Transcript

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BHP Billiton

Interim Results

Investor & Analyst Briefing

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1. Marius Kloppers

MR KLOPPERS: Ladies and gentlemen, welcome to today's presentation of BHP Billiton's interim results for the December 2011 half year. I'm speaking to you today from Sydney, and I am joined by our CFO, Graham Kerr, who is presenting our financials for the first time. Welcome, Graham. I'm also pleased to note that we are joined by members of the BHP Billiton management committee, including Alberto Calderon, Mike Henry, Andrew McKenzie Marcus Randolph, Karen Wood, and Mike Yeager. They are on the telephone lines, and they will participate in the question and answer session. I should also point out that Jimmy Wilson, president of our energy coal business and based here in Sydney is here with us today.

Before we begin today, I would like to point the disclaimer out to you, and, as always, remind you of its importance in relation to today's presentation. With regards to today's format, I will start off by giving a general overview of our operating performance, Graham will take a little bit more of an in-detail look at our financial performance, and then I will conclude by discussing the unique attributes of our strategy that positions us for superior margins and strong investment returns. That is, in the first place, the strong and predictable nature of our financial performance that fundamentally improves our ability to plan for both the short and for the long term; secondly, the contrasting fortunes of various businesses in our portfolio and the specific actions that we've taken to address those challenges; thirdly, the latent capacity that is said to be released from our portfolio from our existing portfolio, and the strong momentum that will be generated by this release of latent capacity; and then, in the last instance, our commitment to live within our means as we look to exercise the excellent growth options embedded in our world class portfolio of assets.

But let me begin by addressing the important topic of sustainability, which, as you know, relates to the health and safety of our employees, communities, and the environment in which we operate. It is fundamental to everything we do. It is our number one priority, and strong performance on health and safety is actually a pretty good indicator of a business that is in control or not. And in that context, I am pleased to note a 16 per cent improvement in total recordable injury frequency rate over the corresponding period, which builds on the positive multi-year trend that has been established. Sadly, however, we had a fatality in Western Australia Iron Ore in the first half, and in the second half, we had another fatality in South African Coal. One fatality is one too many, and I would like to offer my condolences to family, friends, and colleagues.

Now I would like to turn to the strong set of financial results that we've delivered for the December 2011 half year, and this, despite significant volatility in commodity markets and a general shift in market sentiment over that period of time. Such robust and predictable performance reflects our strategic positioning as the more diversified natural resources company, and the consistent and disciplined manner in which we've deployed capital within the business and have executed our strategy. Underlying EBITDA increased by 8 per cent to $18.7 billion, and underlying EBIT rose by 6 per cent to $15.7 billion. I'm pleased to note also attributable profit, excluding exceptional items, was US$9.9 billion. Operating cashflow of $12.3 billion underpinned our investment and exploration programs of $9.6 billion, and our interim dividend of 55 cents per share. And gearing increased to 25 per cent following the successful acquisition of the Petrohawk Energy Corporation.

Now I would like to highlight a few elements of our operating performance. I'm very pleased with our Western Australian Iron Ore business, in which production rose by 26 per cent, compared to the corresponding period. In particular, in this business, our invest throughout the cycle strategy is being rewarded, as the ramp-up of Iron Ore Handling Plant 3 at Yandi, dual tracking of the rail infrastructure, and additional ship-loading capacity facilitated this rise to 178 million tonnes on an annualised basis in the last quarter of the last calendar year. Likewise, our energy coal business continued to benefit from investment and world class expandable export-oriented operations. Another half-yearly production record was achieved in New South Wales Energy Coal as the accelerated expansion of the Mount Arthur North Colliery capitalised on strong demand in north and south Asia.

However – and I will talk about this a little bit more later on – industrial action and grade decline meant that the production profile in Escondida led to a 16 per cent fall in total copper production for the period. And, of course, as well-documented, the remnant effects of wet weather and industrial action meant that our Queensland coal business still ran below capacity. While these operating constraints are temporary, particularly these last two that I spoke about, there are also some other industry-wide challenges that have led to margin compression in some businesses that is worthwhile noting. Now, of course, these businesses make up a relatively small proportion of our portfolio, but, you know, things have been quite challenging in the more metallurgical and process-oriented industries. And I will discuss the measures that we're taking to address these challenges specifically in a little while.

Before Graham talks, I would like to talk a little bit about Petrohawk Energy Corporation. As you know, we invest for the long term, and while the current gas pricing environment is a little bit more challenging than we envisaged when we made the acquisition, the total value proposition by the acquisition is unchanged. I'm very happy to confirm that the 7.6 billion barrels of oil equivalent, gas and liquids, the resource is every bit as large and as high quality as we had hoped for, and even within the portfolio, petroleum portfolio alone provides us with significant flexibility. Now, that flexibility has allowed us to respond to lower gas prices by refocusing our efforts on the most productive areas of our acreage, for example, the development of the liquids-rich Eagle Ford shale, and our exploration program in the Permian basin is our major priority at this stage as we look to increase the valuable liquids component of onshore US production to 20 per cent by 2015 on a BOE basis.

In addition, our dry gas program has been tailored to target only those areas of the basins that are core, as we look to develop the wells with the most attractive returns. With that, I would like to hand over to Graham, who will present our financial results, and then I will return to talk a little bit more about our strategy and our portfolio.

2. Graham Kerr

MR KERR: Thank you for your introduction, Marius. Before I start, I would like to acknowledge the significant contribution of my predecessor, Alex Vanselow. I'm pleased to present this strong and predictable set of financial results, which are a testament to the consistent and disciplined execution of our strategy. As Marius mentioned, these robust results were delivered in the period characterised by significant market volatility and a number of operating challenges across our key businesses. Let me start by taking you through the key earnings drivers for the period. Underlying EBIT for the December 2011 half-year was $15.7 billion, up 6 per cent from

the prior period. As shown in the waterfall graph, higher prices net of price linked costs increased underlying EBIT by $2.8 billion. Notwithstanding this significant price and increase at the group level, the contrasting performance of individual commodities within our portfolio tells a somewhat different story. For example, prices for our bulk and energy products were supported by continued strong demand from the emerging economies, and ongoing supply side constraints.

In contrast, prices for our metal products were weaker, reflecting the general shift in market sentiment towards the end of the period. Adding to the decline in base metals underlying EBIT was a provisional pricing adjustment of $258 million, relating to our copper concentrate and cathode sales. While not flowing through the revenue line, I should also note that in our petroleum business, a strong operating performance across the portfolio was supported by a number of one-off benefits in the half, including a $222 million gain associated with legacy US Onshore gas derivatives, and $118 million non-cash gain on an embedded derivative at Angostura. Consistent with BHP Billiton's commitment to market base pricing, all US Onshore legacy gas derivatives are in the final process of being unwound, and will have a minimal impact on earnings in future reporting periods.

Now, moving away from the influence of markets, I would like to provide some more detail around our other material earning drivers, starting with our production performance. Our tier 1 assets and unchanged strategy of investing through all points of the economic cycle led to production records across two commodities, and in six operations during the period. We have already talked about our record production in our iron ore business, which contributed to a $1.2 billion increase in underlying EBIT for the period. Despite the significant step change in our iron ore volumes, temporary production challenges across the broader BHP Billiton portfolio resulted in a total volume-related decline in underlying EBIT of $484 million. These challenges included lower grades and industrial activity at Escondida, continued permeating delays for drilling in the Gulf of Mexcio, and industrial action and remnant effects of wet weather that continue to constrain the performance of our Queensland coal business.

