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resourcing the future

Transcript

BHP Billiton
Preliminary Results Presentation
20 August 2013

Preliminary Results Presentation

1. Welcome and opening presentation

ANDREW MACKENZIE, CEO: Welcome to our results briefing. It is my first as CEO. I am speaking in Sydney, and Graham Kerr, our CFO, will join us from London. Members of our Group Management Committee are also with us: Mike Henry, Jimmy Wilson, Karen Wood and Geoff Healy are in the front row, while Dean Dalla Valle, Danny Malchuk and Peter Beaven join by telephone.

First let me point you to the disclaimer and remind you of its importance to today's presentation. Our strong financial results, including improved performance in the second half of the year, and our well-developed plan continue to deliver differentiated returns in our sector. We have reported record production for a number of our commodities, as well as substantial, controllable and sustainable annualised cost savings of \$2.7 billion, with more to come. Our plan will secure significant growth in free cash flow by extracting more value from existing operations by investing through the cycle with greater capital efficiency and by further simplifying the portfolio.

Capital and exploration expenditure will decline to \$16.2 billion this year, and we will direct capital even more selectively towards our major basins, while continuing with measured investment at Jansen to de-risk the project and maintain the flexibility to enter the potash market only when the time is right.

Our charter is central to everything we do. It details our purpose, strategy and values. Sustainability, our first value, means we are environmentally responsible, enhance the wellbeing of our communities, and put the health and safety of our employees first, so that every one of our 125,000-strong workforce goes home safely at the end of each working day. Over the past eight years we have reduced our Total Recordable Injury Frequency rate, or TRIF, by almost 50%, and during the financial year our TRIF declined to a record low of 4.6. However, I am deeply saddened that this year three of our colleagues lost their lives at work. I offer my condolences to their family, their friends and colleagues.

Broader health risks faced by our people include fatigue, noise, silica and diesel exhaust particulates. We aim to reduce them significantly. During the year we recorded a 5.8% decrease in potential exposures to carcinogens and to airborne contaminants, and our abatement activities have caused our greenhouse gas emissions to remain below the benchmark of the 2006 financial year, despite the significant growth of our business. We continue to contribute 1% of our pre-tax profit to community and environmental programmes. Over the past 10 years this has totalled \$1.5 billion.

The 2013 financial year was characterised by slowing global growth and weaker commodity markets, which reduced Underlying EBIT by \$8.9 billion. Producer currencies decoupled from commodity markets and failed to provide relief from low prices. In the second half of the year, Underlying EBITDA increased by 14%, Underlying EBIT increased by 16% and net operating cash flow increased by 85%, in part because working capital fell by \$1.1 billion. For the full year, Underlying EBITDA decreased 16% to \$28.4 billion, Underlying EBIT fell more as a percentage, by 22%, driven by non-recurring items in our depreciation and amortisation lines. Including exceptional items of \$922 million, Attributable profit declined 29% to \$10.9 billion, net operating cash flow declined 25% to \$18.3 billion, capital and exploration expenditure matched prior guidance of \$22 billion. Our financial position was strengthened by major divestments totalling \$6.5 billion. This was a substantial premium to average market valuations.

Preliminary Results Presentation

Finally, our progressive base dividend has increased by 4% to 116 US cents per share, despite continued volatility in the external market, and for the Australian-domiciled Limited shareholders, this translates to a 17% increase in the final dividend at today's exchange rate, for a payment of 65 Australian cents per share, fully franked. This emphasises the value to our shareholders of the progressive base dividend at all points in the cycle. During the 2013 financial year, production of almost all of BHP Billiton's major commodities increased, to deliver growth in copper equivalent units of 7%. Performance was underpinned by the 13th consecutive year of record production at Western Australia Iron Ore, and by a 28% increase in copper production at Escondida. This high-margin volume growth was supported by a 76% increase in liquids production at our Onshore US business, a 19% increase in Queensland Coal production, a 7% increase in manganese ore production, and with the ramp-up of Worsley, record alumina production.

Our business continues to gather momentum. Over the next two years we're confident production will grow 8% per annum on a copper equivalent basis, and we expect further cost savings as we move forward with our drive for increased productivity. As the only company to offer broad-based exposure to steelmaking, metals and energy sectors, our strategy of diversification by commodity, geography and market has generated and will continue to generate distinctive returns for our shareholders. Over the past decade we have delivered consistent growth in our high-margin businesses, a compound annual production growth rate of 5% in copper equivalent units, an average EBIT margin of 41%, and for our progressive dividend, a compound annual growth rate of 18%. In aggregate, we have returned \$59.1 billion of cash to shareholders, as much as the rest of the peer group combined.

Graham Kerr will now cover our financial results in more detail, and I will then return to outline our plan for substantial growth in free cash flow and higher returns from fewer incremental investments. Welcome, Graham.

2. Presentation by the CFO

GRAHAM KERR, CFO: Thank you, Andrew. I am pleased to be here today to present our results for the 2013 financial year. First I want to reflect on the last 18 months, a period characterised by weaker commodity prices and cost pressures for the industry. How did we respond? We attacked our cost base and redefined our capital priorities. As a consequence, we re-prioritised iron ore growth in the Inner Harbour in the Pilbara, returned the Olympic Dam expansion project to the identification study stage, deferred metallurgical coal capacity in the Bowen Basin and successfully completed divestments at a premium to valuation. As a result, our balance sheet remains strong and we have maintained financial flexibility. Importantly, we will remain disciplined.

Turning to our results, the 2013 financial year presented its share of challenges for the resources industry. Within BHP Billiton we have been driving the business hard to ensure we deliver promised production growth and material cost savings. There are five broad topics that I will cover today. I will highlight specific items included in our financial results, and work through our usual waterfall analysis, making special mention of the substantial high-margin volume growth achieved this year. I will drill down into our \$2.7 billion reduction in controllable cash costs, which increases to \$3.4 billion with the inclusion of lower price-linked costs. I will highlight the discipline that we have applied to portfolio management and the decline in capital expenditure planned for the 2014 financial year, and finally tax and exceptional items.

