Transcript

BHP Billiton

Investor Briefing

Friday, 25 March 2011

Melbourne

1. Marcus Randolph

MR RANDOLPH: Today we announced just about $10 billion in projects in projects in iron ore, met coal and energy coal. I would like to report on those briefly with you today. Starting, I would give you the normal disclaimer with the caveat that this is really not a very normal disclaimer and that we are going to talk a bit about our resource position today, so you might notice that we have actually expanded this to allow for that so please pay attention. The starting point for this is as we talk particularly about the iron ore and the met coal businesses we are talking about businesses that are at the core of our portfolio. These are big high-quality lost-cost businesses with substantial embedded expansion options. I am not going to walk you through these numbers. They would be familiar to most of the people in the audience today, but they – these are assets that cut right to the core of what is BHP Billiton's strategy as a resource company.

As we make these investments we are investing in our tier 1 businesses. In Western Australia Iron Ore today we announced our share of $6.6 billion. This is to expand our Western Australia Iron Ore operations to 220 million tonnes a year and with subsequent debottlenecking to go to 240 million tonnes. In Queensland Coal, which is 50 per cent owned by BHP Billiton, our share, we announce $2.5 billion in projects, and that encompasses on a hundred per cent basis a 4.9 million tonne expansion of our mining capacity and 11 million tonne per year expansion of our port capacity, plus substantial risk mitigation which I will cover during this presentation. In Hunter Valley Energy Coal we announced a $400 million expansion of the Hunter Valley Energy Coal mine which will add 4 million tonnes of run-of-mine production.

Starting on the resource side, the foundation of a mining company is its resource base, so I would like to actually go there for our initial points, and as I go through this I am actually going to use some words that are just a little bit different, so the orange and the grey bars that are shown on this graph would be familiar to most of you in the audience. This covers our reserve and resource position. These are the normal JORC compliant numbers. They are the numbers that you see in our annual report. The blue bar is what we call "potential mineralisation." So as we talk about our bulk mineral products – these are continuous, you put a few holes in them, you start to get a pretty good sense of where you are. So the blue bar covers our best estimate. The then the scale that you see actually gives kind of the range around that estimate of what we expect the actual total potential mineralisation of each of these assets is.

Now, the particularly exciting part of this is the bubble, which shows the minimum reserve life at current production rates of each of these assets. So Western Australian Iron Ore, at a current plus/minus 150 million tonne per year production rate, for example: we have got 200 years at that production. In Western Australian Iron Ore, this is a map that would be familiar to most of you. The orange are our existing mines. Blue are planned mines. There are a couple of conclusions that you can take out of just looking at this plan view, however. One is that we have nicely packed together operations. We are not spread all over Western Australia. We have actually got our operations nicely bunched together which gives us a nice operating framework going forward. Second, as we talk about our expansions the mines that we show in existing – I'm sorry – in future operations are the ones that we will be developing over the next 15 to 20 years. So this will take us well out there in terms of the actual ultimate development of Western Australian Iron Ore, and the key conclusion here is that, individually, these mine

expansions are quite large, so as we talk about these these generally are in the range of 30 to 50 million tonnes per year per development. So they are large.

This is a plan view – an aerial view of Port Hedland. I would like to walk you through this a little bit as it gives you a sense of both the challenges and the opportunities that we face. So the red areas are the facilities that we are constructing as part of this expansion to 220/240 million tonnes a year. The green which, not particularly conveniently, is shown as yellow on the aerial graph, is the stuff that we add beyond 240 million tonnes a year. So, covered in the red, there are eight ship loaders and berths; there are five car dumpers; there is an expanded stockpile, plus there is a rail marshalling yard. As we go into the green, which is the yellow area that you see, you actually see what our plans are for the outer harbour, which consists of a four-kilometre long jetty, ultimately eight more ship berths and ship loaders, plus a massive stockpile that is at the location of the old Boodarie HBI plant. Behind what you see on this plan is a change of operating strategy, so the way we would like to operate going forward is we want to be port constrained. So the strategy in this series of projects is to grow to the 220 to 240 million tonnes a year, to add in there port stockpiling and blending, a change in the way that we marshal our yards so you – you know, we call it “Mooka yards,” which is just off the rail line that you see in the lower right in that drawing, which will allow us to present our trains to the proper car dumper and the proper ship loader as we choose to marshal them.