The EBIT impact of these short-term volume constraints was not restricted to the revenue line, but there is significant flow-on effect to our unit costs, given the diminished benefits from economies of scale. In fact, increased costs had a negative impact of $1.6 billion on underlying EBIT, excluding the impact of exchange variations, inflation, and non-cash costs. As we have highlighted over a number of years, periods of higher commodity prices feed through to an increase in the cost of many of the products that we consume, albeit with a lag. For example, just under half of the $455 million impact of higher raw material costs over the period related to increased fuel and energy prices, although in this case, BHP Billiton is a significant net beneficiary, and our naturally long energy position is a key differentiator.

Looking at this chart, you can see that the labour category had the largest cost increase, which reflects both higher labour rates and an increased workforce as we continue to ramp up our growth projects. Importantly, though, over 80 per cent of the total cost increase is considered to be non-structural in nature, and we see significant opportunity to optimise unit costs in future periods, particularly as the temporary production challenges I mentioned are overcome. So while BHP Billiton is clearly not immune from industry-wide cost pressures, our high quality resource base and low-cost operations place us at a significant competitive advantage, whereas our high-cost competitors continue to consume more energy and more consumables per tonne of production.

It is important now that I address how we are responding to these drivers of these cost pressures. In this environment, the centralised way in which we procure our key input components mitigates our exposure to increasingly tight consumable and mining equipment markets. As industry lead times for heavy earth-moving trucks continue to escalate, now beyond two years, our long-term partnerships with manufacturers will ensure we have a preferential position that gives us certainty of access for our significant requirements. While equipment shortages are challenging the industry, so is access to people, and it is critical that we make the best use of our available labour resource. In that regard, our project hubs are a major advantage. They enable us to have continuity across our key resource basins, and also give our people the opportunity to build their careers around our extensive project pipeline.

Furthermore, our recent transition to owner/operator mines in the Pilbara delivers safety, scaleability, and margin benefits in what is a transformational period of growth for our Western Australia Iron Ore operations. While our centralised procurement group and project hubs place us at a competitive advantage, it is our superior level of portfolio diversification across commodity, geography, and market, that truly differentiates us from our peers. As the chart on the left shows, the ferrous division was again the most significant EBIT contributor, representing 16 per cent of the group EBIT in the December 2011 half-year. This reflects the benefits of a decision to invest through the cycle in our Western Australia Iron Ore business, capitalising on the current steel intensive phase of growth in China. Our energy businesses, together with base metals and potash, will underpin future growth as commodity demand evolves from the inevitable shift from construction to consumption-based growth in the developing economies.

The contrasting fortunes of our business are further highlighted in the chart on the right. While our low-cost bulk commodities and energy products continue to enjoy superior margins, the challenges elsewhere in the portfolio are clear. Marius will expand upon how we are responding to the margin compression in our aluminium, nickel, and manganese alloy product groups. Despite these challenges, BHP Billiton generated an underlying EBIT margin of 44 per cent for the December 2011 half-year. This is a testament to our focus on upstream, high-quality assets diversified by commodity, geography, and market.

Our portfolio's superior margins and predictable cashflow enables us to continue to progress our high growth quality options from study phase through to execution. As of today, our commitment to major growth projects in execution, including pre-commitment expenditure, exceeds $27 billion, of which 37 per cent has been invested. The $17 billion outstanding will be deployed over the coming periods. This brings me to one of the most important charts, for those who want to understand how BHP Billiton's broader strategy and financial discipline interact. The blue bars on the charge represent our operating cash inflows, which are founded upon strong operating performance and the high quality of our asset base. Our priorities for these cashflows are unchanged. First, to invest in high return growth opportunities through the cycle; second, to manage our balance sheet to a solid A credit rating; third, to maintain our progressive dividend policy; and finally, to return excess cash to shareholders.

Highlighting our balance approach to capital allocation, over the last 10 years, the compound annual growth rate of our dividend was 26 per cent. This compares with 20 per cent for our capital expenditure. In that regard, the substantial rebasing of our progressive dividend at the end of the 2011 financial year facilitated a 20 per cent increase in the interim dividend to 55 US cents per share. In addition, since the 2005 financial year, we have returned $22.6 billion to shareholders through a series of buybacks. This amounts to approximately 15 per cent of issued capital in 2004. So putting this all together, as you can see from the chart, we have a

strong track record of balancing cash inflows with cash outflows over an extended period. This disciplined approach ensures that we maintain a robust balance sheet. From time to time, it enables us to act opportunistically. This is evident in our prudent net gearing ratio of 25 per cent, as at December 31 2011, following the acquisition of Petrohawk Energy Corporation.

So in summary, I have highlighted the strong and predictable nature of our financial result, delivered in a period characterised by significant market volatility and a number of operating challenges. Importantly, we note significant potential to optimise volumes and unit costs in the short term as we recover from these temporary production challenges. And, finally, our disciplined and consistent approach to capital deployment remains unchanged. While our suite of growth options and capability to progress these into execution is unparalleled in the industry, our rigorous approval process, our focus on shareholder value, and our fundamental commitment to a solid A credit rating, and our progressive dividend policy will govern our investment program above all else. With that, I would like to hand over to Marius.

3. Marius Kloppers

MR KLOPPERS: Thanks, Graham. I would first like to summarise our thoughts on the global economy. With regards to the short-term outlook for the developed world, and Europe in particular, we remain cautious. Our concerns are not unique, and unfortunately we see no simple solution to the structural imbalances and high level of sovereign indebtedness in the OECD countries. However, as I have mentioned before, our level of optimism for general commodities demand is, was and continues to be based on the longer-term structural drivers of industrialisation and urbanisation in the developing world, as confirmed by very detailed proprietary bottom-up analysis.

In that sense, it's important to recognise that approximately 170 million people in China alone are expected to urbanise over the next decade. The progressive shift in the way that these people live and work is driving the transition in growth that you can see on the right-hand side of this slide. Now, over time, economic activity in China will shift from being investment to being consumption-led, and the demand for various commodities will change. As I have highlighted before, we expect steel intensity per capita to peak first, followed by commodities such as copper and aluminium, and then energy and potash demand is linked with economic expansion in a more linear fashion, and we expect to experience both later-stage and longer-term demand growth for those products.

That's why we place such a great importance on diversification by product, by geography and market, and which brings me to our strategy that really by now has been passed down from one generation of management to another. That is, our commitment to own and operate large, long-life, low-cost, expandable upstream assets diversified by commodity, geography and market.

Now, consistent with that strategy, management made a very deliberate decision many years ago to prioritise investment in those businesses that meet all of the criteria of our strategy and to de-prioritise investment in those products or opportunities that do not. In practice, that means we have made a long-standing commitment to our core competency as an upstream producer diversified across the ferrous, non-ferrous and energy products. That commitment, which sets us apart from other companies in our industry, enables us to sustain strong margins and returns while reducing the volatility of our overall cashflows. Such stability improves our ability to plan

both in the short and in the long term. With that in mind, it would be remiss of me not to highlight the measures that we have taken to address those fundamentally different fortunes and challenges being faced by the more downstream, process-oriented industries that form a relatively small portion of our total portfolio. At Nickel West, we're restructuring functional support, and thanks to the talc redesign project at Mount Keith, we have been able to reduce the mining activity while at the same time having no associated impact on short-term concentrate production.