Preliminary Results Presentation

Let us start by providing some information to assist with your understanding of our accounts. Non-recurring charges embedded in depreciation and amortisation included an \$83 million impairment of the Mad Dog Phase Two project that was triggered by the suspension of engineering and design studies, and an \$86 million write-off of project costs associated with the Tug Harbour project in the Pilbara. Separately, a \$77 million charge included in Underlying EBIT reflects our decision to terminate specific Onshore US drill rig contracts. The rationalisation of drill rigs will allow us to focus even more intensely on the liquids-rich Black Hawk shale within the Eagle Ford.

The revaluation of embedded derivatives, largely associated with gas sales agreements at our Trinidad and Tobago operation, reduced Underlying EBIT by \$235 million. Exchange rate volatility also led to a \$90 million reduction in Underlying EBIT. Our functional currency requires us to mark-to-market differences for monetary items through the profit and loss statement. Transactions associated with debt market securities issued in the 2013 financial year reduced pre-tax profit by a further \$280 million. A positive non-cash adjustment relating to our Trinidad and Tobago Production Sharing Contract partially offset these impacts and increased Underlying EBIT by \$152 million. Now, turning to the key drivers of our results.

We are managing the controllable factors within our business well. The combination of volume growth and a substantial reduction in controllable cash costs increased Underlying EBIT by \$4 billion. The major contributor to the decline in Underlying EBIT was broad-based weakness in commodity markets, which reduced Underlying EBIT by \$8.9 billion. Bulk commodity prices had the greatest influence. A 17% decline in the average realised price of iron ore to \$110 per tonne reduced Underlying EBIT by \$4.1 billion. A 34% decline in the realised price of coking coal and an 18% decline in the realised price of thermal coal reduced Underlying EBIT by a combined \$3.7 billion. A 5% decline in the realised price of copper, and a year-end provisional pricing adjustment reduced Underlying EBIT by \$412 million. Conversely, our unique diversification and exposure to petroleum again proved valuable. An 11% increase in the average price of natural gas, and a 4% increase in the average price of liquefied natural gas provided support at the revenue line.

The theoretical natural hedge that exchange rate markets often provide broke down. Should recent strength in the US dollar persist, we would expect to see the benefit flow through to our 2014 financial year results.

Now to focus on the factors that we most influence: volume and cost. Strong operating performance across the business delivered a 7% increase in copper equivalent production, and a \$1.8 billion boost to Underlying EBIT. A 13th consecutive production record at Western Australia Iron Ore and a spike in volumes to an annualised rate of 217 million tonnes in the fourth quarter ensured Iron Ore was a major contributor. Our team moved quickly to capitalise on excess port capacity created by the successful commissioning of major infrastructure associated with the Inner Harbour Expansion Project. This included the deployment of four mobile crushers and a timely drawdown of mine and port inventory. In Metallurgical Coal, the strong recovery in performance continued throughout the year, and resulted in a peak annualised production rate of 61 million tonnes at Queensland Coal in the fourth quarter. The growth in production of these two bulk commodities increased Underlying EBIT by a combined \$1.7 billion.

In Copper we benefited as the average grade of all mines at Escondida rose to 1.4%. This higher-grade material and a 12% increase in throughput following a major maintenance

Preliminary Results Presentation

campaign enabled Escondida copper production to exceed guidance. Volume growth in the Copper business overall increased Underlying EBIT by \$260 million.

In contrast, lower conventional oil production, associated with field decline in Australia and extending drilling delays and maintenance at our non-operated facilities in the Gulf of Mexico, reduced Underlying EBIT by \$266 million.

Now, let us turn our attention to cost, and controlling costs. Around 18 months ago we recognised the need to take a hard line on costs, and Project Reset was initiated. Its mandate was far-reaching. We scrutinised contractor usage and rates, our maintenance activities, we scrutinised general overheads, supply agreements for consumables, we scrutinised our discretionary spend and the potential for broad-reaching productivity gains. While we haven't, and don't plan to provide a cost savings target, we continue to make strong progress in this critical area. As you can see, we reduced our controllable cash costs by \$2.7 billion in the 2013 financial year, an outstanding result. In mining terms, this equates to a meaningful 7% reduction in unit cash cost during the period, based on copper equivalent metrics.

The rescoping of contractor activities and the renegotiation of some contracts delivered meaningful results. For example, a reduction of contractors at Queensland Coal decreased our controllable cash costs by approximately \$140 million. A general improvement in maintainer productivity, fewer drag line shutdowns, and the transition to owner-operator at our Poitrel mine accounted for a substantial reduction in maintenance costs. Importantly, these initiatives have restored Queensland Coal to profitability despite a sharp correction in prices. Elsewhere, the 24% improvement in the ore grade mined and substantial increase in throughput at Escondida delivered the majority of the mining-related reduction in controllable cash costs.

Back in May, Andrew discussed the substantial increase in our resource base, defined over the last five years, which has given us greater confidence that we have the ore bodies and the reservoirs required to maintain and grow our business for decades to come. This has allowed us to reduce brownfield minerals exploration expenditure by nearly 40% during the period. In addition, we have rationalised our greenfield program to focus on copper and high-value conventional oil and gas prospects, predominantly in the Gulf of Mexico and Western Australia. So, we have made major progress on cost in all areas, and I am confident there is more to come.

Now, turning to our investment programme, our capital and exploration spend remained steady at \$21.7 billion during the 2013 financial year, inclusive of sustaining, minor and growth expenditure, excluding deferred stripping. Given a pending change to the accounting treatment of deferred stripping, we have reported capital and exploration accrued expenditure in two ways in the appendix: firstly, in the same way as previous disclosure, and secondly excluding deferred stripping. We will focus on the latter number in future presentations to ensure you have a true indication of investments being made in projects and exploration in isolation. This is an accounting change only, and will take effect this year. There will be no impact on cash flow, but there will be an uplift to the profit and loss statement and an associated increase to the rate of capitalisation in the short to medium term for deferred stripping.

