Our strong cash flow more than meets the requirements of our expensive organic growth program. Total capital and exploration expenditure for the December 2010 half year approached \$US6 billion, with a broad spread across the portfolio. That brings me to the balance sheet, which ended the year in a net cash position, and such a position of financial strength, when combined with the predictable nature of our cash flow, affords us flexibility to fund our significant growth program while increasing returns to shareholders. And with that in mind, I would like to remind you of the discipline and consistent manner in which BHP Billiton has and will continue to prioritise the deployment of capital.

Our first priority is the commitment to invest in Tier 1, value-adding growth opportunities. Our second priority is the commitment to manage the balance sheet to a solid "A" credit rating. And our third priority is the progressive and predictable return of capital to shareholders. While Marius will talk more about our significant organic growth program shortly, I would like to focus on the topic of shareholder returns. Today we have announced a 10 per cent increase in our interim dividend for a payout of 46 US cents per share, which is equivalent to our annualised commitment in excess of \$US5 billion. The 4 US cents per share increase over the December 2009 interim dividends ensures we retain a proud track record of at least maintaining or increasing our dividend in every period since the company was created in its current form, an achievement that is unique amongst our diversified peers.

And as you can see, our cash dividend has grown by a compound 23 per cent per annum over a 10 year period. And as in the past, we have reactivated and expanded our capital management program to \$US10 billion to return excess funds in a way that benefits all shareholders. I would like to emphasise that one of the key considerations when developing our capital management strategy is to ensure that we can deliver on our promises, and in that context we have indicated that we expect to largely complete the \$US10 billion program by the end of the 2011 calendar year. When completed, this initiative, together with previous capital management programs, will bring our cumulative buyback to approximately \$US23 billion, and the equivalent of 15 per cent of the then issued capital.

So in summary, I hope I have managed to highlight the following key points; first, the strong margins and growth that characterise BHP Billiton's historic performance; Second, our

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significant cash generation and disciplined approach to capital management, and; third, our delivery of shareholder returns through the cycle that sets us apart from all of our peers in the industry. And with that, I would like to hand you back over to Marius, who will talk briefly about the major macroeconomic trends and the growth outlook for our business.

Marius Kloppers

Thank you, Alex. Now, let me cover some of the macroeconomic factors impacting our business. Last year, we witnessed continued strong emerging market demand, with Chinese domestic – sorry, gross domestic product increasing by over 10 per cent. We are also now seeing increasingly positive developed market data. Economic growth, retail sales, and finally, employment, continue to improve in the major economies of the US and Germany. And in Japan, exports are leading a pickup in economic activity. However, we would caution that, given the level of sovereign indebtedness that remains, we cannot rule out any discontinuities to these improving economic fundamentals.

Another factor to watch is the overheating in some of the emerging economies, notably China, India, and Brazil, where we don't, as of yet, know how policy decisions to tackle these problems will play out. If I had to summarise, however, we are cautiously optimistic on the short term outlook for the global economy, given the continued robust growth in the emerging economies, and further positive signs for recovery in the major developed economies. From a commodity perspective, if anything, the picture looks even better, and this is due to the substantial interruptions to the supply side. Firstly, resulting from weather and other impacts, more in the short term, to current supply, and; secondly, due to the challenges of bringing on new supply, particularly given an industry wide withdrawal of capital during the year of financial crisis.

And, as a consequence, we are seeing currently, as evidenced by prices, good short term supply-demand fundamentals for base metals, for energy, as well as for steel making raw materials. Of course, in the longer term, the continued urbanisation and industrialisation of these emerging economies that we have spoken about should continue to provide strong support for commodity demand.

Against this backdrop BHP Billiton continues to be very well positioned to deliver value to our shareholders. As Alex has pointed out, our strategy has not changed. Our diversified model of tier one assets has delivered superior margins and returns and this is very evident from the charts on the screen. We believe that we are well positioned to continue to out-perform. But let me perhaps today highlight an area where we believe the market is not fully appreciative.