In aluminium, even the lowest-cost producers and the best projects in that industry are failing to generate an adequate return. Given that structural reduction in rent on offer in that industry, we will run our aluminium assets for cash, look to optimise our portfolio while de-prioritising this area for future investment. In a similar fashion, we have responded to margin pressure in our downstream manganese alloy production facilities by stopping production of energy-intensive silicomanganese at our Metalloys plant in South Africa.

Elsewhere, we continue the long-standing rationalisation of the portfolio in pursuit of an even simpler and more scalable organisation. In the period, we divested our 51 per cent interest in the Chidliak diamonds exploration project as part of a broader review of our diamonds portfolio. The latter review obviously is still continuing. And more recently, we announced the intended investment of our 37 per cent owned non-operated interest in Richards Bay Minerals, where we exercised a put option on our joint venture partner, Rio Tinto. All of these actions are aligned with our long-standing ambition to focus on the larger basin-type plays within our portfolio that contain those significant options for future development. Let me talk a little bit about those things that will drive growth and returns in the short to medium term.

In simple terms, there are two categories of growth that have the ability to influence the short-term time horizon. Firstly, we have some projects that are in an advanced stage of execution, de-risked, substantially complete and so on; and, secondly, the substantial potential that exists in the base business, where a number of key assets have run below their installed capacity as they recover from those temporary challenges. The better-than-expected ramp-up profile of our growth projects in Western Australia have resulted in an upgrade to previous guidance for the 2012 financial year of approximately five per cent. As highlighted, we're well placed to achieve a production rate in excess of 200 million tonnes per annum by the end of the 2014 calendar year. This strong and consistent growth is underpinned by projects that are in an advanced stage of execution and already substantially de-risked.

As Graham also noted, at Escondida, Queensland Coal, and to add our non-operated interests in the Gulf of Mexico, faced significant challenges in the December 2011 half-year, culminating in a near 50 per cent reduction in their combined contribution to group EBIT. The release of this latent capacity is expected to generate strong momentum in volume and earnings in the short to medium term as those temporary operating challenges unwind.

For example, at Escondida, the completion of the ore access project and the subsequent pushback of the main pit will facilitate a recovery in the grade profile to well over one per cent copper through the second half of the 2012 financial year. That grade recovery, together with the commissioning of some de-bottlenecking activities at the Leguna Seca de-bottlenecking project is expected to drive the Escondida copper production to over 1.3 million tonnes per annum in the 2015 financial year. This is a more than 600,000-tonne copper uplift from the annualised level achieved in the December 2011 half year, or a different way, if we look at it in

terms of mine equivalents, it's sort of adding, from last year's production level, one Chuquicamata or a Collahuasi. That's order of magnitude what we expect to come.

Similarly, in Queensland Coal, our production remained at about a 80 per cent operating rate as measured by installed capacity in the December 2011 half-year. We're well positioned for a rebound in production notwithstanding the risks associated with the current industrial relations environment. And, finally, as I noted, in Atlantis and Mad Dog, we have a substantial interest in two existing facilities with a combined capacity to produce 300,000 barrels of oil per day from reservoirs that are well defined, where the infrastructure is in place, and we look forward to a strong increase in the valuable liquids production in these areas as our joint venture partner ramps up their development commitments.

So I think there's a number of very positive upsides in the short to medium term in our portfolio, and we're very optimistic about that. We're even more optimistic about the longer term. As you can see in this slide, we have the unrivalled portfolio of high-quality development options in our portfolio, again diversified by commodity, market and geography. As we look to progress these options from the study phases into execution, there are always a number of factors that we must consider. We have got to look at the available – you know, even after the resources are in place, we have go to look at the available means at our disposal in terms of both labour, plant, equipment, and we must look at the level of cashflow that is generated by our existing high-quality operations, and I refer to the chart that Graham showed you.

Now, the sequence in which we develop these projects is therefore a very important consideration, as we seek to ensure that we do those projects that offer the highest return for the lowest risk. And, of course, that process is always governed by our commitment to our solid A rating, our progressive dividend and our long-standing undertaking – again to quote Graham's predecessor, Alex Vanselow – to live within our means. So on that note, I would like to take a more detailed look at specific projects that form a very meaningful part of our investment plans going forward, elaborate on the underlying investment philosophy, including the commitment to target those industries where we have got a sustainable competitive advantage and an ability to generate superior returns.

We fundamentally believe that the quality and the potential of a resources company will ultimately be defined by the quality and by the size of its resource base. The grade and the geometry of an ore body typically defines its position on the costs curve and, ultimately, the ability to earn economic rent, and the size obviously gives us that expansion potential. As you will see on this slide and on the subsequent slides, our resources are typically in that top right-hand quadrant that defines both high grade and large scale, and as a result, you will also see that our assets are generally well placed on the various global cost or margin curves, whichever one is applicable.

With regards to our Western Australian Iron Ore business, which is the one highlighted on this slide, you will be aware that we recently approved the $779 million pre-commitment for the development of an outer harbour at Port Hedland. Phase 1 of this project is intended to add 100 million tonnes of harbour capacity or export capacity via the development of four berths, two ship loaders, and the associated land and sea-based infrastructure. We're targeting board approval in the second half of this calendar year, while commissioning is anticipated in the 2016 calendar year.

I should note that the longer term development of the outer harbour has the potential to increase the overall Western Australia Iron Ore capacity to 450 million tonnes per annum. As in iron ore, our strategy in metallurgical coal is underpinned by the leading resource position, premier products, and industry-leading margins. In that sense, our experience in iron ore tells us that there are significant benefits associated with a transition to an owner/operator model, which is why you've seen in the recently approved projects of Daunia and Caval Ridge, we configured them in that manner. Our commitment to metallurgical coal projects now in execution approximates $5 billion. A number of other development options are in the prefeasibility stage, notably Wards Well, Red Hill, and then, of course, the proposed 60 million tonne per annum export terminal, Abbot Point, and associated railway capacity, which underpin our longer term growth plans.

Now, I've already highlighted at Escondida that we expect a strong recovery in production in Escondida in the short to medium term. In parallel, organic growth project one will set the framework for multiple phases of expansion beyond that over the coming decades. At Olympic Dam in South Australia, we control a unique polymetallic resource. As you can see on the right-hand side of this slide, the scale and grade of that resource sets it apart from the copper porphyries that dominate the global supply today. While those copper porphyries will decline in grade over time, the eventual Olympic Dam open pit will extract superior grade, and, essentially, flat grade, for decades to come. In addition, the tabular nature of the ore body means that the strip ratio declines over time rather than increases over time. And in its expanded state, the operation will be positioned towards the bottom of the cost curve.

We're targeting board approval for phase 1 of this project during the 2012 calendar year. In Potash, our focused exploration program has delineated a 3 billion tonne resource at Jansen, in addition to several other earlier stage but exciting opportunities in that Saskatchewan basin. We've committed $1.2 billion at Jansen, and activities are well-advanced. The ground freezing and shaft sinking programs are underway, and board approval for the first stage of the development is anticipated within this calendar year. Planned capacity of eight million tonnes per annum will position Jansen as the largest and one of the lowest cost potash mines in the industry. First production is anticipated towards the end of the 2015 calendar year.