With regard to major milestones, Western Australia Iron Ore annual port capacity increased to 220 million tonnes during the period, while Orebody 24 achieved first production. In Queensland, the Daunia and Broadmeadow Life Extension projects delivered metallurgical coal ahead of schedule, and first coal was loaded from the Newcastle Third Port Stage Three project. The majority of our 19 major projects in execution are expected to deliver first production before the

Preliminary Results Presentation

end of the 2015 financial year. It is these projects that underpin the future growth of our business.

Capital and exploration expenditure of \$16.2 billion is projected for the 2014 financial year. This excludes deferred stripping and represents a 25% year-on-year reduction in expenditure on a like-for-like basis. In our Onshore US business, we can confirm capital expenditure guidance of \$3.9 billion for the 2014 financial year. The vast majority of this spend will be directed towards the liquids-rich Black Hawk, while our appraisal programme in the prospective Permian basin will continue to be optimised over time. As you would expect, these plans are formulated with great care and discipline. We have to get the balance right. We have made the tough but necessary decisions required to maximise value for our shareholders, and we have maintained financial flexibility.

Let me provide some more examples. The Mad Dog Two project is being rescoped. We are promoting a measured approach at Scarborough, along with our partner, and we have continued to modulate our spend in potash. The \$800 million annual investment at Jansen fits within our reduced expenditure profile.

Just as we have been investing in the business, we continue to simplify for value. We divested Pinto Valley, our diamonds business, and the Yeelirrie uranium deposit, as well as our interest in Richards Bay Minerals and Browse. Our simplification drive also led to the extension of our long-term joint venture agreement with our Japanese partners in the Pilbara. Given the strength of our balance sheet, we can be patient and we will be disciplined, as we continue to simplify the portfolio.

Now I want to pull this together. The combination of strong volume growth, substantial cost savings and the continued success of our divestment programme has strengthened the financial position of the company. Growth in net operating cash flow in the second half of the financial year underscored the level of improvement and benefited from a \$1.1 billion reduction in working capital. As a result, gearing declined by 2% in the second half to 29%. Given our robust financial position, prospective growth in free cash flow, and the power of our diversified strategy, we raised our dividend to 59 US cents per share. This takes our progressive base dividend for the year to 116 US cents per share, a 4% increase year on year. While we do not target specific short-term metrics, this equates to a dividend payout ratio of 52%, which is equivalent to our 10-year average annual payout of 48%, inclusive of share buybacks.

Before moving to tax and exceptional items, let me restate: if our investment criteria cannot be met in any one project, product or geography, we will redirect our capital elsewhere or we will not invest. This scenario could result in an even lower rate of investment, and even more capital being returned to shareholders, and as many of you know, our progressive base dividend has often been supplemented by other forms of capital management in the past.

This brings me to the topic of tax. We paid \$8.5 billion of income and royalty-related taxation, and \$2.7 billion for other production royalties. The royalty-related taxation included Minerals Resource Rent Tax of \$200 million in the period, and a further \$140 million MRRT payment was made in July. Tax had a significant impact on this year's profit. Our effective tax rate, excluding exceptional items, increased temporarily to 39.3%. The unique geographic mix of our earnings in the period proved to be an important consideration, as did royalty-related taxation. In fact, royalty-related taxation of \$1.2 billion represented an effective tax rate of 6% in isolation. In addition, exchange rate movements increased our effective tax rate by 1.6%, or \$315 million.

Preliminary Results Presentation

Based on our current projections, our tax expense including royalty-related taxation, as a proportion of pre-tax profit is expected to decline to a range of 33% to 35% in the 2014 financial year. This guidance excludes the potential influence of exchange rate movements and adjustments to deferred tax balances associated with the MRRT.

Finally, exceptional items reduced Attributable profit by \$922 million, to \$10.9 billion. Items brought to account in the second half of the financial year included a further impairment charge at Nickel West, a gain on sale following the divestment of our interests in the Browse joint ventures, and an impairment of specific evaluation wells drilled in the Permian basin, where performance did not support economic development.

So, in conclusion, our company is performing well, we continue to generate strong margins at this point in the cycle. We are in an enviable financial position, having had major success with volume, cost and divestments. Now, I would like to hand back to Andrew.

3. Presentation by the CEO

Thank you, Graham. I will now discuss the outlook for the global economy and commodity markets before describing our plan to deliver superior returns to our shareholders.

Softer Chinese trade and manufacturing statistics provide evidence of the transition underway in their economy. In the short term, we are confident of GDP growth in China of 7-8%. Employment and income growth remain strong. The government has room to pursue its reforms that will enable stable long-term growth. Capital stock per person, for both steel and copper, is less than one-third of the amount installed in the US economy. So, in the next 15 years we expect global demand for commodities to grow by up to 75%.

In the United States, the recovery in housing and equities markets has strengthened household balance sheets, and we are optimistic that the recovery in the US economy will continue, although it will be important to monitor the impact of unwinding of QE. So, demand is robust. Now to supply.

Each commodity is different, since the availability of resources, the geopolitical stability of the major producing regions, and trends in capital investment all vary. Capital expenditure has fallen across the industry; for example there has been a sharp decline of sales of major mining equipment, which is one of the best indicators of future supply. In the medium term this will inevitably lead to lower growth in supply and to more balanced markets, and the companies that will prosper are those able to invest prudently throughout the cycle. As demand patterns evolve, given our commodity exposure across steelmaking, metals, energy and food, we are very well positioned, but we cannot be complacent.