Also included in this is an embedded expansion in the Jimblebar Mine, so as we do this we have got an extra 20 million tonnes a year, more or less, that we will be able to grow into as we do that expansion to make sure that we are never mine constrained. So the idea is, effectively, choke feed the port, put the stockpiles, the blending yards, the marshalling yards at the port, and manage our facilities around those constraints. The production profile that results from this series of expansions is shown on this graph. Overall, it generates a compound annual rate of growth of about 10 per cent a year. We actually think this is something that we will be able to deliver and we are pleased with where this takes us in terms of our future position.

We are also in a very good position on the cost curve. So the graph that is on the screen is a Macquarie research estimate. This shows delivered costs of China. The primary conclusion from this is one that is well known to each of you. We have got big high quality reserves close to their customer – means that we are a low-cost supplier. This is the less pleasing part of this presentation. The bad news is the cost of expanding in Australia is going up, so as we talk about the capital intensity that we are actually going to experience in Western Australia, Queensland Coal and in our energy coal expansion the combination of a strong Australian dollar, labour and contractor scarcity, equipment shortages – you add those up, you get high project cost.

So if we work through in this slide I will be glad to cover it in more detail as we get to the questions but, effectively, what you are seeing is the investments covered by this are on the left-hand side - a total of $15.6 billion to add 65 million tonnes of capacity to grow from 155 million tonnes to 220. As we grow from 220 to 240 we have added another billion dollars in capital for that 20 million tonne per year expansion, which brings the capital intensity down, leaving us with 195. Then, as we switch to port blending and Mooka rail yard marshalling facilities, these aren’t actually just related to these expansion tonnes. These are related to our overall operation, so all the tonnes that we produce are captured by that larger number, hence we get a bit of a credit for that as well, which brings us back to a net of US$183 per tonne of annual capacity. I will add, however, this is an all-in number so it’s not – it’s not like we are going to come out next week

and announce that we've got a big sustaining capital expenditure or something else that is going to surprise people. We are pretty confident that we have got it in here.

Talking about Queensland Coal, on this plan we are actually covering off both existing and future assets, so the red and green are the names that are familiar to you. So these are the existing mines that are, effectively, the core of the Bowen Basin and BMA. The blue are our planned mines and you will note that this goes, as in iron ore, well beyond what is actually planned in just this expansion. So the heart of the Bowen Basin – you can actually see it. You see the Hay Point Coal Terminal, which is part of what we have announced, and if you move due east from that along the Goonyella line around Moranbah you will see the Broadmeadows underground, which is actually part of the Goonyella Riverside complex, plus Daunia which is just to the right of the town of Moranbah.

In addition, we are showing substantial additional future options. That includes Wards Well, Saraji East and Goonyella. So, effectively, beyond what we have announced today, we have three large plays that we are also evaluating future expansions. We did comment in today's news release that we are expecting to see Caval Ridge, which will be another approximately eight million tonne expansion. That is not included in what we have discussed today. We expect to see that late this calendar year, however, as we have made the Hay Point Port expansion we have done that with the expansion that we will have Caval Ridge coming along in the very near future. This is a backwards graph. When you think about metallurgical coal – because hard coking coal isn't, semi-soft coking coal isn't PCI – you actually need to work on a margin basis rather than on a cost basis.

So what we have done in this is we have actually worked backwards from an assumed coal price, netted out our costs, and said, "What is our net margin out of Queensland coal?" That is that massive block that you see in exactly where you want to be in the cost curve. Same conclusion as we had in iron ore - huge resources, low cost production, close to existing infrastructure and customers - equals a very easy expansion decision. This is our Hay Point expansion. There is actually two parts to this project. One of them is the 11 million tonne per year expansion which is the more visible part. The less visible part was actually about plus/minus two-thirds of the capital investment is risk mitigation.