Since the formation of BHP Billiton in its current form we have invested \$US24 billion and completed 54 major projects. Of course, over the last six months we have approved the Macedon gas project as well as additional capital for our iron ore business. But let me talk a little bit about the quality and the depth of our future pipeline. If you look at the chart on the screen you will see that in our five year plan we plan to spend in excess of \$US80 billion on growing our business in the planned period to our financial year 2015. Not only is that a very substantial program but you can also see that we have a good spread of projects currently in the concept prefeasibility and feasibility stages of evaluation, which means that there is robust ongoing volume growth as we look forward and as these projects move through execution.

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And, of course, we currently have major projects in both iron ore and metallurgical coal, which are at a very advanced stage in our approvals process and in which we hope to move into execution over the next few months. Now, the reason we can look at our business and grow our business in this way is clearly demonstrated in the following slide. And here you can see our strategy which we often talk about of concentrating our portfolio on large, long-life resource positions in our major businesses. Aligned, of course, to that resource position we have created a simple and scalable organisation that can continue to optimise the development of these resources over the long-term. A substantial portion of the cost of getting these resources to market is infrastructure. And, of course, with multiple expansions in these large resource positions we can maximise the infrastructure use during the course of multiple expansions over many decades.

Now, notably the chart on the screen shows that we have many decades of production at current production rates, but we also have the resources in place in these currently existing assets to support our significant growth rates. And, of course, in addition to the mineral resources that we show on the slide on the screen we have significant gas positions in Western Australia and in the Gulf of Mexico we participate in some of the largest fields, such as Mad Dog and Atlantis. This brings me to the end of our presentation, so let me try and conclude. Today we are very pleased to announce record financial results for our half year ending 31 December 2010. These results present the clear evidence that our strategy works for our shareholders.

Our portfolio of very long reserve life, high quality, very large assets allow us to continue to invest significant amounts of capital in our future growth. And, of course, at the same time we are also returning cash to our shareholders with an increased dividend and an expanded buyback program. Looking ahead our disciplined approach and tier one portfolio of assets will allow us to continue to deliver superior growth, superior margins and superior return for our shareholders. And on that note I would like to thank you ladies and gentlemen. I would now be pleased to take your questions. We will start in Sydney before taking questions from the phone lines. If you could address questions to me in the first instance and I will pass them to Alex as required. Can I have the first question, please?

Paul Young, Deutsche Bank

I have two questions in your oil and gas division. First of all, can you provide an update on the Gulf of Mexico and the likely impact of the new regulations on capex, opex and project development schedules? And then, secondly, can you talk more broadly about your gross strategy of this division. Development projects such as Knotty Head, Mad Dog and Gunflint in the Gulf and Scarborough in Western Australia will likely only maintain production at around the 160 to 170 million barrel per annum level. The question is - and I know you're exploring it actively or aggressively this year. Would you like to see a higher production from this division and growth and a higher proportion of earnings from oil?

Marius Kloppers

Yes, Paul, thank you. We've indicated in the past that we are keen to continue to grow this business. Of course, the major impact of the Gulf of Mexico events has been that - to memory,

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about \$460 million volume impact that Alex showed on one of the slides, which is the profit manifestation of the volume impact. The way we look at this business is that we do not believe that the return characteristics of the portfolio that we've got in the Gulf of Mexico will be materially impacted by the new regulations that will be put in place. Of course, there will be investments to be made in things like containment schemes. There are clearly going to be some changes in the way that permitting and execution is carried out and that will have a flow-on effect on our procedures.

However, we don't believe that these will be material from an overall return expectation from that business. The way that I personally view the impacts in the Gulf of Mexico, though, is that what we've got is we have got a hiatus in volume growth from those - as a result of the moratorium. Importantly is to understand that the barrels that are in the ground are not disappearing. In fact, they are just being displaced from one period to another and will be taken out of the ground in future. And once the permitting process starts operating in a normal rhythm we expect business there to return as normal. Beyond those items that you've mentioned I can't comment very much.

I do want to point out that the growth opportunities in Atlantis and, of course, the undeveloped potential in Mad Dog which is already known today, obviously, constitute very substantial investments going forward. The oil industry has got a history of being on a slightly quicker development cycle than the minerals business and so I probably can't give you more than that today. But, Paul, we are keen to continue to grow this business as a core constituent of our portfolio.