We continue to simplify our business in order to become a more productive and more capital-efficient organisation. We recently implemented a new organisation structure; we removed a layer of management to create a direct line of communication between the centre and operations. We compressed the number of businesses into five, immediately reducing overheads: we consolidated Energy and Metallurgical Coal, Petroleum and Potash, as well as Aluminium, Manganese and Nickel. Given our decision to focus greenfield exploration for minerals exclusively on copper, only in Chile and Peru, we have integrated Minerals Exploration into our Copper business in Santiago.

Preliminary Results Presentation

We continue to increase our focus on our major basins – our four pillars, as we like to refer to them – Iron Ore, Petroleum, Copper and Coal which, together with Potash, provide optimal diversification. The longevity and expandability of the operations within these four plus one pillars enable us to develop plans to grow cash with a chiefly internal, or organic, focus. I will now discuss production, productivity and projects for each pillar in turn.

Iron Ore. Our ability to invest when others could not has delivered consistent growth at our operations in the Pilbara. In the 2014 financial year, we expect production to increase to 207 million tonnes on a 100% basis. Including Samarco, our share of iron ore production is expected to rise by 11% to 188 million tonnes – solid numbers, timed to meet strong demand. Here we display the train loadout utilisation of our Newman mine, which has improved by more than 20% from just April to June this year. Our 35 million tonne Jimblebar Mine is ahead of schedule, and we expect to deliver the first tonnes in the fourth quarter of this calendar year. On completion, total capacity will rise to 220 million tonnes, and the expansion of Jimblebar to 55 million tonnes, together with broader capital-efficient growth, will deliver annual capacity between 260-270 million tonnes. With our major enabling projects in Iron Ore now largely complete, we are focused on maximising throughput and utilisation to extract significantly more value.

Petroleum. For the 2014 financial year, BHP Billiton's share of production is expected to increase by 6% to approximately 250 million barrels of oil equivalent. This includes 15% growth in Onshore US volumes, despite a reduction in the number of rigs to an average of 25. The majority of these rigs will remain active in the Black Hawk region of the Eagle Ford, and will secure a 75% increase in the production of liquids from the Onshore US this financial year. The drilling programme, as Graham mentioned, in the Permian has now defined a primary area of focus, and while this programme is at a relatively early stage, the potential to build a significant business remains. This financial year we expect to produce four million barrels of oil equivalent.

We must significantly increase capital productivity across all our business, including Petroleum, and this is particularly so if we are to generate competitive returns for the next generation of LNG and deepwater petroleum projects. We set our sights high. In our Onshore oil and gas business we are now drilling wells in the Black Hawk in 70% of the time it took just 12 months ago. This improvement has enabled us to reduce the number of rigs and maximise value with minimal impact on production volumes. Our conventional projects continue to make good progress: for example, our Macedon Gas Project in Western Australia started production last week.

Copper. In the 2013 financial year, copper production at Escondida increased by 28% and is on track to grow to 1.3 million tonnes on a 100% basis in the 2015 financial year. Our total share of copper production will remain largely unchanged at 1.2 million tonnes in the 2014 financial year. During the 2012 calendar year, major maintenance was completed at Escondida, which improved the reliability of crushing and conveying, so that in the 2013 financial year, the average daily throughput of crushing and conveying increased by more than 13%. With the copper price continuing to trade above \$3 per pound, this is a great outcome. During the period, the Laguna Seca Debottlenecking project and completion of maintenance at Escondida increased throughput significantly. The OGP1 and OLAP projects remain on schedule and budget. The new 152,000 tonnes per day OGP1 concentrator will replace the existing Los Colorados facility, and is expected to commence production in the first half of the 2015 calendar year. The new concentrator will add valuable capacity, and the demolition of the old concentrator will provide access to higher grade ore.

Preliminary Results Presentation

Coal: in the 2014 financial year, coal production is expected to increase by 3%, so that our share of metallurgical coal production will rise to 41 million tonnes. Energy coal production is expected to remain largely unchanged at approximately 73 million tonnes. After years of challenges and disruption, our team has led a rapid turnaround at Queensland Coal and returned our leading metallurgical coal business to profitability. A significant component of the Group's total cost base is made up of the movement of material, and here we show the utilisation of our trucks at Goonyella Mine, which has improved by 25%. This was made possible by our systems, which now track performance down to the individual operator and up to the fleet level, and so allow us to plan our maintenance more precisely and more effectively.

With our metallurgical coal projects close to completion, we are shifting our focus to increase the throughput of the total supply chain for minimal extra growth capital. Daunia and the life extension project at Broadmeadow achieved first production in quarter three, ahead of schedule, and the 5.5 million tonne per annum Caval Ridge mine is on track, with first production expected in the 2014 calendar year. Together these projects will increase Queensland Coal's capacity to 66 million tonnes per annum. After extensive review, the scope of the Hay Point Stage Three Expansion project has been revised. It now excludes demolition of the existing trestles. Marine works have been the greatest challenge. Here, unplanned weather interruptions and regrettable productivity issues have increased our share of the project budget by \$255 million to \$1.5 billion. The first shipment is now anticipated in the 2015 calendar year, but the ramp-up profile for Queensland Coal, which we have shared with you before, will not be affected.

Having discussed our four pillars, let us now turn to Potash. For decades Saskatchewan has been widely regarded as the world's premier potash basin. In less than a decade, we have established an extensive land holding in this basin, with vast quantities of high-grade potash and numerous options for greenfield development. This is a land holding unmatched anywhere in the world. The 5.3 billion tonne measured resource at Jensen is central to our plans, and the longer-term options, such as Melville, Young, Boulder and Burr, offer substantial upside.

We are confident in the long-term demand for potash: an expected growth of 2-3% per annum to 2030 is part of our plans, and this is driven by increasing global population and greater economic prosperity, which will lead to changing patterns of food consumption and require higher yields from increasingly constrained arable land.