You can see why as you look on the lower right-hand side on the slide. You see the existing trestle. You remember we had Cyclone Ului about a year ago. You see where the water levels were when that went through. We actually had substantial damage to the port. If it had have been much higher, we would have had quiet an event. Similarly, if the cyclone that recently went through northern Queensland had have hit here, we would have had big trouble. So what we are doing as we go through this expansion is actually two things: one, the 11 million tonne a year expansion; second, completely rebuilding the jetty, the ship berths and the feeding infrastructure such that we are reducing the risk in the future due to the potential of these one in 100 year events that seem to be happening about every two years.

Now, I will give you an aside here. I know there will be a lot of people in the audience that are looking for guidance about what is going to happen as we move to the outer harbour in iron ore. The jetty that is part of the Hay Point expansion is two kilometres long. The jetty that we are adding as we build the outer harbour is four. So you can kind of look at this, and it gives you some sense of where we are going as we talk about what is actually going to be coming when we move to the outer harbour, with that project expecting to come forward around late calendar year '12.

As in iron ore, metallurgical coal is not immune from Australian cost pressures. Daunia, I think, to give you a little bit of guidance, Daunia is a smaller operation. I think as we start talking about some of the bigger ones and future projects, we should see some slight declines from what we have here. However, you get some sense of the capital intensity for both ourselves and others as you look on the screen.

The production profile for a metallurgical coal business is shown on the screen. The resulting growth is a compound annual growth rate of about six per cent. There are, as I referred to in the discussion about Saraji East, the Goonyella complex, Caval Ridge, Wards Well. We have got substantial options beyond that. But we are in a different position in metallurgical coal than we are in iron ore. We are a bigger player in this business, and it has not had the demand growth that we have had in the iron ore business over the last decade. So we actually need a market to grow for those projects to be triggered. So we are sitting with substantial additional options well beyond, I think, what we are projecting here and what we talked about today, but we actually need to see what happens in the market before we decide how we are going to play those.

Conclusions from this presentation: we are investing in high quality growth assets. These are the kind of assets that should be coming to the market given their cost position, resource base, customer proximity. It is the tier 1 stuff that we talk about when we go through the BHP Billiton strategy. They are large, low cost reserves. Capital inflation is unpleasant, but it is also an industry wide trend. Iron ore, the strategy is really to build out the inner harbour and to prepare for moving to the outer harbour. In Queensland coal, the strategy is to grow as fast as we can and to lever off the premium strategic asset we actually have in having the only coal terminal on the east coast of Australia. In energy coal, let's keep the Newcastle port full, and also take advantage of the low cost position that we have in our Hunter Valley assets.

As we go forward - so I haven't actually given you a separate discussion today about what we are doing in energy coal. It was by far the smallest of these announcements. But the plan is as we develop the higher ash market in India and South East Asia, the idea in energy coal is that we will grow the mining capacities, which is what you see here. In subsequent expansions, we would expect to add both mining capacity and processing plant capacity. So we will ultimately process this coal, but we have an opportunity today to take advantage of a short-term opportunity and get into the market quick. With that I will close the presentation, and I will throw it open for questions. I would like to go first to Sydney, and then after a few questions I will bring it over to Melbourne. So if I could throw this open to questions in Sydney, please.

2. Questions

Paul Young, Deutsche Bank

MR YOUNG: Good morning, Marcus. It is Paul Young from Deutsche Bank. I have got a few questions about the Pilbara. The first is on your capital intensity. And can I start by just noting that you do have that relationship on the EPCM side with Fluor and SKM. That has been an entrenched relationship for five years or so. And so I presume they are pretty good at forecasting, you know, capital costs and, also, I presume that they have got a pretty good handle on escalation and required contingencies. So I guess the question is: how much conservatism do you think they have built into those numbers? And the second question is: versus your peers - I mean, Rio's capital intensity is sitting at US, I think, 130 to 140 dollars a tonne, depending on how you cut the numbers. And we know where Fortescue sits, something significantly below that.

So can you comment on where the difference is based on those points I have made? And, secondly, can I just move to the outer harbour. You mentioned that you are going to have to start construction in 2012 for that start up in 2016. So that means that you are probably pretty advanced on a capital cost estimate. Can you provide us with an estimate and perhaps a range? Thank you.