Peter O'Connor, Merrill Lynch

Marius, my question is on the cost outlook. And Alex mapped it out in detail about how you were facing the cost pressures in the near term. Are the two hotspots still WA and South Africa? And what type of growth rating costs should we look at going forward in the environment we are currently operating in? Is the number closer to 10 per cent inflation per year of mining cost inflation a better number to use or can you keep it to a lesser number?

Marius Kloppers

Peter, I think we have got to split – and I will ask Alex to make a few comments as well – but I think have got to split the impact on our costs on a number of dimensions. We have got to split it by capital and by operating costs, and then within those two categories, we probably can take a look at raw material and labour again, or labour-related elements. I think that where we have probably seen the – the quicker level of overall escalation has probably been on the capital side, or put more simply, for the same amount of money, you tend to get less. And that has been a trend not only over the last six months, but really has been a trend in the industry over the last couple of years, which has been exacerbated, of course, by the impact of the currencies and where there is, you know, still considerable amount of locally denominated currency spend in those items.

I think, on the operational side, we have obviously got the currency impact, which we have already spoken about. I think what Alex tried to pointedly emphasise today is that where we

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have seen prices move, particularly over the last six months, normally on our cost line, because of the nature of how those materials flow through our inventory pipeline – sorry, consumption pipeline, we tend to see a lag effect of raw material costs as they manifest on the consumption line. And then, I should note that the overall environment for labour cost inflation is clearly weakened in Australia, South Africa, but also if I look at places where we have had recent wage negotiations, for example, Colombia. Alex, I don't know if you can give more granularity on a forward look at what you expect, or if you can complement that.

Mr Vanselow

Just the – I think you have covered most of the points, Marius, and the intention of what I said was to create the awareness, and remind everybody of the lagged effect of costs. But I think the most important message here, especially on the capital intensity, is that investing through the cycle has great value. So the capital that we deployed in the time of the great financial crisis got more units – a lot more units than we are getting now, and getting in this start of our inflationary period in capital expenditure.

Marius Kloppers

Certainly, Peter, I think the capital cost inflation has been well above that number that you have mentioned. I will take one more question here in Sydney, and then I will take a couple of questions from the phone, so - - -

Lee Bowers, Macquarie

Hi Marius. Lee Bowers from Macquarie, just over here.

Marius Kloppers

Lee, I can't see you. Thank you.

Lee Bowers

Just a couple of quick questions. The first one was, on the capital management program, are you able to confirm that you're in a position now, from a regulatory perspective, to launch an off-market buyback, and if not, you know, what timing do you think is appropriate there in terms of when you will be in a position to launch one? And the second question just relates to the indicative five year capex guidance that you gave. Thank you for that, and I guess it does raise the question in terms of iron ore as to how much of that amount that you flagged is attributable to a post-RGP6 environment. And, therefore, I guess, you know, what implications should we draw, therefore, in terms of your view on the outer harbour and the Quantum projects?

Marius Kloppers

Lee, thank you. Perhaps the second piece first, and then I will hand for the first piece to Alex. On the five year capex, clearly the outer harbour, as we articulated more than three years ago, and we confirmed about a year ago, is a key part of our expansion program. The overall way

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that we look at our iron ore business is that we have got a resource base there which is really superior in the way that the mineralisation occurs. We have got large ore bodies – we have got relatively few of them, and so we have got mines that can do, you know, 30 million tonne plus operating rate per mine, and a set of ore bodies that can easily go, in our mind, to 350 million tonnes of production and beyond.

Clearly, in order to get to that production rate, we have got to do the outer harbour. The team has worked very, very hard over the last couple of years in order to get all of the elements of that in place, to get that registered as a major project, however, given that this is a five year capital outlook, a substantial chunk of the capex that is shown will still be on the, you know, infrastructure, new mines, and then on the existing projects that we have in execution at the moment, as well as the RGP6 project, which we have long flagged. But you know, the outer harbour is an integral part of our strategy and core to us achieving the growth rates that we would like to achieve. On the off-market buyback, I am probably not in a position to say anything about that, but Alex, I'm looking at you to see if there's anything we can say today.