We have a long-stated preference for transparent pricing mechanisms that truly reflect the supply and demand and the fundamentals of any given commodity on any given day. In the case of potash, our projections have always assumed a shift away from the current marketing dynamic.

To complete the excavation and lining of the production and service shafts at Jansen, and the installation of essential surface infrastructure and utilities, we are investing \$2.6 billion at an average annual rate of approximately \$800 million. Completion of both shafts is expected during the 2016 calendar year; the associated works programme will extend into the 2017 calendar year. On completion we will have two shafts in the world's best undeveloped ore body, capable of supporting a first-quartile operation, with capacity of approximately 10 million tonnes per annum. This will give us a substantially de-risked project, and the flexibility to time our entrance to meet market demand. In the interim, to maximise returns and optimise the costs, we will continue to improve the design for the development of the mine and the construction of processing and logistics infrastructure. We will pursue the development path that maximises value for our shareholders. We may also sell a minority stake to one or more joint venture partners, which is consistent with our approach at many of our other major operations.

Preliminary Results Presentation

In summary, our plan is in action right across the company. It is delivering results in terms of strong volume growth and substantial productivity-led cost savings. Over the next two years our volumes are expected to grow in copper-equivalent terms by 8% per annum. Our productivity agenda is now fully underway. We have reduced our capital expenditure by optimising our investment pipeline for value. We are focused on those businesses that generate the strongest margins and the most favourable returns. Our pillars alone allow us to retain the benefits of diversification with unmatched simplicity. We can confidently manage our portfolio for value given our robust strategy, our unrivalled portfolio of resources, the calibre of our people and our well-developed plan for productivity, capital discipline, growth and portfolio management.

Ultimately, growth in free cash flow is what drives us and will differentiate us, and continue our track record of delivering superior returns to our shareholders. Thank you.

4. Questions

ANDREW MACKENZIE: I will now be pleased to take your questions.

PAUL YOUNG, DEUTSCHE BANK: I have a couple of questions on Petroleum. I agree with the change in strategy on US Onshore assets, focusing on returns over volumes. About 20% of your acreage in Eagle Ford is in the Black Hawk, so how long before you have to re-focus back on the Hawkville, the NGL-rich part of the Eagle Ford?

My second question on your Petroleum strategy is more on the conventional petroleum strategy. With the exception of some future growth in the Gulf of Mexico, which is mostly non-operated, most of your assets are actually in decline. With the minerals capex now peaked and declining, do you have any plans to revamp your conventional strategy?

ANDREW MACKENZIE: There are two quite separate questions. The important thing to say about things like the Hawkville is that the hydrocarbons are not going anywhere. Therefore, we judge it is worth waiting a bit before we develop them. Waiting perhaps for changes in the price outlook for gas, but equally important that we continue to make gains in productivity and that of course drives the costs down and if we can wait for them through learnings on what we do more on the Black Hawk, and in the necessary drilling we have to do for retention and as the industry evolves, then there will come a time when we want to go back to the Hawkville, perhaps with greater activity in drilling. I cannot foresee that just yet. Everything that we do has to compete within the capital ceilings that we are talking about; they have to compete against a lot of projects. Not only are we driven by value in our decisions on what we make in Petroleum, we are driven by that right across the portfolio.

The same answer really applies to the second part of your question. Clearly, we have to find other areas of value that compete with the many opportunities to add value to our shareholders elsewhere in the portfolio that might attract some of our skills in the conventional portfolio, and weigh them up against not just the non-conventional portfolio but against the whole portfolio. This is an active part of portfolio management we do. We like our pillars, but we do actually scout the world's geology all the time to see where we might get even better returns. As we learn more I will tell you more.

PAUL MCTAGGART, CREDIT SUISSE: A couple of assets stand out: Aluminium and Nickel. We have had EBIT losses for a couple of years now and you have obviously written Nickel West

Preliminary Results Presentation

down to almost nothing. What can we expect here in the course of the next year, given that we have had two tough years now?

ANDREW MACKENZIE: More of the same. These businesses are run very much for cash. They receive no major investment capital and they are always challenged to remain cash-positive. I can tell you in the way we are set up they are not a distraction to management. There is something there that is harder to manage; of course – they have been under the most stress for longest. Some of the best ideas for improving productivity in managing cost come from those businesses. We are working very hard to transfer them right across our company. For now it is more of the same: to make sure that they wash their face and then who knows.

JAMES GURRY, CREDIT SUISSE: I just wanted to ask a question on Potash. We see the new investment might be slightly larger than what some people thought. Can you give us further thoughts on the development of the market and the further development of this project? If you are going to introduce a minority partner, are you potentially thinking more of an off-take agreement for someone to take that product from you? On the size of the project, can you just confirm whether it is 10 million tonnes per annum? Previously I thought it might be about 8 million tonnes per annum, the maximum potential.

ANDREW MACKENZIE: You might need to help me remember all four of your questions. Let me start towards the end there. The 10 million tonnes per annum has come because that is the capacity under conventional mining techniques that we effectively will reach running up through the shafts that we are building. We have just played around and continue to play around with how we optimise the ultimate development of this orebody and, for now, we have come up with 10 million tonnes per annum as being the optimal way to extract the most value. We are not done here; we continue to work on the engineering, how we construct and how we configure. Through this approach, we have given ourselves more time to work it. We are still very much in feasibility.

For now we are looking at a relatively straightforward arrangement with potential partners, who would come and take a minority share of Jansen and be very much a partner like we have in Petroleum ventures, Escondida and Iron Ore, which are fairly standard arrangements.

You wanted a bit more detail on the market. There is not much more that I can add to what I said. First off, we do see this growing around 2-3% per annum for decades to come. We anticipate that in some time from 2020 onwards there will be the need for a new greenfield mine. We think this could be Jansen. We cannot be absolutely sure how that demand will evolve and that is why we do not want to make a firm commitment in time yet as to when we will push ahead with the construction of the mine itself. Does that answer all your questions?