MR RANDOLPH: Yes. Talking about capital intensity - you're right - we have been growing, effectively continuously, in the Western Australian iron ore business since about 2002. So we are working within the Fluor/SKM relationship and the other contractors that are actually part of these projects. That is a relationship that has existed now for almost a decade. So, yes, I mean, you know, one of the advantages that we do have is that we have been in this business for a while. We have got existing relationships. We know what they want. They know what we want. It has worked well for us in the past, and we expect that to continue going forward.

Regarding capital intensity, I mean, I will make a couple of comments. I think this is something that a lot of people haven't really wanted to talk about. And if you go back - I mean, many of you I would have talked to in other forms about where we were, say, four or five years ago - you know, the number that you typically saw in capital intensity was about 60 to 80 dollars a tonne, say, four or five years ago. And if you, sort of, wander through what has happened since then in terms of labour shortages, particularly FX changes and other things, and recognise this is a US dollar number, you start to see where that gap has closed. What you do notice as you talk about this - I will make a couple of comments - is, one, that announcing a capital cost is not a delivered capital cost. So we have had a very good record of actually delivering our projects against announced scope, on schedule and on budget.

The second is that, you know, there is not a lot that is outside of this scope. So we do not have embedded capacity that exists in - you know, so we have got double tracking railroad. We have got major port expansions. We have got development of new mines. So basically right across the full system, we are growing that full integrated series of activities. So there is nothing in there that is, sort of, left out or that is hold over from an earlier expansion that actually runs in our favour. So I would - I guess my response is that I think where we are is probably about where the industry is on an all end basis, and, you know, we will see how that plays out as we

go forward, but I have some degree of scepticism when I hear numbers that are substantially lower than where we are. Next question, please.

I'm sorry. You also asked about the outer harbour. Outer harbour in 2012, that is when we would expect to come forward with an approval. At this point that is 18 plus months away. As excited as I am about the outer harbour, it would probably be inappropriate for me to actually start commenting on capital cost. It is just a bit early, but you should start to see this as we move forward. You are correct. We are well advanced on the work. Next question, please.

Lyndon Fagan, RBS

MR FAGAN: Hi, Marcus. It is Lyndon Fagan at RBS. Just looking at the met coal chart in the pack, there is also some growth at BMC and Illawarra. Can you talk about what those projects are, please?

MR RANDOLPH: Well, there is none of those that are being approved today. We are actually doing projects to grow West Cliff and other things. The growth that's included in those is actually fairly nominal. So you see some growth, but it's something that's coming along in the future. I mean, it's – I think we were pretty progressive in actually trying to put out a chart that shows where we expect to be kind of year by year over a decade, but to walk back and say which project is in there and when we expect to start and what the capital is really is far more detailed than I think we ought to be going into today. I'm sorry about that, but that's for a future discussion.

Paul McTaggart, Credit Suisse

MR McTAGGART: Hi Marcus, Paul McTaggart from Credit Suisse. Once NCIG is at full capacity, stage 2, and you have got Mount Arthur running at the expanded capacity, how much spare port capacity will you have in the system?

MR RANDOLPH: I will step back. We talked about – and it's interesting how this works. When you run your own integrated facility as we do in iron ore, it's a good strategy to actually say we want our own port constrained. When you're in a facility where you don't have complete control over the expansions and you don't run all the infrastructure that connects it, you actually want to be infrastructured along. So as a strategy, what we're trying to do, particularly in energy coal, is we want to always have a little bit of extra infrastructure so that we're not actually limited on our future growth by what's happening on the railroad and the port.

So the intention is is to keep it near operating capacity but never actually quite get there in terms of the mine. So we don't expect to have available capacity as we go forward; the strategy will be to continue to grow our business such that that doesn't occur.

Lawrence Grech, Austock

MR GRECH: Lawrence Grech from Austock. I have two questions; one relating to iron ore and one relating to the coking coal business. With iron ore, giving the ore moved to 220 tonnes and up to 240 with the de-bottlenecking, how does that mesh in with any third party obligations to use the infrastructure? Is there any room in that build up period for any third parties to use that capacity? And then secondly, in the hard coking coal market, you were talking about recognising what the market growth would be. But given that there are long lead times in both

mine development and infrastructure, are you able to fully capture those without ceding market share?

