Transcript

# BHP Billiton

Investor & Analyst Presentations

27 October 2014

## 1. Presentation - Maximising Value and Shareholder Returns

ANDREW MACKENZIE, CHIEF EXECUTIVE OFFICER: Good morning to everyone here in London and hello to those who are on the webcast. First, as usual, I will point you to the disclaimer and remind you of its importance to today's presentation.

I will start by providing an overview of our performance in the 2014 financial year to show you what we achieved, and then I will provide you with a number of definitive targets, both production and costs, for each of our major businesses, so that as usual you can continue to track us. We do feel, as you know, very strongly that we must be accountable to you, our owners. I am going to conclude with our capital management framework and explain how we will feel it will enable us to consistently deliver superior performance and more cash to our shareholders.

I have quite a few of my colleagues here with me today. Mike Henry, our President of HSE and Marketing, will follow me to share our views on commodity markets and explain our distinctive approach to productivity. Then we are going to divide into two of our major businesses, after a break. Jimmy Wilson will present on Iron Ore, and likewise Tim Cutt, on Petroleum. Peter Beaven, our new Chief Financial Officer, is with us and he will be participating in the question and answer sessions that we will have after Mike and I have spoken, and again after Tim has finished speaking.

We are doing this capital markets event in two parts. In November, we are going to provide a more detailed update on our coal and copper businesses and one or two other points on which I will comment during the course of today's presentation. For example, we are going to talk to you about how we expect simplification via our proposed demerger. We will create even more value by de-layering the organisation, reducing functional costs and re-shaping our company, BHP Billiton, post demerger.

The company is in great shape. We have a clear strategy and we will continue to deliver on our commitments by doing what we say we will do. Keeping our people and our operations safe matters more to me and the team than anything else. We view strong safety performance as a critical indicator of a business in control and, in 2014, we delivered our best ever safety performance. Sustainability, which is the first value in our charter, is also a key consideration for all of our investment decisions.

In the 2014 financial year, we exceeded production guidance for a number of our core commodities. For the 2015 financial year, now well underway, we are well positioned to again achieve record production. We remain focused on generating value through productivity and we delivered nearly $3 billion in productivity-led gains in the 2014 financial year and are further committed to a minimum of $3.5 billion of annualised efficiencies from our core portfolio, which is net of NewCo, by the end of the 2017 financial year. Finally, the combination of our high-quality assets, optimal diversification and a disciplined approach to capital management, including our unbroken progressive dividend and strong balance sheet, continue to cause us to generate superior shareholder returns. This is our distinctive proposition.

If you look at our scorecard for the 2014 financial year, you will see that we achieved strong results and that there is more to come. Over the last two years, our simplification process, including well-timed asset sales, created more than $6.5 billion of proceeds and our operating performance also delivered annual production records at 12 of our operations, across four commodities. We have embedded an additional $2.5 billion of productivity-led gains in 2014, more than $1 billion above our guidance with $1 billion coming from volumes and nearly $2 billion from cost efficiencies.

For the 2014 financial year, we also reduced our capital and exploration expenditure by about one-third to $15.2 billion. In a period of falling commodity prices, this resulted in an $8 billion increase in free cash flow. This strong cash-generating capacity in our business underpins our commitment to a progressive base dividend. This is the minimum expectation that we feel our shareholders should have. Our dividend increased another 4% in the 2014 financial year to 121 US cents per share. That is a payout ratio of 48%. All of this delivers valuable growth and yield to our shareholders.

In August, we announced our demerger proposal to largely complete our simplification process in a single step, unlock greater productivity and value for our shareholders. Our vision is a core portfolio of just 19 minerals and petroleum assets, which is a 50% reduction from today and is focused on some of the very best assets in the industry, for iron ore, copper, coal, petroleum and possibly potash. These businesses are perfectly aligned to our strategy; they provide us with optimal diversification and can generate even stronger growth in margins with no increase in volatility. The assets selected for demerger are high quality, but they are not of the scale of those in our major businesses. The new company will operate 11 assets, primarily in Australia and Southern Africa.

With a new bespoke strategy, these assets will realise their full potential and, in order to minimise costs and maximise value, the new company, as you all know, will now be incorporated as an entity in Australia. To be clear, all BHP Billiton shareholders will retain their current holding in BHP Billiton and will be entitled to a pro rata distribution of shares in the new company. The new company will apply for an ASX primary listing, consistent with its Australian incorporation and domicile, and a JSE inward secondary listing. Based on the level of interest that investors have shown in the new company here in London, we have also decided to pursue a standard UK listing for the company. Of course, the demerger remains subject to final board approval and it will be put to a shareholder vote after receipt of satisfactory third-party approvals. Based on our current timetable, the new company is expected to trade in the first half of the 2015 calendar year.

Now let us talk about recent performance. We continued to improve our safety performance in the 2014 financial year to our lowest ever total recordable frequency of 4.2 for every million hours worked. Importantly, we also suffered no fatalities during the year. While we are encouraged by this result, recent events have sadly demonstrated that we can never rest on past performance. We were all deeply saddened by the fatal injury of one of our colleagues at the Worsley alumina refinery in Western Australia last month. We have extensive investigations underway to understand how this incident occurred and learn how we can put the safety of our people to complete prominence, because it must always come first.