Now, let me conclude by reemphasising those same four points that I spoke about at the start of this briefing. Namely, in the first instance, the strong and predictable nature of our financial performance, stemming from our more diversified approach. Of course, this fundamentally improves our ability to plan for the short and long term, particularly the consistency of that strategy with our 'invest through the cycle' philosophy. I want to note, in the second instance, the contrasting fortunes of our various businesses, and, particularly, the very quick and determined action that management has taken to address specific challenges. Thirdly, I wanted to specifically note the latent capacity that exists in the portfolio, particularly in the oil, in the copper, and in the met coal portfolios, three of our main profit drivers, and the strong momentum that we anticipate would be generated.

And then last and probably most important, as we seek to exercise our word class portfolio of growth options, and as we seek to do those things that are highest return and lowest risk, our commitment to live within our means within that context of a strong A balance sheet and our commitment to a progressive dividend. On that note, I would like to thank you, ladies and gentlemen, for attending this morning. I would be pleased to take your questions, starting in Sydney, before moving to the phone lines. It may be best if you address the questions to me in

the first instance, and I will pass them to Graham and others on the telephone as required. If we could perhaps have the first question, please.

4. Questions

Mr Paul Young – Deutschbank

Marius, it's Paul Young from Deutsche Bank.

MR KLOPPERS: Paul.

MR YOUNG: Your comments on your sequencing and development of projects as important and focusing on those, the highest return and lowest risk; I'm interested in those comments. And I've got a question on your copper strategy, and if I look at your mega projects that you might approve this year, the Olympic Dam expansion sticks out to me as the one with the highest CAPEX, longest payback, and therefore potentially lowest returns. When I look at your proposed expansion of Escondida, and it has a much shorter payback and significantly higher return. So the question I have is have you considered actually delaying Olympic Dam and allocating the CAPEX into accelerating in a more aggressive expansion of Escondida, ie, compressing OGP 1 to 3 and the construction timeframe. And just a second part to the question is just an idea, with the 15 year build time and higher technical risks than the other mega projects, I mean, how do you prevent CAPEX blowouts on such a project?

MR KLOPPERS: Yes. Paul, probably a couple of comments, some of which agree with you, and some which perhaps stand in a little bit of a contrast. In the first instance, I should reiterate what I've said about project activity over many years. We have to look forward well into the future, and we have to gear the level of staffing on our project teams consistent with what we see today and what we hope to see over that five year period. The ability for us to dramatically alter towards the quicker side projects, to do projects quicker than what we've been preparing for, is very limited. The opportunity to go slower is – you know, you've got many more options to do that, Paul, so I think our ability to actually go and do the additional projects, project number 2 and 3 and so on, at Escondida at a quicker pace than what we've signalled to the market is just not there.

We're doing them at the pace that we can do them, because you have to have four things in place in order to do a project: you've got to have the resource, you've got to have the approvals, you've got to have the people, and you've got to have the cashflow. And all of those things, you know, it's years of work. We cannot accelerate, appreciably, CAPEX from the trajectory that we've set ourselves. We can go lower, but we can't easily accelerate, and I think that probably tells half the story on why we would like to do both the ODP 1 and OGP 1 – sorry about the confusing three letter acronyms, one in Escondida, and one in Olympic Dam. With regards to technical risk, phase 1 – sorry, I will put it differently. We've had a close to 30 year test kit on the metallurgy at Olympic Dam.

I don't want to say there is none, but I'm going to come close to. There is no other ore body which, at this stage of investment, is as drilled, as delineated, with as much testing having gone on in the metallurgy of that ore body. It's the same ore that we're going to take out that we've always taken out. So as I look at the two phases of expansion there, let's call it the stripping activities, building the pit itself, and then building the surface infrastructure, nothing is ever low-

risk in our environment, and things can only wrong, rather than go better than expected. But phase 1 is largely dig hole, you know. It's largely build air strip, build camps, dig hole, and keep digging for a five year period. And that is the pre-commitment. The subsequent phases, again, not low risk but the metallurgy of the ore body is very well known and we've got a couple of years before we need to approve the final configuration of what the second and third phases of expansion are. So, again, nothing is low risk when it comes to spending a lot of money, but we feel very comfortable in deeply understanding the Olympic Dam ore body and we feel that what we're going to do there is slap-bang in the middle of the strategy and the core skill set of the corporation.

But we cannot go quicker in other parts of the portfolio just because we want to go quicker. There are constraints around how many people we can bring in at Escondida, the size of the engineering teams and so on and so on.

Mr Paul McTaggart – Credit Suisse

Paul McTaggart at Credit Suisse. I really just want to ask about the outer harbour. The pre-commitment capital wasn't any surprise to most people, but perhaps what was a surprise to me was the timing in the sense that you're now suggesting the commissioning would be mid-2016, a little faster than I might have anticipated. I want to get a sense of how quickly once that's done you think you can ramp up tonnes into the market. If you can give any sense about that. And then everyone has obviously asked about capital around the outer harbour for some time now. Having now committed near enough a billion have you got a better sense of what the ultimate capital cost might be?

MR KLOPPERS: Paul, I think that our confidence on the estimates for the outer harbour, building the port and associated infrastructure, the stockyards and so on, is already very advanced and growing day by day. On the mining side, obviously, what we've tried to do is to build our standard modular around 50 million tonnes a year mine over and over again, just like we've said five or six - four or five years ago under different circumstances. I hope that everybody by now has understood better that while there is clearly quite a lot of dredging in the dredge pockets to be done and clearly that there's on the 37 kilometre ship channels - some incremental dredging to be done - that the project from a technical perspective is largely doing the sorts of things that we have been doing.

There is clearly some element of the jetties themselves that have to be amortised over the entire capacity, but that amount is probably less than half of the total amount. If I take the key components we're going to build in that project it's the jetties and loaders, the dumpers and the stockyard and then everything to connect that up. If you look at the true, you know, bottleneck capacity, flag fall investment that you're putting in, it's really the dredging and the jetties. And, you know, it's still a lot of money, but that is the amount of money to be amortised over future tonnes.

The rest of the stuff, the stockyards, the car dumpers and eventually the mines that follow is exactly the same as what the best of our competitors have got to build and, obviously, as a direct shipping ore project of superior grade with long flat lives, as we've said, in terms of grade we believe that the ultimate capital intensity here will compare extremely favourably on a like for like basis. And I say the words "like for like", because when we talk about capital we include rolling stock, we have a no leasing policy, we own everything, it's owner-operated and so on and so on. So and it includes all of the capex to keep production flat, you know, so it doesn't

strip out the sustaining capex and so on and so on . So I think that sometimes makes it a little difficult.

Now, timing, we are very pleased with it, you know. If we go back a couple of years when we really started talking and particularly after the transaction with Rio where we were hoping to leverage our ore bodies with some easier or quicker infrastructure options, when we started saying, “Well, this is now a reality”, you know, I think we are probably on balance a little earlier than we would have hoped for even in a good scenario, Paul. Now, rate of ramp up. I think I’ve spoken about those four things that have got to be in place, resource, means, people - sorry, permits and money. And then there’s probably in the iron ore a fourth thing, which is there has got to be a market as well.

I think out of those four things the things - i think, permits are never easy, but I think we are on a good trajectory with the picture that we’ve painted. The resources are there, the team is very experienced and I suspect that as we look at the ultimate speed of ramp up, market and how much capital we can commit at the same time is probably going to play into it.