MR RANDOLPH: Yes – talk a little bit about available capacity. You know, when we decide to expand, we don't actually – you know, we don't actually add available capacity. You know, many of you would remember we went through substantial litigation related to the access case. I'm glad that that's over. We do, however, have third party obligations related to haulage, and ..... as we see appropriate opportunities to do so. So we don't build capacity into what we design, however, we do have an obligation, and as we have to fulfil that obligation, we will have to add extra capacity in order to make that available. Port Hedland itself is not a spot where we will ever expect to have available capacity. It is already open and there are spaces that have been allocated for other users. I would expect that in the future they will be able to address their own capacity.

Related to hard coking coal market growth, we – you know, we have gone through a step change in the met coal market in the last couple of years, probably three. You know, we saw fantastic growth coming out of iron ore, both seaborne and Chinese domestic, as they were unable to – and over time, they were unable to keep up in iron ore in China on the domestic side, and they went substantially to imports. Met coal didn't get that, you know, so we went until a couple – two and a half years or so ago, we actually had China as a net exporter or roughly balanced in terms of its metallurgical coal production.

We have seen a discontinuity. In other words, we suddenly saw China taking 25 million tonnes or so, then we saw that grow over the last year up into the mid-upper 30s. So we're seeing, effectively, the end of the geologic endowment on the Chinese metallurgical coal mines, which has created an opportunity for the metallurgical coal business to grow into China. Secondly, we also look at India, and we see a – sort of the mirror image of China. We see a country that actually has a very good resource endowment of iron ore and a very weak one for coal. So as India grows, we see that as a very good market for the growth of a metallurgical coal business.

So what we're effectively doing as we position ourselves is making sure that as that opportunity develops, we have the capacity to supply it, and our intention is, on a net basis, to actually grow our market share. So we have got – you know, when you're sitting on the lowest cost, cheapest to expand, closest to your customer assets, you should be the business that is expanding first. That's our intention with these projects.

Lee Bowers, Macquarie

MR BOWERS: Hi Marcus, Lee Bowers here from Macquarie. I just have a couple of questions - - -

MR RANDOLPH: With that, if I can, I'm going to cut – I will take one more question from Sydney, and then I'm going to cut over to Melbourne. I'm sorry about that. The last question from Sydney, then we will go to Melbourne.

MR BOWERS: No problems. My first question was just in relation to the omission of the RGP terminology with – and obviously, the sort of the rephrasing in the profile. Can you just put a bit of colour around why that sort of ceased to be useful as, I guess, a descriptor of the growth phases in the Pilbara for you. And then the second question related again to that Queensland coal production chart. In previous charts you have highlighted how much of the BMA growth

was attributable to creep. If you could perhaps just give us an idea of how much within the current chart you ascribe to creep.

MR RANDOLPH: Yes. RGP terminology – you know, I think we created an expectation when we started using this that is actually not one that we want to do for the long term. In other words, bundling up a project that's got rail and port and mines and everything else that has to happen into one single project and call it an RGP project actually slows us down. So the intention as we go forward is you should expect that you will see discreet expansions of mines and ports and rail and other facilities as required, rather than trying to make it all just one very tidy neat project with a bow around it. The other reason for ending that terminology is the RGP series actually ended when we got to the end of the capacity in the inner harbour, and that's effectively what we're announcing here. So as we're going forward, I don't think you will hear any more real discussion about the RGP series, effectively because it's run its course.

Talking about Queensland coal production growth, I mean, effectively what you're asking is how much additional production are we going to get out of a de-bottlenecking exercise. It's in the small millions of tonnes. It's probably, you know, like a two or three million tonne number. It's not a major shift, but it – as in iron ore, I mean, you would expect to see a surge of 10 per cent growth over the period of a few years through simply modifying the existing facilities. I'm now going to switch over and take a question from Melbourne, and after I do this, I will come back to Sydney again. Yes, we're now in Melbourne and looking for questions.

Glyn Lawcock, UBS

MR LAWCOCK: Glyn Lawcock with UBS. Just a couple of questions. Firstly, you talk a lot about the rule of thumb for capex intensity in iron ore. Could you talk a little bit about what you would see as the rule of thumb for met coal in Queensland, and is Daunia a good example of that? And then if you can just move forward a little bit further along Daunia in just looking at the business in Queensland – I know you gave us a chart, an inverted cost curve chart, but how do the new mines compare to the existing mines you have got in Queensland now? Higher strip ratio or lower strip ratio? Just trying to get a sense of how the new mines will blend in with the existing operations in Queensland as well. Thanks.