Given the scale of our operations and our resources, we will be an important member and contributor to our communities around those operations for decades. We set ourselves high environmental standards and believe there must be a significant acceleration in the development of deployment of low emissions technologies, and we will champion this change. Since the 2007 financial year, we have invested nearly $0.5 billion to support emissions reductions and energy efficiency projects, and will continue with such investments. We also will continue to take opportunities to partner with governments, industry and researchers to invest in technologies that could lead to a reduction in greenhouse gas emissions from the use of fossil fuels. We have certainly improved our own performance and reduced our greenhouse gas emissions by 1.7 million tonnes in the 2014 financial year. Despite producing significantly more volumes, our greenhouse gas emissions are now below our 2006 financial year baseline. We have also achieved a 22% reduction in potential occupational exposures compared to our 2012 financial year baseline.

We seek to be a valued partner in host communities and recognise that their support is central to our success, and so we work with host communities all around the world to understand their issues and identify opportunities. This ranges from helping Brazilian coffee farmers improve their productivity sustainably to signing an opportunities agreement with three First Nations in Saskatchewan and to humanitarian assistance, more recently for typhoons in the Philippines, bush fires in Australia and Ebola in West Africa.

Alongside the over $240 million invested by the company last year in community and conservation projects with lasting benefit, our own people also make a real difference to the communities where they live and work. They volunteer their time and donate their money, which we match, doubling their contribution. In the 2014 financial year, this amounted to $12.1 million. For the record, we also paid tax $9.9 billion in company taxes, royalties and certain indirect taxes.

Our 9% increase in group production was achieved through capital growth and productivity, and our core portfolio was the foundation of our success, delivering growth of 15% in copper equivalent terms. In iron ore, the 20% increase in volumes reflected an improvement in productivity across our integrated Western Australia Iron Ore supply chain and the ramp-up of our new mine at Jimblebar. Growth in metallurgical coal production followed a similar path, as we achieved a broad-based improvement in productivity across Queensland Coal, and ramped up the Caval Ridge and Daunia mines. Petroleum’s 18% uplift in liquids production was underpinned by a growth of Onshore US of 73%, and a near doubling of production of Atlantis. During the period, we also completed six major projects across the portfolio, with two of those delivered under budget and ahead of schedule. Looking ahead, the ramp-up of these projects, combined with our productivity agenda, will deliver another year of record production.

Our previously stated guidance for each of our core commodities remains intact. In iron ore, we expect an 11% increase in production to 225 million tonnes for our share. For each of our copper, metallurgical coal and petroleum products, we project increases in the range of 4-5%, inclusive of an expected 15% uplift in petroleum liquids production. Last year in our core portfolio, as I said, we grew production by 15% and, over the two years to the end of this financial year, 2015, we remain on track to deliver growth of 23% and, for our broader portfolio including NewCo, 16%.

Alongside this productivity-led volume growth sits almost $2 billion of real cost savings embedded last year. You can see that we have driven unit costs down in every one of our minerals businesses. Our Queensland Coal operation was a standout performer, with a 25% reduction in operating costs to $99 per tonne. For our operating copper assets, despite grade decline and increased cycle times, unit costs declined by 6%. In the second half of the 2014 financial year, our unit costs of Western Australia Iron Ore fell by 12%.

Conversely, our focus on value over volume led to an increase in petroleum lifting costs, as we prioritised onshore activity in our liquids-rich shale. This focused approach and forensic benchmarking of every component of our Onshore US drilling programme delivered a substantial improvement in capital activity. To put this 16% reduction in the Black Hawk drilling costs into perspective, we currently invest around $2 of Onshore US for ever $1 of operating costs. The emphasis there is very much on capital productivity, but we do have stuff in operations as well, and Tim will say more about that.

In order to sustainably improve productivity, management must have an intimate understanding of every operation in considerable detail and its unique value driver tree. We feel that our systems and processes give us an edge, and we remain confident that there is much more yet to come.

The demerger will be a catalyst for this. It will help us improve productivity further, faster and with more certainty. With fewer assets, we will be able to focus on our core capabilities without distraction. We will leverage our common systems and processes to deliver continuous improvement, further simplify our management structure and reduce duplication. The outcome will be that, by the end of the 2017 financial year, from the core portfolio alone, we are targeting at least $3.5 billion of additional annualised productivity-led gains. This includes a minimum reduction in cash costs of $2.3 billion per annum, which further cements our competitive position on the industry cost curves. That is on top of the $6.6 billion of productivity-led gains that we have embedded into our cost structure during the last two years.

As Jimmy outlined at our recent Iron Ore briefing – I know several of you were there – the outlook for Western Australia iron ore is exciting. We have completed all major investments, so we will now just sustainably stretch the potential of the infrastructure that we have already installed. In doing so, we are going to add a minimum $65 million of annual capacity at a capital intensity of around $30 per annual tonne. Our focus on costs is delivering tangible results and, in the second half of the 2014 financial year, we reduced unit costs to under $26 per tonne in iron ore, but we have only just scratched the surface and we see a clear pathway to FOB cash costs of less than $20 per tonne in the medium term. Should the recent pullback in the Australian dollar be sustained, we will do even better.

Given the concentration of our reserves and resources, our businesses also require a lower level of capital expenditure compared to our peers. We will continue to aim high and see no reason why we should not be the lowest all-in cost supplier to China. We do not have to reinvent the wheel to achieve this; we just have to do what we already do to the best of our ability everywhere, and maximise availability, utilisation and rate.

Look, I know there has been some commentary on the impact for iron ore prices from the growth in low-cost supply, but let us not forget that this has always been a competitive business. As a low-cost and high-quality producer of iron ore, with a sustainable competitive advantage, we invested more than $25 billion over a decade. These investments were all made on the basis of in-depth full-lifecycle economic analysis. While prices are lower today, the market has developed in the way that we expected. Therefore, to realise the projected investment returns and to maximise the value of our iron ore business, we must operate at the lowest possible cost and fully utilise the valuable infrastructure that we have developed.