Alex Vanselow

What I can say is that 10 billion is a very large number, and one year is a very ambitious period to return the 10 billion. But I think we will come back and provide more details in due time.

Marius Kloppers

Thank you. Sorry about that, Lee. Let me just try and take calls on the phone. I think we have got Jodie probably manning the phones. Can I have the first question, please?

Craig Campbell, Morgan Stanley

Good morning, Marius. A question regarding some of the minor assets, given the focus on the very large asset base; would you look to maybe exit some of the minor minerals that you're in, given some of the high multiples that we're seeing in the market? And a second question for you, which is very near term, with relation to copper markets at the moment, are you able to give us some colour on where the TCRC is likely to end up settling for benchmark? And finally, looking at the jellybean chart that you put out, the Olympic Dam project sitting at its future option; has the progress of Olympic Dam slowed down at all, or do you think you're still on track for an investment decision within the next 12 months? Thank you.

Marius Kloppers

Craig, on the – on what people call the minor assets – what you call the minor assets, I should point out that these are very substantial assets. If I look at the nickel division, over which we have had questions in the past, from memory we made \$350 million of profit in that business in the half. So we are very comfortable that the portfolio we have got is manageable, that we can wrap our arms around it. And what we – when we talk about portfolio simplification, it is always about maintaining the portfolio against the backdrop of growth in a place where our management is not too diluted, and I feel very comfortable about where we stand on that dimension.

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With regard to the copper TCRCs, I'm probably not the best person to give you an outlook there today, Craig. And on the Olympic Dam expansion, you know, we have continued unabated in the expansion in the engineering of the expansion shape and methodology. I think that what we believe we want to do largely maps to what we have exposed to the market, and which you can find on the website, which is the modular expansion. We are sometimes doing some of these expansions in parallel, but taking the decisions in a modular fashion. And while we don't hold all of the regulatory timeframe keys in our hands, obviously, those are for the various levels of government to decide.

I am very confident that the technical work that has been completed by the team, the level of preparation, the surety with what we want to do, that we will be in a position to move that project forward, largely dependent on what the timeframe of the regulatory reviews are, and I see no reason to update or change the previous timeframes that we have laid out which, essentially, we hope to make an investment decision there over the next 12 months.

Lyndon Fagan, Royal Bank of Scotland

Good morning. I've got two questions. The first one is on the dividend policy and the second one is on M&A. It would seem as though you've got the financial capacity to increase the dividend significantly and also go ahead with all the growth capex. Can you talk about whether there was any discussion about changing the policy to maybe a payout ratio and what you think an appropriate bid and yield for the stock is? It is about two per cent at the moment. And then, secondly, has the company changed its view on what appropriate M&A is to potentially small to medium sized opportunities in light of your recent activities?

Marius Kloppers

So on the dividend policy we are very committed to a progressive dividend policy. That dividend policy has seen our payout, again from memory, move in 2006 from a total payout of about \$US2.1 billion/\$US2.2 billion to close to five last year and, obviously, more this year through that progressive 23 per cent per annum growth rate. We are committed to that. Our shareholders really appreciated that during the downturn where we were virtually the only company in the sector that continued to pay a dividend. We want to - to the maximum extent possible as a company that has not cut a dividend since the Great Depression - we want our shareholders to see that as an annuity. And we will continue to grow that dividend basically in line with what the company growth is.

And, obviously, if there is a return on capital change expectation we will progressively - sorry, sometimes we base that as we have done in the past. I also just want to point out that one cent on the dividend is about \$50 million on a period, so it is actually not the major way in which we can return capital to our shareholders in the short term. The major way and the way that benefits the shareholders and aggregate has historically been off-market buybacks in Australia and on-market buybacks of the Plc register that has, from time to time, traded at a discount and, therefore, are the most economical units to retire to the benefit of all of the shareholders.

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On the M&A side let me talk about small and large, but let me start off with the large before I talk about the small. We have always said that amongst the world's ore bodies we only want to own and operate the very large ones. These are fewer number. As time has now told us they are difficult to accomplish and, in addition, where we currently stand in the commodity price cycle probably has increased price expectations for those assets. And, hence, our focus, as some of my peers with other companies that have declared results over the last couple of days, is to emphasise that as one looks at a buy versus build equation the clear opportunity for us is to continue to invest money in our organic portfolio.