JAMES GURRY: Yes, that is great. Thanks a lot.

CLARKE WILKINS, CITIBANK: I have couple of questions. First off, does the impairment on some of the Permian drilling have any impact on the previously stated production goals in terms of the ramp-up from those assets? Can you also give me a bit more detail in terms of Iron Ore in Western Australia, the pathway from 220 to 250 to 270, and what sort of timeline we are looking at for the ramp-up of that capacity?

ANDREW MACKENZIE: I actually have Jimmy Wilson with me here in Sydney and I would like him to answer the second question. I will handle the Petroleum question, if I may. Clearly in the way we are reconfiguring things – managing for value rather than for volume within our Onshore Petroleum – there may be adjustments to the volume profile. As we continue with our development process and we refresh our investments we will keep you updated as we go along.

Preliminary Results Presentation

JIMMY WILSON, PRESIDENT, IRON ORE: The port is now configured for 220 million tonnes per annum. As we bring on Jimblebar mine, that is 35 million tonnes per annum and that gets the mining configuration to 220 million tonnes per annum. Going beyond that, we are going to go through a process of de-bottlenecking, whereby we will understand where the bottlenecks are across the whole system, focus on where we can get the biggest gain for the least amount of capital spend – obviously, focusing on the highest IRR opportunities – and take those opportunities and progressively move the whole system up that line. We have not defined all of that, but we are reasonably confident we will be able to get to that level of capacity in the mining configuration. We know rail is definitely good for it and port is going to be the challenge. The challenge there is specifically in the stockyards between the car dumpers and the ship loaders. That is going to be the focus.

The rate at which we will go will be the rate at which we are able to access capital from the company and to do that we are going to have to compete against the rest of the capital. This is what Andrew has done with raising the bar in terms of the reduction in capital available. It has made us be more focused and sharper on the projects that we put up.

CRAIG SAINSBURY, GOLDMAN SACHS: There are two questions from me. I have one further one on Potash: can you give a breakdown of the \$2.6 billion you are spending? I know you are going to finish the shafts, but could you give me the split between the shaft and surface infrastructure? It is probably too early to drag you on how much more capital, but do you have any comment on how far down the path this gets you?

The second question is on costs and this is probably more for Graham. If I strip out the exploration and the business development cost from the \$2.7 billion you get down to about \$1.2 billion coming from pure mining cost savings. If I heard Graham right before, he said roughly \$600 million of that was from the grade recovery at Escondida. If you look at that, it is probably only running about \$600-800 million worth of true mining cost savings that you have got. Is that a fair reflection of what has been dragged out of the business so far? How far along the path of cost savings do you think you are from the pure mining perspective, given the layoff of people etc., the easy hanging fruit has been probably been picked off so far?

ANDREW MACKENZIE: I will say a little bit on that and then hand it to Graham to offer some more details. Just on your Potash enquiry: as well as the shafts, we are looking a lot of the infrastructure that comes onto the site. We are working very much with the utilities in Saskatchewan to bring water and power, primarily, onto the site so that when we get down to delivering facilities they can be hooked up pretty quickly. There is also a little bit in there for developing a port and logistics opportunity. I will not split it down for you because the majority is on the shafts and it is a few hundreds of millions on the other things as well.

On the cost savings Criag, I would like Graham to handle the detail. I will just say that of course some of the early wins tend to be more down to the things we can do by focusing our portfolio. Now we are getting going with what we are doing better and more is likely to follow. Graham, maybe you would like to pick that up.

GRAHAM KERR: Thanks, Andrew. Craig, I think Andrew started the response well. Clearly when we first started this exercise 18 months ago as Project Reset there was a lot of low-hanging fruit, which was basically costs out of the business relatively quickly.

It is important to focus on three critical items when we talk about costs out of the business. There is no doubt, one, there is a piece of reducing our overheads and renegotiating our contracts and that has been well underway for a period of time and is delivering results. The second piece is tied to the point that Craig pulled out around volume increases. As Andrew alluded to on a couple of his slides with regard to Metallurgical Coal and other parts of the

Preliminary Results Presentation

business, there have been substantial changes in what we call the productivity drivers that are allowing us to basically dilute those fixed costs by getting more tonnage and getting that tonnage out at a cheaper rate. You cannot really divorce the cost and volume increases because it is all about how we drive the productivity.

On your third comment around exploration and business development expenditure: we are absolutely transparent about what we pulled out of the business around exploration of business development. People need to be very conscious that when we talk about this, we are in a unique position that most of our growth opportunities are brownfield operations and most of them are basically located in the OECD basins in the world. We have done a lot of work over the last five years to develop the resource base and the reality is we have more than enough resource in most of our commodities so we do not need to spend more money on exploration or business development. They are real cost savings coming out of the cost line.

PETER O'CONNOR, BANK OF AMERICA: The growth rate you mentioned on the call of 8% over the next two years is lower than the 10% that has previously been discussed during the FY12 or first half 2013 results. I just want to understand why there is that step-down? Secondly, Petroleum guidance of 250 million BOE looks light compared to most people's expectations. Why? Thirdly, to the prior question about Iron Ore, what has been approved? Is it up to 220, and what approvals are required to take that further? Could you give us some more granularity on the timeline of those approvals and those steps?

ANDREW MACKENZIE: Jimmy will handle the Iron Ore question. You actually kind of answered your first question with your second question. The majority of the shortfall is in petroleum and it is in what has gone on in Mad Dog and Atlantis. It absolutely continues, particularly in Mad Dog, into this financial year. Obviously, we continue to work to correct that, but we are of course not the operator. For more detail you would need to talk to BP. Jimmy will give you a quick answer to the approvals thing.

JIMMY WILSON: I am going to repeat a little bit of what I said earlier, but maybe I will make this a little bit more granular. The key focus is our ports and the configuration that we have in our ports. It is the network between the car dumpers and the ship loaders that is going to be the first piece of the focus in terms of capital deployment. We will put together a project there that will initially be a step towards the ultimate goal of 260-270 million tonnes per annum and that will be stepping up off the 220 million tonnes per annum.