Mr Lyndon Fagan – RBS

It’s Lyndon Fagan from RBS. Marius, I’ve got a question on shale gas. Obviously, the gas price has fallen a lot. I’m just wondering to what extent is the business looking at changing its strategy in shale gas. At the time you flagged some plans to spend in the order of 20 billion over the next five years. And with the gas price where it is I’m wondering to what extent are you looking at redirecting some of that capex into other projects or high-grading the portfolio as you’ve mentioned previously.

MR KLOPPERS: Lyndon, thanks. I’m glad the question is asked. About 18 months ago we gave a snapshot of our forward view of capex, because at that stage the market said we don’t know what you’re going to spend your money on. Let me tell you that companies never like giving snapshots because snapshots are snapshots. Things change and we highlighted 80 billion at the time. And then we made the Petrohawk acquisition and we said about 20 for shale gas over that corresponding five year period. And then I took some pressure from some of the analysts when I added “and one plus one doesn’t equal to two”, i.e. when you add the 20 to the 80 - the 80 was a snapshot that had come earlier. The 20 was a snapshot of what we thought we would spend on the shale gas, but I clearly indicated “and what is going to happen is now that we’ve expanded the opportunity set we’re going to high grade again”.

I think it’s fair to say that probably where forward cash flow projections were at that point in time after fortunes changed a little bit in the last half of the year - and you’ve seen that in the results today - probably five year capex forecasts on average. The cash - raw cash generated by the assets have probably come down a little bit, you know, just forward projections. And so what we are trying to do is we’re just trying to steer that overall high-grading of capex. Now, in the first instance you shouldn’t read too much in that in terms of the overall amount that we’re going to spend in shale gas, because I think in reality while I do deliberately not want to give a five year outlook for spend in shale gas alone and I’m probably going to be pretty reluctant to give a five year outlook for the portfolio as a whole again in the future, what I think is going to happen here is that Mike is going to try and do his baseline development in the gas piece, build the organisation, but just draw, you know, the core of the portfolio.

And that activity level is probably considerably lower than he would have thought six months ago. At the same time I took some stick from my team internally by describing the Permian as moose pasture to somebody. And it's clear that oil in the US and shale oil and the development around the technology there has moved on, even just in the last six months. That was one of the explicit reasons we bought Petrohawk because it had what we thought was the finest acreage available in the Black Hawk and Red Hawk fields, but the Permian is also playing into that. And I think Mike is probably on balance going to want to do a little bit more there. And what you're going to see is that, I think, we put out about 20 per cent liquids on a barrel basis when we made the original thing.

I think there is probably room over time to revise that liquids percentage up and that probably means that in the next couple of years the revenue percentage from liquids moves to, I think, eventually well over 50 per cent of the revenue out of those two acquisitions. Now, things have changed. Did we know the gas price would be where it is today when we made the acquisition? We probably would have taken the easier course and gone and sat in front of a screen if we could have predicted that. But I do think that - I just want to illustrate a couple of things again as we talk about it. Management will act. If the facts change, it will change its plans, and particularly in this portfolio. You know, particularly with the added portfolios around shale gas and shale liquids and all of the other things, the capacity for this organisation to redirect, adapt and steer things while keeping the overall cash investment and cash generated at relatively stable levels, we believe is unparalleled in the industry. So thanks for that, Lyndon. Hi, Glyn.

Mr Glyn Lawcock – UBS

Hi, Marius. It's Glyn Lawcock at UBS. You have got the two Mikes on the phone, so I thought maybe I would try and direct some questions that way, potentially. Firstly, just extending the shale gas discussion a little bit. With the weak gas price, where are you at internally now of thinking about exports from the US, or is that still something you are not thinking about? And then – I will give you the second one just quickly.

MR KLOPPERS: Sure, sure.

MR LAWCOCK: This one is more – I know, as a company, you don't look short-term. You know, you want to take the multi-year investment horizon. But I'm just curious, you know, with seeing China at the moment – steel production is still bobbing around the low 600s.

MR KLOPPERS: Yes. We haven't really seen numbers after the new year.

MR LAWCOCK: Iron ore inventories are rising to record levels. On a supply side, you're still pumping at flat-out record levels except for weather. I'm just wondering what Mike is seeing. If he can give us any thoughts on what he is seeing happening in the outlook. Thanks.

MR KLOPPERS: Yes, I will make one comment, and then Mike Henry may add. On the iron ore piece, the story really has been – what did we see? Steel come from 700 to 600, effectively. I think our expectation is that, after the new year, we're going to see operating rates pick up, and the other two things that we have seen is that the exports from India are continuing to lag expectations – well lag expectations, and then we're seeing the high cost capacity in China acting in a very predictable manner and showing that there is a real big chunk of capacity sitting at well above $100 cash cost production.

Now, having said all of those positive things, I do think that I want to say very strongly that our prediction for iron ore is clearly that it is going to, in terms of its ultimate growth potential, we believe, peak earlier. You know, I don't think it's as short-term as we have just discussed, and hence our investments in the Outer Harbour and so on, but I do think that if, for example, I had to make a project choice here that would only start producing in 10 years time and take another 15 to pay back after that, you know, we probably would have taken some pause on both quantum and speed there, Glyn. I mean, Mike Henry, I don't know if you can add anything to that.

MR HENRY: I would probably just make a couple of points, Marius - - -

MR KLOPPERS: Sorry. The line is a little shoddy, Mike, so you will have to speak both loudly and slowly, which is tough for Canadians, but try in any case, Mike. Thanks.

MR HENRY: Okay. I would make a couple of points, Marius. One is in respect of the picture that we have seen over recent months, and there's two ways of looking at that. As Glyn highlighted, steel production has come off, but I think there's some encouraging signs that we can take from what we have seen over the past couple of months. You saw steel demand drop, or steel production drop, in China by 100 million tonnes plus. Obviously there was a large chunk of iron ore demand that fell in association with that.

But at the same time, you saw seaborne supply continue to move at full capacity; you saw inventories in China stay relatively stable in the final few months of the year in absolute terms; and you saw iron ore pricing hold up at $140 a tonne. So a large slab of iron ore demand coming out of the market, but at the same time, iron ore prices maintained at $140 a tonne and seaborne supply flowing at full capacity. That's a strong indicator or supportive of the view that that high cost – the high-cost supply in China acts as a buffer in times of low steel production. So very – there's some positive signs that we can take out of that last half-year.

Going forward, the fundamentals remain strong in the short to mid term for iron ore demand. As Marius highlighted earlier, 170 million people to urbanise over the coming decade. That's going to drive continued demand for steel. Slowing of steel demand in construction and infrastructure, but growing demand for steel in machinery and transportation as China continues to move up the development curve, as per-capita income grows, as China seeks to boost productivity, and as growth moves west, extending supply chains.

MR KLOPPERS: Mike, thanks for highlighting those two points, which I probably didn't pick up on properly, that is, within China, the steel usage patterns are also probably going to shift from buildings to machinery, roughly put. And then, I think, from a steel usage perspective, we probably don't have an update to the graph that is on our website, which sort of says that steel intensity per unit of GDP halves over the next 15 or so years. That would still be correct. I will give Mike Yeager a chance to comment on the energy arbitrage as well, but perhaps a couple of thoughts. We believe the world will continue to arbitrage out differentials in energy prices, but over a long period of time.