MR RANDOLPH: Yes. Capital intensity in met coal – you know, I mentioned when I started that, you know, Daunia was one of the smaller mines, so relative to the projects that I expect we will bring forward in the future, Daunia is probably on the upper end of the range in terms of capital intensity. It happened to work for us for a couple of other reasons, and brings with it some synergies with the adjacent portrayal operation, plus it's also a very good blending coal, so we're able to blend in it and actually get a substantial uplift by blending it in with some of our hard products. So the reason for doing to Daunia what we have done now is not because it was the lowest cost expansion, but because it was a very good return overall, and frankly, because it was ready.

As we talk about high versus low strip ratio, I mean, the reality of mining and, you know, Glyn, you know this probably as well as I do, you start a new mine and you actually get a nice pick up in that you tend to start in much lower ratio coal. So as we're developing newer mines, they tend to come in on the bottom of the cost curve, and they progressively move up as they're grown over time as the ratio starts to increase. So typically, when we add new coal, it comes in on the bottom of the cost curve, and I – I will help you a little bit. As we start Daunia, it will be a lowest cost quartile mine. Next question from Melbourne, please.

Craig Sainsbury, Citigroup

MR SAINSBURY: Yes, hi. It's Craig Sainsbury here from Citigroup. A few questions, firstly just in coking coal which I think all of us would probably thing is a tighter market than iron ore at the moment. You're looking at a 10 per cent compound growth rate in iron ore from now through to 2020, yet only a six per cent growth in the coking coal market over that period of time, and it's pretty much back ended from '15 through to 2020, and I would have thought both of those should be inextricably linked to the steel market. Just wondering why, with such a tight coking coal market, the one we're here talking about Daunia today being developed and not actually looking at other projects being fast-tracked into production. So can you just talk us through why you haven't, I guess, committed more capital to the coking coal market, what are the constraints there, and when you will actually come back to the market with a bit more update on those other three projects you mentioned.

Second question is kind of related to that. What's, I guess, the ultimate port capacity at Hay Point? Is that the constraining factor at the moment so you can talk about some potential further expansions there and just how rail is interacting with that. And then the third question is a very minor one here, but if I look at slide 12 at the notes, your assumptions there are talking about an Aussie/US dollar cross of $1.30, which I think would put you guys at the top of the market in terms of forecasting currency over that period of time. So is that actually the figure that you guys are using, and if so, why are you coming up with $1.30? Thanks.

MR RANDOLPH: I guess I will take the last one first. If it says $1.30, it certainly slipped through our editors. I can't tell you what the right number should have been, but we're not using $1.30. We must have had something that slipped through. I apologise on that. If we can come back to you on that one in the future, we will. Related to the tightness of the met coal market – the reason the met coal market is tight is not because of high demand, it's because of limited supply. So we have had a market in iron ore that has grown at very high compound annual, and I'm going to give you a statistic. I mean, overall, demand growth in met coal over the last decade has been just a little better than two per cent a year, so it hasn't been particularly high in the seaborne market. So overall it's grown high, but it's grown through fantastic expansions in China rather than additional tonnage out of Queensland.

Why not more capital as, you know, I mentioned that we expected to see Caval Ridge coming out late this calendar year – we need to see the market continue to evolve. I think what you will see in the met coal market, though, is you know, those fantastic photos you see where there's 60 or 70 ships tied up off the ports of the east coast. You know, the advantage that we're actually carrying going into this is owning our own port facilities and the intent is that we can, therefore, make decisions to expand our port and our mine and link them, and expand quicker.

As we talk about future port growth, as I went into slide 11 – and you will note that I also referred to that on – in the text, anyway, to Abbot Point, which is the terminal that is to the north of Hay Point, so that the capacity constraint on Hay Point is yes, we start to get tight on stock piles. There is another expansion, but the tighter part is actually the rail length, the Goonyella line that links the Moranbah mines with the mines near Moranbah, to the port itself. So the capacity constraint is as much a rail, and it starts to get very expensive to expand as it is the port. In Abbot Point we are the preferred developer of a new port there, and are in the process of discussing that and finalising those agreements with the Queensland Government.