You also asked what has been approved. 220 million tonnes per annum has been approved and we feel that through de-bottlenecking we may be able to get a little bit beyond that, leveraging the capital we have deployed in the past. The first tranche will be in the ports and then, from there, we will have some tranches of capital in our mines to match that and progressively move up. It is not absolutely laid out because it is really leveraging large tranches of capital expenditure that have been made in the past. What we are now focusing on is about de-bottlenecking in very focused areas. I hope that answers the question.

ANDREW MACKENZIE: I will just add to that, Peter. Obviously the Jimblebar component, which takes it to 220 million tonnes per annum, the 35 million tonnes has been approved. Beyond that, in Jimmy's further answer, he will have to compete with capital in other parts of the businesses. I also expect that more may come from Jimmy's drive on productivity, trying to get more throughput and more availability from what we have installed, and what has been approved to be installed.

ANNA MULHOLLAND, DEUTSCHE BANK: I have two questions on Escondida. Can you comment on the sustainability of the grade improvement and what you have in the mine plan

Preliminary Results Presentation

over the next three years or so? In the more short term, on the strikes that have been occurring, what is the issue there and how likely are they to continue to occur?

ANDREW MACKENZIE: Our average grade last year was 1.4% and that has been enabled by getting access to higher-grade ore as a result of moving a crusher out of the pit, which was associated with the Laguna Seca Debottlenecking activities that I referred to in my talk. That is sustainable for a while. As we continue with OGP1 and demolish the Los Colorados concentrator, that will give us access to equally high-grade ore that will carry things on probably close to the end of this decade. Thereafter, we will have to invest more to maintain the projected level of the next two or three years of copper production by processing much higher volumes of lower-grade ore. That is very much for the future and nothing has been really scoped out yet as part of our planning.

On the strikes that you referred to there is only one so far, which has been a 24-hour strike. It arises around a discussion that is happening between management and the workforce around the payment of what is sometimes called the fiscal year bonus. That bonus has traditionally been paid at this time of the year, often to reflect relatively high margins driven by copper price. We have a new agreement with the workforce, where we relate bonuses much more closely to gains in productivity, in line with our over-arching agenda. We continue to discuss with the workforce and the unions what this means for the size and the payment of the fiscal year bonus. That is where some of the debates are happening at the moment, and obviously our intention is to try and resolve this in a way that everyone benefits.

ADRIAN WOOD, MACQUARIE: I have two questions. First of all, on Jansen you mentioned in your presentation that Jansen will be a top quartile asset once on stream and obviously the Board has signed off on this \$2.6 billion incremental investment. I am guessing that you must therefore have an assumption that you are using for the full life of development cost of this mine. Can you shed any light on what you are expecting the full cost to ultimately be?

On the dividend, the rate of progression is the lowest we have seen since the Billiton merger, at only 4% this year, yet the pay-out is the highest we have seen over that period as well. Is this the new normal? Is 4% what we should expect going forward? It is obviously much lower than we have seen over the last 10 years.

ANDREW MACKENZIE: Let me just deal with the second question first. Thank you for acknowledging the payout ratio. As Graham referred to it, depending on the time period it is around 50%. That is not a target, but it is pretty healthy compared to many of our competitors right across the sectors that we play in. I would not take this as a predictor of the future. It is what we feel is the appropriate thing to do in this period, given the outlook that we see, the volatility of commodity prices and the overall way in which we want to manage capital into the company and back out to shareholders. We will continue to talk to you and talk to our owners about that.

I will not give you a price or a cost for the full potash project – you probably would not expect me to. Clearly though, we would not be doing this if we did not believe that this was a project that in the long run was going to be hugely competitive and earn very substantial returns. I can tell you that I am very confident that what we have in our hands is something that will benchmark well in terms of capital intensity and certainly match up to the one project that is currently under construction in Saskatchewan, the Legacy project. Their number is around \$1,425 per annual tonne. I am also very confident that we are going to deliver something that in cost terms will be central to the top quartile, the lowest quartile of costs in the industry as we see it today and going forward. Everything we are doing by giving ourselves more time, by using our productivity agenda to drive down capital costs and drive down operating costs means we are only going to improve from where we are today. Through that improvement we may find,

Preliminary Results Presentation

if the market is right, that we would time our entry appropriately with a higher-return project to our shareholders.

LYNDON FAGAN, JP MORGAN: I have a question on Jansen. Can you talk about the likely phasing of production? Is it still potentially in 4 million tonne increments? With the minority sell down, I was wondering: if the project has competed for and won capex again the rest of the business, then clearly it potentially has good returns. Why sell down a minority stake?

ANDREW MACKENZIE: Those are good questions. The minority stake thing is not necessarily about offsetting the capital cost. It is because we often find that if we get the right partners it actually enhances the performance of the project. We have seen that with Rio Tinto at Escondida and many of our partners in the petroleum space. We are looking for a similar model as we go forward: a partner who would bring something to the project that we would not otherwise be able to do. Clearly, by getting a value for the project it will help to crystallise some aspects of how you and others might think about the value that we are creating.

On the first part of your question, I do not know. We have talked about that, but because for now all we are doing is committing to complete the shafts and some of the associated infrastructure and leaving the rest of the project in feasibility, we will continue to tweak things to drive more value and higher capital productivity. That will obviously inform the appropriate phasing to get that for our shareholders.

DANIEL LIAN, BANK OF AMERICA MERRILL LYNCH: You talked about benchmarking the capital intensity of Jansen versus other potash projects out there. I was just wondering if you had done a similar exercise of benchmarking its capital intensity versus the market value per tonne of existing potash producers.