Tim will walk you through our petroleum later, but I would just like to highlight a few of the points on which he will expand. We continue to prioritise value over volume, which dictates a focus on onshore US liquids and the preservation of our high-quality dry gas resource. We are also investing in brownfield high-return projects across our conventional business to maintain stable production. In the 2015 financial year, we expect unit costs for onshore US to decline by approximately 10% as our efficiency continues to improve.

In the Eagle Ford and Permian, we are forecasting liquids production to grow at approximately 200,000 barrels per day by the 2017 financial year. Our onshore US business will be free-cash-positive in the 2016 financial year and approach $3 billion per annum by the end of the decade. This is an annualised $5 billion increase over the period, representing growth of more than $800 million in each and every year.

In copper, our projects and productivity initiatives are more than offsetting grade decline. We have numerous high-quality development options that will enable us to increase production towards the end of the decade. We may run three concentrators in parallel at Escondida, once the new concentrator is completed. We have an opportunity to mine the hypogene resource at Spence, potentially adding 200,000 tonnes per annum of production. Our heap leach trials at Olympic Dam are progressing well and could pave the way for further low-cost high-return staged developments for this unique oil body.

We continue to see an attractive outlook for the copper market and, in November, we will provide a lot more details on our unrivalled portfolio of low-risk brownfield development options. Like elsewhere in the business, we have an unrelenting focus on productivity and costs in the copper business, and it is bearing fruit. Escondida unit costs have fallen by 22% in the last two years, and we forecast another 5% decline in the 2015 financial year.

Finally to coal, I have highlighted Queensland Coal's record production and outstanding achievement in reducing unit costs, which has re-established this business as a leader in its industry. All of our existing operations are cash-positive, despite the low price environment, and this demonstrates Queensland Coal's competitive position. Looking forward, we are not investing for growth in our coal business. All of our growth is now from productivity and we expect this focus to yield another 10% reduction in unit costs this year.

Let me now describe how we convert our continued improvement in operational performance to superior growth in shareholder returns. Building on our strategy and purpose, our longstanding capital management framework defines four priorities for cash flow: one, our commitment to maintain a strong balance sheet and a solid A credit rating through the cycle; two, our commitment to at least maintain or grow our progressive base dividend in every reporting period; three, a commitment to invest selectively in high-return diversified opportunities, again through the cycle; and four, a commitment to return excess capital to shareholders in the most efficient way.

We see a solid A balance sheet as a precondition if you want to consistently maximise shareholder value and returns. We test forward projections for cash flow to make sure that, in a low case scenario, we can maintain an A or A2 credit rating. Should this test indicate that we have excess capital once we have paid our progressive base dividend and selectively invested in our higher-return projects, we will consider buybacks or special dividends.

Given underlying volatility, however, we will only return excess cash once it has accumulated on the balance sheet, so that any programme has a high degree of certainty of being completed. This is a consistent and enduring capital management framework. By maintaining our solid A, we achieve three objectives at all points in the cycle: a lower cost of funding, access to markets and sufficient liquidity. History has proven that this is not true for other companies in our industry that flirt with higher levels of debt. We also enjoy, through this approach, access to diverse sources of funding and a well balanced maturity profile that currently averages 10 years. All of this equates to an efficient capital structure for the group.

It is while sitting within the envelope of solid A that we have been able to achieve a progressive base dividend. We are the only company in our peer group to achieve this over the last decade, and our base dividend has grown at a compound annual growth rate of 17%, again superior to the peer group.

Our dividend is a firm commitment, and we will not rebase or lower the dividend should the shareholders approve the demerger implying, all other things equal, a higher payout ratio than the 48% I quoted earlier. Our opportunity-rich portfolio and solid A balance sheet allow us to invest selectively, through the cycle, for value. The capacity to complete major projects and invest in new high-return opportunities, even in periods of extreme volatility, is an important differentiator in an industry characterised by boom and bust cycles. This requires resilience and discipline, and our capital management framework ensures that we consider all alternatives for capital, as we seek to optimise for net present value, IRR, return on capital employed and margin. This rigorous process creates active competition against all possible uses of cash. All businesses and their projects compete for capital against each other, and the ever-present option of buying our own shares.

To our plans, we reduced capital and exploration expenditure in the 2014 financial year by 32% to $15.2 billion. Our expenditure will decline again in the 2015 financial year to $14.8 billion, creating even more competition for capital. If the demerger is approved, we will reduce our investment ceiling to $14 billion. In the medium term, this is roughly $2.5 billion for maintenance capex, $1 billion for exploration, less than $500 million to complete the shafts at Jansen, $4 billion for onshore US and around $1.5 billion to maintain steady production in our existing conventional petroleum business. That finally leaves our major minerals projects in execution and our diversified portfolio of development options.

As we continue to lower our spend, internal competition for capital and the quality of our projects will continue to rise, and this process will drive capital productivity to even higher levels and further differentiate our investor proposition. Given the capital intensity of our industry, both minerals, and oil and gas, the importance of this process should not be under-estimated.

We continue to project an average rate of return in excess of 20% for our portfolio of high-quality development options. As we further improve capital productivity, we can choose either to maintain our rate of investment – the $14 billion I talk about – and create more value or to invest less and return even more cash to shareholders. Our annual capital allocation and prioritisation process plays a pivotal role and it is currently underway. We are working hard to make further significant reductions in annual capital expenditure relative to plans, with no associated loss in projected capacity. This will be a feature of our future presentations.

Our track record over the last decade is impressive. Our progressive dividend remains unbroken and increased at a compound annual growth rate of 17%. We returned a total of $64 billion to shareholders including $23 billion in the form of buybacks, at a price of less than US $25 per share. This generated a total shareholder return of 394% against a FTSE 100 total shareholder return of 105%. It is clear that our strategy and strong balance sheet have worked well for our shareholders. We intend to extend our distinctive track record even in the face of low prices.