So the decision that we will have make going forward is we will be developing Abbot Point, but how much tonnage to run through those two facilities is a decision that's pending, but it's a high class problem to have. I think – did I get through to your – I think I got – did I get through all those? I think I did. Craig?

MR SAINSBURY: Yes, I think you did. Just one quick follow up question on that, and I'm a little bit mischievous here. From what you were saying in your very early comments in answer to my question, basically, coking coal is a market that's tight because there has been a lack of supply, yet you're growing a lot in the iron ore market. Is that a view that you think you can actually control the coking coal price by not bringing on supply quickly, where the iron ore market is one where everybody is bringing on supply and you're basically in there to gain market share and then change the dynamics of the industry? Is that what you're sort of alluding to there between the difference in those two markets?

MR RANDOLPH: No, you know, control of supply are not words that I would ever want even somebody to put in my mouth. You know, the intention here is actually - you do need to see - if you walk back and think about what the metallurgical coal prices have been in the very recent past, until that Chinese market opened, we actually had some pretty low prices. So we need to see a market that as we project forward, we can see prices that will allow us to get adequate returns on investment, but as we do our strategy will always be to take those rather than cede them to someone else.

So we don't have a strategy that says, "We want to look at this and figure out if we only put this much supply out, the prices is this, and is that a good idea." The strategy actually is run flat out and grow as fast as you can, provided that you expect to get reasonable returns on those investments that you're making. And that strategy - it is not just an iron ore issue. It is actually met coal, energy coal, and pretty well runs across the portfolio. Another question from Melbourne.

Neil Goodwill, Goldman Sachs

MR GOODWILL: It's Neil Goodwill from Goldman Sachs. Could you just comment on your operating costs in Queensland coal? Over the last five or six years, we have seen operating costs there go up by a multiple and more than we have seen other operations, such as your underground coal mines. I am just wondering what your view is going forward. I mean, are your strip ratios continuing to increase, and will you look at some stage to move those underground as well?

MR RANDOLPH: The decision about open cut or underground is one that we, you know, evaluate on several criteria, but it effectively comes back to an economic decision. What does happen is the cost of operating open cut mines tends to go down more in future years than underground operations, simply because equipment gets bigger, you know. So we talked quite a few years ago about a number of punch longwalls, which is effectively what we have at the Broadmeadows operation. It is a very low cost operation, but all up return we actually tend to do better still on developing new open cut mines.

Regarding the issue of operating cost generally, you know, I think you are going to see some shocking numbers as we go through this here, largely because of volume. So the way that is our best tool for managing operating costs is to push up the volume. We have probably done that. We have probably accelerated that a bit more than you would normally see. In other

words, if you look at what we have been trying to do in Queensland - and it has helped us a lot as we have gone through these floods - is to actually lay the highwall down well ahead of our coal production, build our in pit coal inventories, and you do see some of that flowing through as additional operating cost. That is a shorter term problem. I would say over the medium-term we should probably see those large increases in operating costs to some degree start to moderate.

MR RANDOLPH: More questions from Melbourne?

FACILITATOR: None at this stage, Marcus.

MR RANDOLPH: Okay. We are going to cut to Sydney, then, please.

MR HARRIS: Yes, Marcus, before I do, I will just clarify for you just to help you out there, just on the chart, that is actually Wood Mackenzie data. We don't present our own data in that sense, that margin curve. And also, I think, if you look at it, it's convention, but, please, anyone give me a call on that. I am happy to help. But next question here in Sydney.

Lyndon Fagan, RBS

MR FAGAN: Marcus, it's Lyndon at RBS again, just a follow up. On RGP5, if we are trying to analyse the amount of capex that you need to spend from today, can you outline how much of RGP5 you have already spent? And then going back to the Hunter, you give ROM tonnes. I am just wondering what the yield is there, and, I guess, what is the nominal production capacity of the Hunter today so that we can add to that number? Thanks.