You know, we're not talking about something which we anticipate will happen next week. And, secondly, I should note that we clearly didn't take anything of that nature into account as we made our acquisitions in the gas sector. Now, my personal belief is that that arbitrage will be a mosaic of things. It will be gas at these pricing levels continuing to – sorry, let me step back. US calorie consumption – about a third coal, a third liquids and a third gas. I'm grossly

oversimplifying, bit it's that order of magnitude. And I think that gas is going to continue to push in the coal side. Eventually it will push into the liquid side, both via gas to liquids – diesel and so on and so on – as well as perhaps things like compressed natural gas and so on and so on.

And then it will arbitrage by way of industrial production – you know, chemicals, fertilisers, congealed energy in the form of aluminium, other things and so on – and then there will be, I anticipate, a modest amount of LNG exports. We should not look at LNG exports as the total solution to the overall picture. What has got to happen is that, at these price levels, the immense calorie arbitrage has got to change behaviour patterns of those consumption. So I highlight that. Our participation – look, we never rule out anything, but we're, on balance, sort of a more resource – take it out and sell it at the first possible point that we can sell it at type of a company. Mike, I don't know if you want to add some colour on your personal observations on this as well.

MR YEAGER: Well, Marius, I think, as you have stated, you have rounded it out pretty well. Glyn, we owe it to ourselves to understand this, and we are doing so. We understand the construction side, the location side, the shipping, how the regulations are going to work and how, hopefully, the US politics are going to work there. So we owe it to ourselves, as Marius has indicated, to understand, and we're all over that. Likewise, though, we're just as eager to continue to understand how the domestic market is evolving. Obviously the power sector has a tremendous amount of growth that can occur here. Petrochemicals are increasing, and other uses are rapidly evolving.

So as Marius says, I think there's going to be a number of things, and as all of us know, a shale is not a shale is not a shale. There are different costs; there are different destinations; there are different aspects of technology. So as you have heard, we're going to look at all this and make sure that we're across all of it and then act on it in the best way that we can. But clearly we're optimistic of how this fuel is going to be preferred and how – this is the fastest-growing market in the world, and we expect it to continue, and we're glad to be part of it. Thank you, Marius.

MR KLOPPER: Thanks, Mike. And perhaps one last thing to note – a question not really asked, but perhaps I should volunteer an answer in any case. A lot of the people in Australia who cover us are more mining-side analysts, and the analogy of the gas market that I always do is, if you build a bulk mine, if you stylise, it basically keeps going at the same rate for a long time. If you build a base metals mine, you know, the grade declines at three or four per cent a year on a normal copper porphyry mine. So what that means is that in order to keep production flat, you have to continue to invest money, put more trucks in the pit and so on, in the base metals mine. And that means that what has happened in copper is that instead of a market that has grown at, I don't know, three and a half per cent a year on a global basis over the last couple of years, the copper miners don't have to produce three and a half per cent more copper every year, they have to produce 7 or 8 per cent more copper every year, and they have to run projects to produce 7 or 8 per cent more. The gas business, particularly with the short – or the front end loading of the gas profiles on these shale gas and tight gas and so on, is the decline curves are big, therefore fresh capital decisions have to be made all the time.

Now, technology is improving, and that will mitigate it, because wells get better and better and better. But fresh capital decisions have to be made, and the gas producer doesn't see a x per cent growth rate in what they've got to meet. The capital decisions have got to be made to be x plus the average decline rate of the industry, and that is very, very important as we think about

how temporary overcapacities work its way out of the system. In systems where fresh capital decisions have to be made, where decline rates are large – and copper is the best example that I can think of in the minerals business, you know. And a temporary oversupply works its way out of the system relatively quickly, because the apparent demand growth that has got to be satisfied is quite large. And I do want to point at that, just as we think mentally how to scale that to the shale gas industry. It's a more pronounced version of that.

What that means is that people will need to take fresh capital decisions to get fresh gas, and the – you know, at these gas prices, simply some will choose not to do it, because they don't have the resources, and other cases, you know, the activity levels will adjust, and fresh capital decisions will adjust.

Mr Lee Bowers – Macquarie

Hi, Marius, Lee Bowers from Macquarie.

MR KLOPPERS: Hi, Lee.

MR BOWERS: Just returning to the topic of prioritisation of capital, you're obviously looking to approve three large projects in 2012, the Outer Harbour, Olympic Dam, and Jansen. If we see a persistence of current commodity prices into the medium term, that certainly looks perhaps a bit more challenging than it did six months/12 months ago. I guess my question is, I'm not asking you to rank them on an expected return basis, but perhaps looking at the risk side of the equation which you mentioned.

MR KLOPPERS: Yes.

MR BOWERS: You know, in two ways. (1) I guess which of the projects do you see as perhaps having the highest risk around execution and executability, and then secondly, from a terminal market perspective, all three of these projects have, you know, significant impacts on their terminal markets as and when they come into production. Perhaps from a timing perspective, you know, which of the projects are more critical, do you think? And this obviously sort of relates to some of the comments you've made around a peaking in steel intensity, etcetera.

MR KLOPPERS: Yes, Lee, I think there's probably another dimension to add to that, which is what is your security of tenure over the resources and the ground. Again, just to finish off that shale gas discussion, I mean, Mike has got those molecules, you know, it's in the most physically stable environment in the world; he can produce them today or he can produce them tomorrow. Very important consideration, so I would probably, just as we move to those three projects, rank that as well, because there are some jurisdictions where – which is very understanding of the long-term nature of our business, development sequences and so on, and simply put, there are other jurisdictions where it is much more difficult in the ordinary course to hang onto your resources, but even more so if you're not going to take them out of the ground, with, in some cases, explicit – or use it or lose it.

So I think let's deal with that. Firstly, on market, lowest risk: Olympic Dam; copper, gold, silver. Terminal markets, liquid prices, uranium, back end loaded, not really relevant for this decision. Second most risky, you know – or let's not use the word "risk", but, you know, second in pecking order on markets: iron ore. We deeply understand the business; we've got teams that place all

of that product on a day by day basis, and increasing liquidity in market as we go forward. Derivatives, China starting its own physical iron ore market, everything driving towards more transparency, more rational behaviour, more capital allocation on the basis of returns. Third: Potash; a small spot market, fairly small, 55/60 million tonne per year global market, less capacity to quickly turn that into a price discovered market, particularly as a non-incumbent and as a smaller producer.

Then going to the next dimension, security of tenure and so on and so on. I think difficult to call – all very good, but clearly, Olympic Dam, some decisions to made by the end of the year, or the agreements we've got with the South Australian government expires, and, you know, I think not to find what happens if that happens. So I would probably say iron ore, easiest from that perspective; potash, second; Olympic Dam, third.

Then we come to technical and so on. Probably iron ore first: easiest, doing what we've done. Olympic Dam next. Jansen after that. So, Lee, that's probably – on a very rough cut, thinking on my feet, never having thought about it in those dimensions – where I would place them. And I think that that's probably, together with the return pieces, is how we would think about how that plays in, yes.

Now – and I think you touched upon another very important point. Nothing is approved until it's approved, and that's – and no timing is locked in until the timing is locked in, and, you know, we really live by that mantra in the organisation, is that we do not like to talk about the capital cost and the schedule of things that are not yet approved. Yes, just at the back first, quickly.

Mr Clarke Wilkins – Citi

Marius, Clarke Wilkins from Citi.

MR KLOPPERS: Hi, Clarke.