BHP Billiton is in great shape. We have many of the best ore bodies in the world. We operate sustainably, looking after our people and our communities. We are successful at increasing volumes and lowering costs, and we are confident that our productivity drive will be accelerated by the demerger, and expect cash flow will be brought forward and enhanced to increase value and secure yield for you, our shareholders.

The key numbers: 23%, the projected two-year growth rate of our core portfolio; $3.5 billion, our minimum target for productivity; $2.3 billion, our minimum cost out target; and 20%, the return that we can exceed by investing in our best projects. These are hard targets. They cause us to inspire the right behaviours and a culture for delivery throughout BHP Billiton, and they also allow you to confidently track our performance and hold us to account.

Mike will now present our views on the commodity markets and provide more detail on our pursuit of continuous improvement.

## 2. Presentation - Marketing

MIKE HENRY, PRESIDENT, HSE, MARKETING AND TECHNOLOGY: Thank you, Andrew. It is a pleasure to be here today to talk to you about a couple of really important topics from a BHP Billiton perspective. One of these is our view on the external factors that impact on our business. The second one, as Andrew mentioned, is our internal drive towards continuous improvement. I will point you quickly towards the disclaimer on any forward-looking statements.

In my first presentation, I am going to focus on how we see global economic development and growth. I will talk about what this means for our commodities, and how we are uniquely placed to resource the future and to create value in the long-term for our shareholders.

Our diverse portfolio and centralised marketing model support our ability to conduct deep analysis into how the world is likely to evolve for our commodities. It is important to note, though, that notwithstanding the fact that we use that ability to develop a very well-researched and thought through central case, we also recognise that the world is inherently uncertain. We therefore test our portfolio and investment decisions against not just the mid-case, but against a range of potential outcomes. We develop a number of plausible future scenarios, which are divergent but at the same time internally consistent. These scenarios take into account key uncertainties, and they can range from technological innovation, to macroeconomic factors, political developments and governance trends. We test our portfolio and individual investment decisions against the range of potential future worlds.

One of these worlds is characterised by protectionism. That is a world in which global trade is constrained by wide-ranging tariff barriers, which negatively impact on global growth. There is another range, which contains another scenario, which is one in which certain regions see a marked improvement in intra-region trade. This supports a stronger global economic outlook.

Recognising the uncertainty that particularly exists with how the world responds to climate change, we also have a scenario in which climate-change-related events and growing acceptance of the science result in increased or stronger growth in both nuclear and renewables. We do not stop there. We further test our portfolio against an even sharper response to climate change, in which energy efficiency and renewables accelerate beyond current, generally-accepted limits to the rate of deployment. Even in this severely carbon-constrained world, our modelling indicates that our portfolio remains robust. This is a function of our diversity, and the fact that in this world we can expect to see better outcomes for uranium, our high-quality iron ore, our high-quality coking coal, potash and likely copper.

Setting aside the divergent scenarios that we consider our portfolio within, we do hold a central view. This view is consistent with what we have spoken about previously. It assumes a degree of volatility in the short term and strong global growth over the long term as the developing economies further integrate on trade and investment. We see the US maintaining its relative position in global growth. China continues to successfully pursue reforms required to support their ongoing shift towards a greater reliance on consumer demand, and India pursues a stronger reform agenda, resulting in improved growth and increasing prominence. Our central scenario yields healthy economic growth, on the order of 4% in the mid-term, solid commodity demand growth, but also ready access to resources, with low-cost supply keeping pace with the growth in demand.

Against that backdrop, the outlook for our products and our portfolio remains very strong. As the industrialisation and urbanisation of the developing world continues, not only will ongoing investment in infrastructure be required to support this process, but the accompanying productivity gains will translate into higher incomes, which will drive even greater relative growth in consumer demand. This will drive resilient demand for things like copper, energy and food, even as demand for steel and steelmaking raw materials begins to slow.

Although this evolution is not a given, and some countries will likely not make the full transition, our view is that in key jurisdictions there are sufficient signs of progress taking place in educational, legal, labour and market reforms, to give us a measure of confidence in our outlook. For example, in China, there are clear steps being taken to re-balance the economy towards consumption. This shift, of course, is critical for sustainable growth and employment. Authorities have been adopting an encouraging degree of resolve in pursuing this aim. In the face of the recent slowing in the property market, the efforts to stimulate growth have been measured. We have also seen resilience in consumer spending, notwithstanding the slowing in the broader economy.

The view that the transition will continue is consistent with the UN's forecast for an increase of 1.7 billion people, in terms of urbanised population, in the middle-income economies in the period to 2050. This will bring with it support for a larger variety of markets and products, as low-productivity work in rural areas shifts to higher-productivity work in the manufacturing and services sectors. The impact of this growth in the middle class can be illustrated by what has been seen historically in other economies. We have called out one example on the slide. The bottom right hand chart shows the increasing penetration of light vehicles as incomes rise. Global light duty vehicle penetration is expected to increase from 150 per 1,000 people to 200 per 1,000 people in 2030. In China alone, it is expected to increase from 80 to 300. That means a lot more vehicles in China are going to be required in 2030, relative to today, equating to an additional 20 million tonnes of steel, 350,000 tonnes of copper and so on – not to mention, of course, the energy required to power them.