MR RANDOLPH: Yes. RGP5, how much actually spent. RGP5 as a project actually isn't scheduled to start until late calendar year '11. So what we are doing is we are saying we are not actually going to run that out as a normal project. We are going to pick it up and roll it up into this whole thing. So what you will see coming out of us going forward will be a single report. So RGP as a project is plus/minus low 90s per cent completed, so 91/92 per cent, plus/minus. We haven't started to see the additional tonnage come out of it, yet but it is effectively in start up stage. The idea, though, is to pick up off of where we are in RGP and just finish it out with these. So the pre-approvals for these projects have been rolled into the RGP investments such that it is really hard to say, "This dollar went over to that project and that dollar went over to that one." It gets a bit confusing.

Hunter capacity, we are in the process today of commissioning the MAC20 project, which was giving us 20 million tonnes a year of delivered project to customers. As we go through the expansion that we are announcing here, there is no processing plant that is associated with these projects. So effectively run-of-mine coal will be sold into the market, and it is actually built off the premise that the market is allowing these kinds of slightly lower calorific value and higher ash products to find a home. The intention is, at some future expansion, we will do one larger expansion of the processing plant which will sweep up this tonnage, and we will go back to processing it again. So this is a short-term opportunistic move. It is actually not being done with the intention of operating in this framework for the long-term. Next question, please.

FACILITATOR: Do we have any other questions here in Sydney? One at the front.

Peter Chilton, Constellation Capital Management

MR CHILTON: Peter Chilton from Constellation Capital Management. You have mentioned Caval Ridge a couple of times. Could you just talk about that a bit more, about your thoughts and why you didn't - why is that not currently included in the current announcement?

MR RANDOLPH: Caval Ridge doesn't have its full approvals yet. So it has its federal environmental approval, but it doesn't yet have its state approvals, nor have we totally finished the engineering work to where we are ready to put it forward as a project. I mentioned that we were expecting to bring it forward late this calendar year, and, you know, that continues to be our expectation. So it is coming, but it's not coming yet. The expectation on capital is that it will be an 8 million tonne a year project. Capital costs and other details to come as we get into approval cycles, so not ready to have a much more detailed discussion than that, but it's coming. Other questions from Sydney, please.

FACILITATOR: I think that is it for here, Marcus, in Sydney.

MR RANDOLPH: Okay. I think we have closed out Sydney. Is there any other - any last questions in Melbourne? I think we have probably been through Melbourne as well?

FACILITATOR: There is a question, Marcus, in Melbourne.

MR RANDOLPH: Yes.

Glyn Lawcock, UBS

MR LAWCOCK: Okay. Marcus, I just wanted to drill down a little bit more on that question. You're right, I mean, a new mine has a lower strip ratio. But can you give me a sense - like, can you quantify what is the current strip ratio on average for your Bowen Basin as a complete asset set? And if I look at Caval Ridge and Daunia and everything, are the life of mine strip ratios for those mines in excess of what, you know you are facing now in Queensland? I mean, to give you an example, a lot of your peers are putting our mines now or developing mines with strip ratios above 10:1.

Add on top of that you have to now push it up through Abbott Point, through the Missing Link, longer haul distances, higher capex, bigger returns the infrastructure providers want. So costs are pushing up, now, 110/120 a tonne. Is that, sort of, where we should be thinking for your business as well? Thanks. And if you can quantify what you do know about the strip ratios. Thanks.

MR RANDOLPH: Yes. You are going to push me pretty hard to actually get into huge amounts of detail about what our actual strip ratio is at various operations. But talking about cost data, I mean, if you work backward from that margin curve that we gave you, I think that was actually calculated off a $200 a tonne price. So you can work backward from that, and you are going to get an operating cost for us that's going to run in the $80 a tonne range, plus/minus. I mean, it's - the expectations going forward, you know, we will battle to keep that down, but the idea is we are not seeing, you know, kind of, the plus $100 expectation going forward. If anything, you know, the idea will be bring on our new capacity and actually bring that number down as we go forward rather than to see continued increases.

I think we have pretty well closed out the questions. I realise this was very short notice. For those of you that attended today, thank very much for joining us. It's midnight here in London, and as you might expect I have probably got other places I would like to go right now as well. But thank you very much for joining us, and we will see you very soon. Much appreciated.