MR WILKINS: Two questions; one on shale gas. You know, obviously the short-term price has been a bit of an issue, you know, driven by the warm seasonal weather in the northern hemisphere, I suppose, but is there anything structural that has changed, do you think, in terms of when you look at the shale gas market in the US, in that, having been in the business for, what, six months, in terms of getting some experience, has your view of the ramp up of production changed in terms of the fracking, and the ability of other to put drill rigs in place and therefore to ramp up production, and does that change your overall view of the market at all?

MR KLOPPERS: No, it hasn't, really. Probably the one thing that for me personally has been a surprise that is both positive and negative is that the wells keep on getting better. They keep on getting better. The positive there is that the resource base is better. The negative there is that the productivity per well means that there is more resource. I do think that the overall picture, if I put it together, is this is a revolutionary energy source. It's going to change things – energy around the world, not only in the US, and that's probably where I would leave it.

MR WILKINS: Just a second question in regards to aluminium. You sort of said run of the cut; does that potentially involve also, you know, curtailing production? You know, we're seeing that quite widely across other producers, and also, you know, with the Worsley investment still ongoing, you know, the carrying values of some of these assets, they potentially come at risk given, you know, cost of carbon and things like that in Australia.

MR KLOPPERS: Yes, and clearly, carrying value, we've taken the view that there are no issues at the moment. It's obviously something that we've got to continue to review, and where you have a view that the rent capability of an industry has structurally reduced, not cyclically – cyclically, which, you know, happens all the time – but structurally, which is our view on aluminium. We have to continue to watch the evolution of that structural change. Insofar as it's in our power – obviously there's the external auditing and so on – this management is completely prudent around, you know, there is no sense in letting something hang – or trying to get something to hang around on a balance sheet if it doesn't want to be there. And I think that has been our approach; you've seen that over the past.

Even though Graham is a couple of sizes smaller than Alex, we're no less scared of him, and that's going to continue to be our approach going forward. So it's something that we've got to review. It's clearly not something that's in issue now, but I do think – I have to note the aluminium reductions are structural; it's not a cyclical thing, it's a structural and secular change in the ability to earn rent in that industry. Curtailments, I mean, our principles are really, really simple. If we can't sell it and we don't make cash we don't run it. And, you know, that's what's going to happen here. You've seen that happen in some parts of our portfolio. I think that there are some areas where we signalled it in our portfolio. Even in our met coal assets you've seen some of the comments that we've made over the last couple of days. If it doesn't make cash from a, you know, existing asset perspective and we can't sell the product we're not going to run it. And that philosophy has served us extremely well during the global financial crisis. It is one that maintains your discipline. It just tells people you can't come and say to us, "Tomorrow will be better. Today is what counts and we're going to take our view on your ability to generate cash today and we're going to shut you down until you've figured out how to run this asset differently or until prices have changed".

I'm getting a signal here that I'm grossly neglecting the people on the phone, so I'm just going to go to the phone for a few questions, Neil, and then I will get back to you. I think, Jodie, you're on the line. If we can have the first question, please?

FACILITATOR: Thank you. The first question is from Peter O'Connor from Merrill Lynch. Go ahead, thank you.

Mr Peter O'Connor – Merrill Lynch

Good morning, Marius.

MR KLOPPERS: Hi, Peter.

MR O'CONNOR: Two questions.

MR KLOPPERS: The line is a little dodgy. We're going to try and turn up the volume here a little bit, but if you can just speak very clearly, Peter, thank you.

MR O'CONNOR: Two questions, Marius. Firstly on met coal capex, you gave us a view on how the iron ore should be compared on a like for like basis to your peers. Can you walk us through your capex numbers in met coal and how they stand up versus your peers? And, secondly, your views at a corporate level of the ASX move towards listing an ADR for BHP in Australia at some time this year.

MR KLOPPERS: Okay. Met coal capex - perhaps the best way to look at it is to take a look at Caval Ridge, so, own workforce, nothing contracted out, own kit, very low cost expansion option embedded, which is really part of the decision-making and a substantial amount of housing. Let me use the last bit as, perhaps, the catalyst to have a conversation about capital intensity. Well, we can elect not to build the houses, which means that we've got to rent the houses from somebody and pay them a margin which is paid on their cost of capital. That is not a smart thing for us to do. The lowest/highest return option for us in many instances is to do those things that are core and associated with our assets ourselves.

And that includes usually ports, rails, particularly if we take it through the chain efficiencies that we can get from that. But you must understand the reason why we can have the highest return/lowest cost approach is we don't want to share that rent with other people that have a higher cost of capital than we have in the non-core assets. I would rather invest in a railway line and a port in the coal business and get all of those considerable synergy efficiencies and not pay somebody else the rent and rather not invest in a non-core asset than do both investments. And it's built into the genetic material of the company and you've seen that in a place where it was difficult to change.

And the historic practice was different in the iron ore business on the contract mining side where we started a small mine and then it got away from it. I mean, Chris Campbell, who is here today, was given a very specific instruction, "Get rid of that situation". We get better control on an intern basis. We get better synergies. We ultimately have a lower cost operation. We don't share the margins with other people.

The second question, ADR, not a company view, a personal view. We market people. More transparency is good, more ways for the investor to discover what the true value is is better. We have that approach on all of our businesses, on all of our products, so it shouldn't come as a surprise to you that that would be where I come from as an individual as well, but probably not anything beyond that, Peter. Jodie, possibly can we take the next question, please.

FACILITATOR: Certainly. The next question is from Sanil Daptardar from Sentinel Investments. Go ahead, thank you.

Mr Sanil Daptardar – Sentinel Investments

Yes, hi. I just wanted to ask a broader question. You've talked about the macro thing. The structural issues in Europe, they may not go away in the short term. From that do you see any kind of fallout in the total metals production, although there are long term demand trends in China, but any kind of weakness you see from this issue.

MR KLOPPERS: Okay. Let me try. We have no proprietary insight how the global financial system works. Other people have better insight than we've got. What we have been worried about, particularly in the quarter leading up to Christmas, was for a discontinuity. And a discontinuity is something that in our world gums up credit , trade finance, ability for companies to deal with each other and so on. That was more our fear out of Europe rather than Europe is going to grow slow and not consume our products. And Europe only consumes 14 or 15 per cent of our production in any case. If that goes to 13 per cent I'm not sure how much sleep we would lose over that. But we would lose sleep if we had a discontinuity.

And while I don't have any proprietary insight clearly where a risk premia are going, where people are - you know, where the actions that have been taken on liquidity, support and so on - I think as we look at those two impacts in Europe I don't think there is anybody that thinks Europe is going to grow as a whole. But there seems to be a general acceptance that the possibility or the probability even, which is where it was rated in December, of an event that has spin-off impact outside Europe has gone down. So, on balance, while that doesn't translate for me into anything that changes in our base case outlook, it does mean that we're a little less worried about discontinuities.

And then the second thing is China is a maritime economy at the end of the day. Yes, it's an open economy, it exports and imports, but it's not an export-dependent economy. China's growth will depend on China to a large extent for growth in GDP. The net export growth is not likely to be a dramatic driver of change in China. So what is more important in China is its ability to - you know, clearly in a world that doesn't have a continuity to stay the course, continue to transform the economy, continue to drive towards a consumption-based economy and so on and it's that latter scenario that is figured into our base plans and we haven't changed that very much. So the only real change for us has been this reassessment of the discontinuity risk. Jodie, perhaps one more question on the phones and then I will come back to Neil who has had his hand up for a long time here.

FACILITATOR: Thank you. The next question is from John Tumazos from John Tumazos Very Independent Research. Go ahead, please.