It is not just vehicles. People around the world aspire to the same, basic comforts and standards of living that we enjoy. Today in India, less than 10% of households have air conditioners. Our belief is that that is going to increase to 40% by 2030. With each of those air conditioning units requiring roughly 5.3 kilograms of copper and 1.4 kilowatts of power per hour of use, we believe that electricity demand for use of that particular application alone will increase six fold over that period. Over the longer term, agricultural demand will also increase strongly, and this could play a growing role in our portfolio by way of potash, as I will speak to later in the presentation. We have confidence that the transition towards a consumer- and services-oriented economy in China is continuing, as will global growth, and that our portfolio is particularly well-suited to meet the accompanying commodity demand.

With that overall view, let us now turn to a couple of the individual commodity markets. I will start with iron ore, and I will speak initially about where we have been. Through much of the past decade, or decade and a half, we have seen a sharp acceleration in demand for iron ore. Supply initially struggled to keep pace with that and, as you know, we saw a resultant run-up in prices. But iron ore is fundamentally not a scarce resource; there is lots of it in Australia, Brazil, Africa, India and so on. Not surprisingly, the high prices incentivise fresh capital into the industry and, as a result, supply of relatively high-quality, low-cost iron ore has been able to catch up with the growth in demand and then some. That has lead to the displacement of high cost volume off the top-end of the cost curve, and an overall decline in prices. In other words, markets worked the way markets can be expected to work.

What do we see ahead of us? Chinese fuel demand growth is slowing as the economy transitions from investment to consumption. We have spoken previously about our outlook for steel demand in China to peak at between 1 and 1.1 billion tonnes around the early to mid 2020s. An increasing proportion of that will be for replacement steel, as more of the infrastructure and equipment that was added to the economy over the past decade begins to reach the end of its useful life. As the steel contained within it gets released, an increasing proportion of steel production will be met by scrap, rather than the pig iron that requires iron ore. This combination of slowing growth in steel demand, and more of that steel being met by scrap, can be expected to lead to a decline in demand for seaborne iron ore, after it reaches a peak in the early to mid 2020s. This is consistent with the outputs that we have spoken about previously.

In light of this outlook, as Jimmy will explain, over two years ago we committed to maximising returns from our already installed infrastructure, rather than invest in large scale, greenfield infrastructure or resources. As we do so, we can take comfort in the advantages that we have, both in terms of geography as well as geology. We are proximate to tidewater, and close to the North Asian markets where the bulk of demand will continue to reside. We have high quality iron ore that is relatively low cost to mine, and this ensures that we will maintain our margin advantage.

Our metallurgical coal operations have been focused on re-capturing our competitive position. Andrew spoke of the wonderful job that Dean and his team have done, in achieving much by way of embedding both cost and volume efficiencies. At the same time, other suppliers have also been focused on productivity to lower unit costs. There has been an overall compression of the cost curve, and we are seeing displacement of high cost volumes akin to what we have seen in iron ore. As margins have compressed, high cost volume in this market has been a bit stickier than it has been in iron ore. Notwithstanding that we have seen marginal producers announce over 20 million tonnes of production curtailments so far, it is likely that this is going to take some time to be put fully into effect, and for more high cost supply to work its way out of the market.

Over the long term, we expect demand to be supported by steel growth in developing economies outside of China. For example, the Indian growth story is really starting to gain some traction. We have a new Government there that is committed to improving infrastructure and to supporting the private sector achieve sustained growth. Investment in steel capacity in India is gaining momentum, with an additional 17 million tonnes of steel production capacity committed to and to be commissioned by the end of 2016 alone. Unlike in iron ore, India does not have indigenous resources of high quality hard coking coal; they must rely on imports to meet their needs.

We are very well positioned to meet the continued growth in demand for metallurgical coal. Our Queensland Coal assets have high quality, premium hard coking coal, and resources that can support production for decades. They have access to well-established infrastructure, and are in close proximity to both traditional and growth markets. The outstanding work that the team there has done to become more productive returns us to the low end of the cost curve, securing our competitive advantage in this commodity relative to the emerging basins.

Andrew touched briefly on copper; the copper story remains incredibly strong. Demand for copper is expected to rise from 27 million tonnes to 40 million tonnes by 2030. This will be driven by electrical and building construction, which together make up about half of overall copper demand, as well as by the production of consumer goods, including household appliances and automobiles. While China will remain the single most important factor in driving demand, we do expect to see consistent growth in other regions, with China followed by the other Asian countries, Western Europe and the US. Supply, on the other hand, is expected to remain structurally challenged.

The availability of scrap will of course grow over this period. We expect it grow from about 10 million tonnes to 13 million tonnes by 2030. That is not going to be nearly enough to meet the overall demand growth. As such, demand for primary copper is expected to grow by around 10 million tonnes, while production from the existing primary supply base is expected to drop from around 18 million tonnes to 13 million tonnes over the same timeframe. That is going to be driven by grade decline, rising strip ratios, mine exhaustion and curtailment of production at high cost operations. Average cost will also be driven higher by a decline in head grade, greater need for desalinated water and increased ore hardness, which will lead to greater power consumption. The combination of need for new greenfield capacity and more capital, and the higher operating cost, bode well for copper prices longer term.

The outlook for energy is also bright. As the world's economies continue to grow, more people will gain access to electricity and living standards will rise. Energy demand will continue to climb. By 2030, 1.7 billion more people are expected to have access to electricity. We expect demand for primary energy to grow by between 30% and 50% over that time frame. Energy demand growth will of course be strongest in Asia, with China and India making up on the order of half of overall primary energy demand growth over the coming 15 years.