When we come to small and medium size acquisitions I want to differentiate between tier one and tier two. We are absolutely not in the place of making higher leverage, second tier or below asset type acquisitions because we don't feel we add value. Our strategy is to expand massive ore bodies over time and we feel that that's where we allocate capital. Our shareholders are actually better off allocating the capital themselves to those types of assets. They don't need our expertise in building. They don't need our expertise in technology and so on to unlock those assets progressively over decades. However, that does not rule out acquisitions of things that can be aggregated into tier one positions.

And the best current example we've got is probably the way we went about in aggregating the Potash portfolio. I think we did four or five separate and discrete transactions, major ones. We obviously did little lease acquisitions and so on as well in-between, but we had a clear view that we were going to aggregate the resource position that fell exactly in the definition that we want. And you should expect that those sorts of things will continue. So I hope that answers the question. If I can just leave the phone then for a second. Alex, just checking, but I'm assuming that nobody wanted to come to London at this time of the night. Right.

Alex Vanselow

Absolutely right. I only have Andre Liebenberg here with me.

Marius Kloppers

So you've at least got good company, so now I will move the questions back to Sydney then at this stage.

Clark Wilkins, Citi

Just the questions on capex. Look at the spend rate in the first half of the year, you know, less than \$6 billion, but you're looking at the full year number of 15 billion. Is it actually feasible to wrap up the spend that, you know, fast, that quickly and in terms of the internal resources to be able to manage that process? Also in terms of stay in business capital going forward, you know, what is the stay in business number for the business as it grows?

Marius Kloppers

Thank you for that question. I will try and answer that into two pieces. It is an important question and one which, no doubt, you can imagine we have looked at very closely. In the

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aggregate of our capital number and our exploration number, which we sort of look as the amount of money that we are putting back into the business in sustaining and growth, what we see is that actually the large capex programs essentially you are not - you've got a pattern of investment which is very, very typical of the capex patterns that we always see, where our first half is always a lower - slightly lower number. But the major growth projects, essentially, the capital is going in and we are very comfortable that those projects are being executed like we want to.

And that's really to your capability question. They are in place. They are being done and so on. We have on the exploration side, as these things always work, particularly in the oil and gas business, a substantial amount of back end loading in the exploration side this year. And that is just how happenstance the wells have been sequenced this year. From memory, we've got a couple of wells going in in Australia, two or so. We have got three or four wells, I think, going in in South East Asia and so on. So there is some element of predictable back end loading on the exploration side. And then on the smaller projects, the ones where we have not - yes, where we typically don't break them out in that \$250 million plus category.

I think the capex has been a little slower there than usual for us, but if I wrap those three elements together and we see where the big projects are going, the small projects are going and where the exploration is going, Alex and I see no reason to change our capex expectations or forward-look that we have put out for this year. And, Alex, I don't know if you can add to that at all.

Alex Vanselow

No. But I can tackle the second part of the question, which is the sustaining capital. I think you would see on the slides, on the backup slides, we give always a sense of what the sustaining capital is and it is around the \$2 billion. But as a rule of thumb you should use something around the five per cent of the applied capital in the business as the get. Pretty close, sometimes a bit higher, a bit lower to the sustaining capital, so five per cent of the asset base.

Marius Kloppers

Thank you, Alex.

Andrew Gardner, MF Global

It is Andrew Gardner from MF Global. Two questions, if I may, relating to things you've already talked about. Firstly, just on the \$80 billion capex budget. Many of the projects in execution and feasibility stage are well-known, but if you could talk about which of those are at the top of the short list in the concept and prefeasibility stage in that budget. And then the second question is, tying a couple of things together really, why you've mentioned on aggregating a number of the smaller and medium sized players in certain circumstances as well as feeding back into your capex plans for RGP6, the outer harbour. And wondering how I can kind of word this in terms of what you expect - or how you view what is happening in the eastern Pilbara and those other operators that are also fighting for capacity through Port Hedland as well.