Mr John Tumazos – John Tumazos Very Independent Research

Thank you for taking the question. Given your generally cautious outlook on the OECD economies should we expect the aggregate capex to be a little less than the $20 billion trend level for several years? I realise you touched on this earlier in your remarks, but maybe you could be more specific.

MR KLOPPERS: John, perhaps the easiest way of doing it is to go back to what my predecessor said, I think, sometime in the beginning of his tenure. So we're going back about 10 years. He said, "Look, the base assets generate cashflow. You have got to forecast for that. You subtract the dividend. You see what adjustments you have got to make to gearing. That's what you have got left to invest." It was true 10 years ago. I think it's still true today. And so, you know, things change going forward. We're going to – if our forward five-year outlook and beyond is lower, we're going to spend less capex.

If the five-year and above view is higher, we're going to spend more capex within the confines that we can't accelerate easily, and that's something that those that have followed this stock for a long time have heard me say many, many times. If there's a sudden discontinuity and things get better, we can't spend it, because we can't ramp up the project teams. I think Lee had the same question today. And then we're going to do a buyback. If things get worse, we're going to turn down the projects, and that is how it works every single day. Capex is a job for every day, which is why we hate so much giving static snapshots, because they do not reflect the intrinsic dynamism with how we look at it. We look at capex every single time we have a management meeting. We look at forward cashflows every single month, and we say, "Go a little bit quicker. Go a little bit faster. Not so quick there. This one has progressed quicker than we thought. Go slower on that one." That's how we manage it.

Okay. I'm just going to go back to the room here in Sydney. Neil.

Mr Neil Goodwill – Goldman Sachs

Neil Goodwill from Goldman Sachs. Just a couple of questions. One on industrial relations in particularly the coking coal. I'm just interested in really, you know, what are the next steps, and is there a stage where BHP needs to bring this situation to a head? And just to get back onto shale gas – I mean, just listening to what you said about, you know, returns and people not putting their money in and therefore the price is coming up and you're getting better returns, but at the end of the day, I mean, do you see good returns for all the participants in this business, or is there something specific to BHP that gives them a competitive advantage in the shale gas business that gives you specifically better returns?

MR KLOPPERS: Neil, probably the second one is the easier one to answer. A resources company is defined by its resources. We think we bought a good set of resources. We think that they're concentrated positions; they allow industrialisation of the process; we think they have got lots of liquids, not just by our assessment – we would be happy to share, via our investor relations team – you know, point you at some of the things that other people are saying. And it's the resource base plus the ability to do it at scale that I think – and given balance sheet and so on that makes the difference for us. And so, just to recap, resource base, scale, cost of capital, balance sheet. That's basically – and those four things are in place. I think that some people in this business are going to make terrible returns in the same way that some people are making terrible returns in iron ore or copper today. And I think that's going to be the case here as well.

Coking coal. Long-term, we want to invest very significant capital in the Bowen Basin, and both in the BMC asset as well as in the BMA asset. And I'm not even going into all of the capital we want to invest in this jurisdiction. It is extraordinarily important that management has the right to manage. It's extraordinarily important under normal circumstances; it's even more important if you're trying to grow a business – I think Hubie said at six per cent a year over the next 10 years.

And it's extraordinarily important to have that right to manage if you are committing billions – perhaps tens of billions of dollars in expansion. So we would have liked this to end six months ago, but we must unfortunately insist that management's right to manage is sacrosanct. It always is, but it is even more so the case now. We must not look at short-term profitability. We must not look at what is expedient. We must look at what risks are we taking when we put another $10 billion of capital in place, and how does the precedent that we set there tie off onto other things where we hope to spend – let me not name a figure, but, you know, tens of billions of dollars. And, Neil, that's the governing thought here for us. This is not an issue about wages. It's not an issue about benefits. This is an issue about things that go beyond; things that I have always put in – it costs management 100x and gives the workers, on a good day, a benefit of x. We mustn't do those things, and we're not going to do them.

Mr Mark Busuttil – JP Morgan

Hi, Marius. It's Mark Busuttil from JP Morgan. I have got a question about your balance sheets. Now, 25 per cent is by no means over-geared, but you talked about adjusting your capex depending on market conditions. What are the specific balance sheet metrics that would cause you to delay a capex spend if commodity prices started to deteriorate?

MR KLOPPERS: It's an issue that's fraught, because you don't want – you know, over the last couple of years, we made a 40 per cent return on our portfolios – something like that – EBIT pre-tax. So every dollar that you don't spend and you do a buyback for is an opportunity forgone, under the right conditions, to make a return for your shareholders. So the balance is between over-committing and not committing enough. We probably are, on balance, but I'm grossly simplifying, a "we would rather do the buyback than get in trouble" type of a company, which is where we have been over the last couple of years, and that's probably where we would like to end up, which is why we have always emphasised with those that have followed the stock for a long time and said, "Look, if things go better than we think, you're going to see a buyback. If it goes worse, we're just going to turn down the spending."

I think we have never articulated what a strong single A is in terms of gearing percentage. It differs at various points in the cycle. It differs on your level of nervousness about what comes. Probably, on average, you know, the events of last half made us a little bit more cautious than we were, let's say, the six months before that. But that's the job for every day, and hence, you know, some of the words that I'm particularly – I'm saying nothing new; I'm just taking the words that have been said for the last 10 years and putting them in context as people get a little over-excited that we're going to do everything at once immediately and then we're going to do more beyond that.

I think we are probably okay here for questions at the moment. Let me just check back with Jodie if we have got any additional questions on the phone.

FACILITATOR: Thank you. We have one further question from the phone. Peter O'Connor from Merrill Lynch. Go ahead, Peter.

MR KLOPPERS: Peter.

Mr Peter O'Connor – Merrill Lynch

Marius, it's just a question for Mike, if he's on the line, regarding the one-off items in the half-year just gone. What should we expect with (a) the hedging books going forward and (c) the derivatives repricing going forward? Is this likely to be something that will come up in the future results as well, or are they now unwound?

MR KLOPPERS: The hedges are off. It's all in. And on the repricing of the ammonia contract, Mike, I don't know if you can give a little bit more guidance on how that works so that people can understand. I don't think we have, but that will periodically continue to adjust, because it's an embedded derivative in a sales contract. But, Mike, I don't know if you can help or – maybe, Peter, what I will do is I will ask Mike to talk to Brendan and try and frame that, Mike, but I don't know if there's anything you can say just on the hoof, so to speak.

MR YEAGER: Marius, that sales contract there in Trinidad has just got a Henry Hub component. The derivatives there of ammonia and a little bit of local LNG, and it's just a blend. That's the way it was set up to try to give us some better maximum, and these small derivative changes going forward and backwards are just a part of that. They're not real consequential, and clearly probably will continue with a little bit of volatility, but it has never been more than 100 million on any kind of reporting basis, and we don't expect it to be.

MR KLOPPERS: Thanks, Mike. That sort of gives guidance, but I will – it is sort of like the copper finalisation result. It's a mechanism that is intended to mimic export prices, and I will ask Brendan to think about how we can frame that a little bit better in terms of modelling, Peter. I think we are just about complete. We have probably run out of time. There is obviously the opportunity for us to continue to work with Brendan and the team, and Graham, myself, Mike and all of the others are very happy to take questions beyond. Please pass them along. Thanks for coming today. I do want to emphasise the long-term nature, the predictability and the prudence of what we have spoken about here. Thank you very much.