Demand for all of the fossil fuels is expected to continue to grow over this period. This is not just our view; this is directionally consistent with the views of other recognised international forecasting bodies. Even in the somewhat conservative new policy scenarios of the International Energy Agency, demand for thermal coal, whilst it falls as a percent of the overall mix, grows by 25% between the period 2010 and 2030. Global natural gas demand grows by 40%, and demand for oil in that scenario grows by 12%. Just on oil, there is one point I would like to call out: production decline curves are such that apparent demand over that period will actually be in the order of 50%.

Continued global development depends on access to reliable and affordable energy. Connecting new users and improving the quality of electricity supply will support strong global growth in electricity demand.

The chart on the right hand side of the slide gives you a different lens on how we expect both energy demand and supply to unfold. This illustrates our mid-case outlook. It helps to illustrate one of a few factors that will give rise to higher than usual uncertainty in trying to forecast exactly how countries will meet their energy needs, and what the exact energy mix will look like. Energy mix will be determined not just by the direct, underlying economics, but also by how countries shape their response to climate change and by their energy security of supply considerations. The latter will be particularly important in light of the strongly increasing reliance in Asia on imported energy.

It is important to note, though, that we are not fearful of this uncertainty. In fact, just like we test our aggregate portfolio against different scenarios, we do the same with our energy commodities. We believe we have a uniquely strong and differentiated portfolio in the energy space. This both de-risks our portfolio and provides us with valuable growth options under a number of different scenarios.

Finally, I will move onto agricultural demand and fertiliser, or potash. As I mentioned earlier, population growth and greater economic prosperity in the developing world will increase demand for agriculture. At a global level, for example, major grain demand is expected to rise by between 20% and 30% by 2030. That is going to require more arable land and increased productivity, or yields, from existing farmland. However, in respect of arable land, increasing the amount of land under harvest will be a growing challenge, as suitable arable land is already constrained and environment sustainability must be taken into account in some of the more fertile regions, such as the Amazon or other protected areas. In fact, the FAO estimates that, in developing countries, approximately 80% of this growth in crop production to 2050 will come from intensification that is through yield increases or higher cropping intensities.

What does all that mean for potash demand? Potash demand will benefit in the first instance, simply from the growth in agricultural demand, as well as from the increase in required yield. Plants need potassium to grow. As crops are harvested, potassium is removed from the land and at some point it must be replenished. Potash is the primary means of doing so. Potash will also see demand benefit from the ever-increasing importance being placed on yields.

In the longer term, we are confident in the demand outlook for potash. It is expected to grow from between 2% and 3% per annum to 2030, with major crop-producing regions, such as China, India, South East Asia and the US, expected to account for nearly three quarters of this projected growth. Global potash demand saw an approximate 7% rebound in 2013; it is expected to grow by another 9% this year, to about 58 million tonnes.

On the supply side, the market is clearly in over-supply, and is likely to remain so for the foreseeable future, as announced brownfield expansions and the first phase of three greenfield projects are completed in the next three to five years. However, the current suite of brownfield expansions represents the last of the low-hanging fruit. Many of these mines have now reached the limits of shaft or ventilation capacity, and new potash capacity will be required to meet demand around the end of the decade. Greenfield projects, like Jansen, will be very well placed to compete, given that even where a brownfield's expansions are technically feasible, they will be more akin to greenfield expansions because they will require new shafts and associated infrastructure.

With our broad exposure to iron ore, metallurgical coal, copper, the full range of energy commodities and potentially potash, and with a long-life resource endowment in these commodities, we are well placed to respond to changes in demand across a wide range of scenarios. Our core portfolio provides us with decades, and in some cases over a century, of inventory across these commodities, allowing us to choose where and when to expand our operations to maximise value. Our concentrated, largely OECD footprint lends itself well to low-risk,low-cost expansion as demand grows, and to driving world class productivity in our operations, with resultant higher relative margins. This is an unrivalled position.

In conclusion, while we remain positive and confident about our demand outlook, our testing against multiple divergent scenarios makes us equally confident that our strategy and our portfolio are resilient to the uncertainty inherent in trying to call the future. In a continuously evolving external environment, we remain well positioned to continue resourcing the future, and to delivering long-term value for shareholders.

## 3. Presentation - Productivity

MIKE HENRY: With that, I will move quickly into the next presentation, which is on our approach to continuous improvement, something that has shone through, I hope, in our recent financial results. After that, we will then move to Q&A. Again, I will just point out the disclaimer. I am going to talk about the foundation now that we have in place to support our productivity agenda. This includes our culture and the capability of our people, as well as the organisational design, and common systems and processes that define our operating model. You should see this as a bit of a scene-setter for the talks that Jimmy and Tim will give later.

I will outline the five core areas of productivity that we focus on, and what we are doing across each of these to improve performance. The productivity gains that we have delivered to date are only the beginning of what will be a fundamental underpinning to increased shareholder value and returns. As Andrew outlined, in addition to the $6.6 billion of annualised, sustainable productivity gains that we have embedded since 2012, we are targeting at least another $3.5 billion dollars before the end of 2017.

To deliver continuous performance improvement, we first look within. Our scale and quality means that at any given point in time, somewhere across BHP Billiton, we have examples of best practice performance. In the past, identifying and replicating these best practices was impeded by a limited ability to truly perform 'apples for apples' comparisons from one operation to another, and by challenges to our ability to deploy best practices of one team to another because of different work processes, accountabilities, structures, and so on. We have removed these barriers through our operating model. By standardising the processes by which we work and the roles that people perform, we can more readily identify best practice examples and then rapidly deploy them with confidence right across the Group.

Our work on the building blocks that comprise our operating model has been a five-year, business re-engineering process, which we are now starting to leverage. In our five defined areas of focus – equipment, people, supply, capital, and marketing – we have identified the most important drivers and measures of performance. We track these relentlessly.