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Marius Kloppers

Andrew, perhaps, again to reiterate, in Port Hedland, our long term growth plans are clearly to develop the outer harbour. We are committed to it, we have worked at it for years and we believe that that is necessary in order to get the ore body potential out to the sea. That goes unsaid. In terms of the capex programs, I think what you're going to see over the next year and then in the period beyond is really a little different in the various products but let me try and quickly outline those. So firstly, in Jansen, the potash project, you've seen that we have put that in feasibility. That is really the run up of about \$5 billion – sorry, five years of work in order to get there and my expectation is that, consistent with our previous guidance, that we want to deliver first product there in 2015 and that is the calendar year 2015 and if you work backwards, you know, you will see that our guidance there for approval of that project is still basically the same as what we have given before.

So that is clearly one project that is going to feature quite strongly, both the initial phase and then the subsequent phases of that, because all of that stage by stage has been meticulously prepared over the last couple of years. I'm talking about the new things first. The second item that is worth noting is then Olympic Dam because similarly, we've been on a five year preparation program there and again, sort of by next year, that is calendar year, we hope to make an investment decision there and again, there are multiple stages of expansion there, some of which you may decide to press the next one on before you have completed the first one in the same way that I have just spoken about Jansen and that we have historically done in our iron ore business.

And then the next one is probably Escondida. Now, Escondida is interesting because – Alex, from memory, we had about \$15 billion of capex in our program before the global financial crisis. We kept on investing at about a rate of \$10 billion but we had a number of projects that we pulled back and that after the global financial situation we had to restart them. Now, in Escondida there is a number of not so visible smaller projects that we are currently executing but the big one there for us is the new concentrator that we want to build in Escondida and my expectation is that we would want to move that into feasibility which for us is a, you know, very serious commitment in the short term. And then I come to the things that really have – that are very, very short term and again, perhaps coking coal then.

You know, since our view a couple of years ago was that China was going to be a sustained importer of coking coal, we have tried to accelerate our expansion plans there around the Daunia, Poitrel ore bodies, slightly smaller ore bodies, that's probably the first one that we can get into production quickly and then we've got the Caval Ridge and Hay Point harbour expansion and upgrade after that. All of these things are extremely well developed and you should take that to mean that, you know, certainly, you know, within a relatively short period of time, all else being equal, we hope to move these projects further. On the iron ore side, perhaps lost from the equation is sometimes the work that we are doing on the Samarco expansion. Now, obviously, we hold only 50 per cent of that asset but that is nearby for a decision as well. And then there is really what I would call the projects that are aimed at exhausting the capacity of the inner harbour and RGP6, again, you know, very close by. So I think that's a run down of the major projects on the mineral side and you can see that they

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basically centre around those five ore bodies – sets of ore bodies that I have detailed before. Neil, can you get to a microphone there?

Neil Goodwill, Goldman Sachs

It's Neil Goodwill from Goldman Sachs. You've given us a fair bit of detail on the size of the expansions in dollar terms but could you give us some indication of how much you think that will grow with the company in percentage terms? And also specifically, the money that you're spending in the petroleum business, do you think that will actually grow the business or do you think that that will just maintain the status quo in terms of your production levels?

Marius Kloppers

Neil, I normally – and the company normally does not like to give volume projects per product because things move around within that project portfolio and, you know, one project gets accelerated, another one goes a little bit slower, but I would say that if I look at the ore body quality here, we really are limited on these big assets on how many things you can do in parallel. I mean, the resources are there. In all of these sets of ore bodies that we spoke about so exhaustively today, there is the potential to double and triple the output and it is not a resource constraint, it really is on how quickly you can get the money into the ground. The last forecast of potential growth rates I think we gave three year ago and I think the number that Alberto at the time put out was about five or six per cent and I think that that is still a reasonable estimate. Let me try and take one or two questions from the phone again and then I'll come back here to Sydney. So Jodie?

OPERATOR: We don't have any questions from the phone at this stage.

Marius Kloppers

Okay, thank you. I'm assuming it's still only Andre in London, so Glyn?