ANDREW MACKENZIE: Yes, we have. You would expect us to do that, but one of the things you cannot accommodate for in things like that is the fact that if anything ever became in play it might change the price dramatically. There is nothing you can do in the market that is completely comparable with what we could do in Jansen.

ANDREW HINES, COMMONWEALTH BANK: I have a question about the portfolio simplification process. I was just wondering how you are thinking about a couple of asset classes. Now that you have moved the Manganese assets in with Aluminium and Nickel, which was previously described as being run for cash, what is your thinking about Manganese? Does it belong in the portfolio? Secondly, on thermal coal assets, some of them are good, some of them are less good and some of them are pretty poor. How do you think about thermal coal in the portfolio now?

ANDREW MACKENZIE: We put Manganese along with Aluminium and Nickel because it is predominantly a processing business as opposed to a straight or pure geological business. They have comparable scales, certainly in financial terms, and we did feel that they would benefit from each other despite, perhaps, its relatively higher profitability, particularly here in Australia. We have no plans to expand our Manganese business. Our plans are very much to consolidate with what we have – that has been the case for some time and there are little bits of creep that we have done. They operate well together and that is why I made that choice.

On Energy Coal, you are right. We have a range of assets and we are always trying to increase the tier one-ness of what we have, so that is clearly a factor when we are looking at the possibility of further simplifying the portfolio. I do not want to go further than that today though.

GLYN LAWCOCK, UBS: I have two questions. The first one was just on the capital reduction you have outlined. How much of that was FX related, if there was any, in that capex reduction? I know that Mike now has marketing reporting into him and I just thought, while he is here,

Preliminary Results Presentation

whether he has any insight or more granularity around China and what is happening in the steel and iron ore space there.

ANDREW MACKENZIE: We will let Mike answer first and then I will come back to you on the comment you made.

MIKE HENRY, PRESIDENT, HSEC, MARKETING AND TECHNOLOGY: In terms of steel and iron ore in China, steel production has been running above where we thought it would be running at this time of year. We think we understand why; it comes down to strong investment and strong construction. In terms of iron ore, that is then played through to iron ore demand and iron ore pricing. It has come against the context of some constraints in domestic supply in China as well. We are not forecasting that that is going to continue on *ad infinitum*. Our long-run view around Chinese steel and iron ore demand has not changed, nor has our view around long-run fundamentals for iron ore.

In terms of the short-run outlook for iron ore, I can probably couch it best by referencing back to meetings directly with customers. When I was there a few weeks ago there was a quiet confidence on the part of customers. What we are seeing there right now is an indication of relative health in the Chinese economy and much less concern around the potential for a hard landing now than there would have been a few months ago.

ANDREW MACKENZIE: Unless Graham has the number at his fingertips, on your first question I do not think the FX thing is a big consideration. We drove the capital down through challenging each other, causing what we were going to do to become more productive and then only doing those things that really passed through a number of our filters. FX was a very small factor on that. Do you want to add to that, Graham?

GRAHAM KERR: You are right, Andrew. It was not really a material factor.

ANDREW MACKENZIE: That is what I thought.

JAMES GURRY, CREDIT SUISSE: I just wanted to follow up with the US Onshore shale business. You are guiding to capex of about \$3.9 billion. That is pretty much in line with what you guided for FY12 at the start of the year. Can you tell me how much of that relates to the Permian and when we are likely to see more information about the potential of the Permian, given that there seems to be a fair bit of excitement in the US about the potential in the drilling activity in a lot of the peer group in the Permian?

ANDREW MACKENZIE: I do not have that number. I will ask our Investor Relations team to figure out whether that is something we would like to share. It is not big part of our capital investment. We are taking things slowly and deliberately with the Permian. It is a very large area with many hundreds of metres – I think almost a kilometre in places – of prospective shale. There is a lot of variation and all the operators are figuring out which are the more prospective areas to focus, given current prices and understanding. We are playing the long game in the Permian and in the mean-time we are pushing as hard as we can what we think is practical to maximise liquid shales, particularly out of the Black Hawk part of the Eagle Ford.

CAROLINE LEARMONTH, BARCLAYS CAPITAL: I just have a quick question on the listing structure. Are you having a look at changing the DLC structure in the short term?

ANDREW MACKENZIE: No. Many people have suggested that, but we have a great share register, which is the result of having a dual-listed structure and we are very grateful for it. For now we just enjoy that and look after our shareholders in both the Limited and the Plc parts of our company.

Preliminary Results Presentation

MARK HARIVAL, BBY: On Iron Ore, why was there any money written off at all in that very profitable business, given that probably any project you investigated there would ultimately be worth something?

ANDREW MACKENZIE: Jimmy can correct me if I am wrong here, but essentially we were looking at different ways in which we might run the harbour. We had gone some way down a certain path and Jimmy's brilliant people figured we could do it an awful lot better and cheaper, so we decided to change tack. We could not fully use the capital we have invested in on the new and what we think is higher value tack going forward. It is as simple as that.

JIMMY WILSON: Yes, I think that is right.

PETER HARRIS, JCP INVESTMENT: Given the Australian election is coming up and the resource rent tax, on which you just paid \$200 million, and the carbon tax are big issues. While we focus on the minutiae here in Australia, the rest of the world is printing money – the UK and Japan are printing money and you have quantitative easing in the US. I am not asking you to recommend policies, but if BHP Billiton had a choice between an 80 cent Australian dollar and continuation of the resource rent tax and the carbon tax versus steady-as-we-go and abolishing the carbon tax and resource rent tax, it is obvious to me which one you would choose. I just think we have the relativity wrong in terms of our policy outlook. Can you comment on that?

ANDREW MACKENZIE: With difficulty. I am looking forward to sitting down with whoever wins the election in Australia and explaining my drive to make all our operations more productive, including here in Australia, and how they can create the right framework for that to happen. At this stage I do not want to say any more than that.

Thank you for all your questions, thank you for listening. I look forward to talking to you all soon. Meeting closed.