I will comment briefly on technology. Technology clearly has an important role to play in supporting our long-term productivity drive. However, in the near term our biggest focus has been on simply doing what we currently do, better. We see technology very much as being a further productivity enabler. Most importantly, the work that we are doing to reduce variability and improve performance in our underlying operations will ultimately enhance our ability to confidently and effectively deploy new technologies.

Productivity is also not all about the hardwiring. The world-class capability of our people, and our culture of continuous improvement that Andrew spoke to earlier, are vital to our success. We are committed to a culture with high degrees of employee engagement, where our people contribute ideas, seek to learn from others, and aspire to performance excellence.

To engage our people in a powerfully positive way, we are guided by annual people surveys that track our performance over time and benchmark us not only against resource industry peers but also against global high-performing companies. These surveys allow us to identify and target areas of variability in the quality of engagement at all levels, creating an opportunity to improve quickly through tailored training and development programmes.

The right culture and capability will drive even better safety and productivity outcomes. We do not accept the view that sometimes gets stated – that there is an irreconcilable tension between improved productivity and safer operations. Our survey results indicate that operations with high levels of employee engagement have both a lower total recordable injury frequency and better production performance.

Importantly, sustainable productivity improvement also requires better planned and executed work – which is also safer. There has been a downward trend in our total recordable injury frequency. We reduced that by 9% relative to the prior financial year, to 4.2 injuries for every million hours worked. That is a record low for the company. That record was achieved at the same time as significant gains in productivity and record production.

Our unique operating model defines how we work, how we are organised, and how we measure performance. It is embedded through our common systems. A critical aspect is our organisation design. This is standard across the Group, and ensures clear accountability and deep functional excellence. It is scalable; therefore, spans of control are better managed, such that we always have the right level of supervision and leadership to support our people in working both safely and productively.

For example, at some of our assets and operations we had up to eight organisational levels a few years ago. These have now been standardised to five across all operations. In addition, by removing functional responsibilities for things like finance and HR and instead aggregating these at a higher level in the Group, we have liberated our general managers onsite to focus on the controllable factors that matter most – safety, volume, and cost – without distraction.

An important part of the organisation design is having dedicated analysis and improvement teams across our operations and functions. These teams support the driving of our standard processes and the determination of further opportunities for business improvement – including by leveraging best practices across the Group, as I spoke to earlier.

I will draw out one example here: the Analysis and Improvement team at Mount Arthur Coal. They led a cross-functional team of representatives from production, mine, planning, and dispatch. Through internal and external benchmarking, they identified an opportunity for improvement in waste truck utilisation. Through deep process analysis and collaboration with frontline crews, a range of improvements were implemented – such as improved truck dispatching and the installation of drive through bays to increase the rate of changeover at meal times.

These changes reduced average queuing time by 10%, and achieved improved shift-change practices that resulted in a 4% increase in waste movement in the first and last hours of the shift. The overall result saw an improvement in the utilisation of waste haulage trucks by 6% in 2014. This is significant, because waste haulage is the bottleneck at Mount Arthur Coal.

Our simplification effort is not just in structure, but also in the way we govern work and standards within the group. Our Management Governance Framework cascades into the organisation via our Group Level Documents, or GLDs. These outline the minimum mandatory performance requirements in place at each of our assets. We believe that GLDs, when combined with powerful Group-wide systems and processes, allow us to drive productivity and simplicity. They help us align people across all of our operations around what matters most and what drives value.

As we implemented these, we systematically reduced the number of documents, pages, and performance requirements – by up to 80% in some cases. This drive to simplify our processes and standards has resulted in clearer, simpler accountabilities, enabling our people to focus on the few critical things that further improve productivity.

Let us look at where systems come in. I will start by saying that systems are not everything. In fact, they are not anything without having the right people and the right structure in place. However, when combined with those other elements they can be very powerful. We have a single integrated enterprise resource planning system. This system includes a data governance process whereby all data is entered into the system in a uniform way. This supports our ability to undertake like-for-like comparisons of standard metrics, and ensures that our people are focused on those few things that matter most.

Also important to note is that the system hardwires our organisational design, by ensuring that system access is based on role accountability. Only a planner can plan a maintenance task. Only a supervisor can approve a work order. Our system supports a work management process that has improved the rigour and consistency with which we plan and execute work like maintenance and production. When tasks are planned, they have clear operating instructions or task lists that are captured in the system and are available to the whole organisation. This allows people to identify and replicate best practice.

For example, we now have a central information warehouse of detailed instructions for our maintenance teams to execute their work orders. All of our analysis and improvement teams have access to this warehouse, allowing them to optimise our maintenance activities by standardising, consolidating, and replicating the processes that deliver the best results. One example of this is maintenance performance on our suite of 262 CAT 793F haul trucks, and specifically the replacement intervals for key components of those trucks. When looking at engine replacements we have found that one or more of our sites effectively extend replacement intervals to 18,000 hours, whereas some are still on 12,000 hours.

Having this transparency stimulates action for those who are lagging to replicate the performance of others. This combination of clearly-defined standard structures and accountabilities, standard work processes, and performance transparency, all locked in and supported by a single integrated enterprise resource planning system, is both powerful and difficult to replicate.

I will go onto our first core focus area when it comes to productivity. This is equipment productivity, where we aim to get the most out of each piece of installed capacity and to maximise throughput at the bottleneck. We focus on the amount of time our infrastructure and equipment is available, the amount of time it is in use, and the rate and variability of production. This systematic approach to improving total supply chain capacity from mine to port has supported a 6% increase in total asset utilisation in 2014, which helped to underpin a 9% increase in copper equivalent production.