Glyn Lawcock, UBS

Look, just two questions. Firstly, if you could share your views – excuse me, on coal seam gas versus shale gas and your view on the gas market. You know, I think a few years ago BHP looked at putting gas into the US, now it's a complete reverse. So times move. I was just wondering if you could share your views on that market. And then secondly, you know, over the last 12 months you've been successful in spearheading, you know, pricing change in a number of commodities well talked about. Are there any commodities that you see out their, either in your portfolio or not in your portfolio, that still have a mismatch in pricing that probably needs to be sorted out? Thank you.

Marius Kloppers

Yes. I think on the second question there is obviously some way to go in alumina. For us it's a relatively minor project – profit impact but clearly something where if you in the future want to take a bigger alumina exposure, the fact that particularly the Atlantic market is not – you know,

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in the Pacific market, essentially, the fact that the alumina is priced in China, that market has sort of evolved a little bit more quickly but in the Atlantic market, it's now following, in my mind, but not completely. I would say that the overall profit impact for us is probably not enormous but there is a way to go there. In the other products also, just while we're exploring a little bit more broadly, we're very comfortable that the price of the day concept is cemented. But for our customers, we really look forward to a world where both the product price and the input price is fully hedgeable. So I don't see any changes there. But we do see a evolution of the maturity of that market and we would like to see deep and liquid physical spot markets, we would like to see deep and liquid swaps markets, or derivatives markets in the raw materials as well as in the output products because that allows different steel mills that have different cost structures to take decisions on we want to let it float or we want to profile ourselves as a converter and I think that that will be a major value add for steel mills as they reprofile and differentiate themselves in the future.

My expectation is that we are going to continue to see that and we're going to see within the next 12 months a greater physical – visible, physical spot market in – traded spot market in iron ore and we're trying to facilitate that. So that's where I see the evolution – I've just lost my train of thought here Glyn, what was the first part of your question? Gas. So I'm not the expert here so I have got two experts in the team. We have got sort of Andrew McKenzie who is the – probably the most technical person I know and Andrew says that look, shale gas hasn't increased the gas resources of the earth by 10 per cent, it has increased it by an order of magnitude. And we have got Mike Yeager who is probably the best guy in the world to get things out of the ground when it looks like a hydrocarbon so I think Mike is on the line in this and is probably the guy that can talk a little bit more about the differences between shale gas and coal seam gas. Mike, I don't know if you want to say a few words on that?

Mike Yeager, Chief Executive of Petroleum

Yes, Marius, can you hear me okay?

Marius Kloppers

Yes, we can.

Mike Yeager

Yes. Well, certainly, these are enormous resources and different companies have taken different perspectives on the profitability and on their longevity and how they fit with the technologies that those companies employ. You know, I think in general, we, according to our mission statement, really like to be on the low cost side of things. So clearly, when you talk about the coal seam gas and aggregating it and then trying to liquefy it, you know, you're into a higher cost business, not one that can't be good but certainly a higher cost. But on the shale gas, at least right now in North America with the tremendous pipeline restructure and the ability to get into the largest gas pocket in the world, you can do that at a lower cost basis. So I think basically the way we view them, we'll continue to assess these opportunities as we are presented with the chance to participate in them but certainly the shale right now is on the lower

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cost side and the coal seam gas a little bit on the higher cost side and that's really how we rank them up.

Marius Kloppers

Glyn? Okay, next question, please?

Charlie Aitken

Marius, this is more a question for Alex, but what was the franking credit balance at the end of December?

Marius Kloppers

Alex, the question from Charlie Aitken is what the franking credit balance was?

Alex Vanselow

About five – a little bit over five billion.

Marius Kloppers

Any other questions here from Sydney? We're going to look back one last time to the phone. Jodie, have we got any more questions on the phone?

OPERATOR: No, there are no further questions.

Marius Kloppers

Thank you very much. I think we have no further questions here in Sydney. Obviously, we'll have the opportunity to talk again over the next couple of days but thank you for coming in this morning and we are very proud of the record set of results. The company is extremely well configured around an enormous resource base to continue to grow, deliver value to its shareholders by continuing to increase the amount of money that it invests, continues to make a strong balance sheet proposition and continue to increase the amount of money that we returned to shareholders in the form of a progressive dividend and buy back. Thank you very much for coming this morning.