Maximising throughput at the bottleneck has the potential to add more value than any other process improvement opportunity. At the same time, for processes that are not at the bottleneck we are focused on simply improving underlying operational performance and reducing variability across the supply chain. We benchmark the performance of our equipment both internally and externally, and the transparency of results underpins the pursuit of best-in-class performance.

In 2014 we substantially improved the performance of our mobile loading and haulage fleets, and of our fixed plant. To put this into perspective, we load and haul 3 billion tonnes of material a year, using about 100 large loaders and over 800 haul trucks. This improvement has allowed us to haul an incremental 22% of additional material, on a like-for-like basis, in 2014. It also supported the processing of an additional 14% of ore through our existing plants. Our benchmarking shows that there is lots of further room for improvement. We will be relentlessly pursuing this.

Let me turn to our people. We employ around 123,000 employees and contractors. We recognise that our people are our best resource, and that building a motivated workforce with the right capability and culture will underpin the successful delivery of our productivity targets. With labour costs representing around 40% of our overall 2014 costs, there is still substantial opportunity to add value by improving the productivity of our people.

In 2014, between employees and contractors, we reduced our total labour spend by 10%. We did this through enhancing the productive capacity of our people, optimising the mix between employees and contractors, and ensuring that our people are empowered to focus on the things that matter most. By equipping our leaders and their teams with the right level of training, and by creating a framework that provides access to transparent performance metrics across the organisation, our people and contractors are empowered to pursue best-in-class performance.

In assessing where to use contractors we always consider what the implications are in terms of capability, culture, and our ability to drive performance. In some instances this results in strategic insourcing of activity. You might be familiar with the HWE acquisition that we undertook in our iron-ore operations back in 2011. We insourced a large portion of our workforce, and people turnover has reduced from 30% down to 7% over that period. The greater stability of the workforce supported significant improvement in both safety and productivity.

Internally, we accelerate the development of functional expertise in disciplines of greatest value-add. We have created functional networks, including for maintenance, supply, and capital, which have been prioritised on the basis of spend and flow on impact. These forums bring together senior-level representatives from each business and are sponsored by one of the members of the GMC. They have very narrowly-defined agendas. First, to identify, replicate, and codify best practice, and secondly to help us build the right capability to rapidly deliver performance improvement.

I will move on to supply. Supply, or procurement, is unsurprisingly one of the largest potential areas for potential productivity gains. We buy around $22 billion worth of goods and services annually. We leverage over 40,000 suppliers across 2.5 million transactions. We have procurement-related working capital in the order of $6 billion dollars – that is for inventory and payables. For the most part, this operating spend is managed by our assets. However, in the case of our more material categories of things we are purchasing, we do this through a centralised procurement function.

The two focus areas for supply productivity are procurement savings – this means both negotiated savings and reductions in total cost of ownership – and working capital optimisation. Procurement savings of $1.6 billion have been achieved over 2013 and 2014. We are targeting further gains in 2015. This is not just about negotiating harder with our suppliers; we have also sought to increase competition by broadening out our spectrum of potential suppliers. For example, we work with suppliers in non-traditional procurement jurisdictions like China to help them understand how to meet our high standards, both on initial sale and in terms of after-market activity.

Overall, we believe that there is an opportunity to double our procurement from non-traditional jurisdictions to $750 million per year – or, roughly 4-5% of our controllable spend. We believe we can do so while achieving savings of 10-30%. We are targeting multiple opportunities to reduce our working capital balances, to ensure our balance sheet is as productive as possible. Since 2013, we have improved our payables balances by increasing our weighted average payment terms from 19 days to 25 days. This approaches a $1 billion improvement in working capital.

The group holds $2.1 billion in operating spares and consumables inventory. We are targeting to reduce this through improving stock turns from 1.1 today to the benchmark of 1.5. This will deliver a further reduction in inventories of $660 million.

Let us turn to capital productivity. Andrew referenced this a little bit earlier. I will specifically focus on major capital productivity. Our focus here is on four things: selecting the right projects; executing them in a highly predictable way; executing them as efficiently as possible – in other words, getting the most for every dollar that we spend; and finally, retaining a balanced, diversified portfolio, optimised for IRR, NPV, ROC, and margins, as Andrew mentioned.

I will first comment briefly on the second of these four things, predictability. This is an area where we have seen great success over the past five years. In the period following 2009, we took a number of steps to improve predictability of our project delivery. These measures included the implementation of project hubs, where we brought together resources in a few major locations to better enable continuity and the building of capability, and to better allow us to implement better project practices. They also included changes to our governance processes, and specifically increased governance during the execution phase. The results speak for themselves.

We have seen an average pre-2009 cost overrun of 23% eliminated, and variability in performance has dropped by 65%. All of this indicates project processes that are in better control. Similar improvements were seen in schedule predictability.

However, significant opportunity remains in outright capital efficiency. Andrew spoke about the increased competition for capital so I am not going to dwell on that too much, other than to reinforce that it has had a profound impact by stimulating sharper focus on scrubbing projects. It has also forced us at the group level to be even more deliberate in the decisions that we are taking.

We have also made a number of subsequent changes to project governance, including changes to early toll-gating to ensure that we can decide early on whether to invest significantly more time and money in developing a given project. By bringing this combination of sharper competition, enhanced capability, and better governance to bear on our portfolio of capital projects, we will see markedly improved returns. We are already seeing this. Andrew mentioned earlier that the average rate of expected returns on our preferred projects is now in excess of 20%.

The final productivity category that I mentioned earlier is marketing productivity. Our effort here is focused on the things our marketing organisation can do to support the unlocking of value from our world-class resources. It is focused on our supply chains, and it is focused on the efficiency with which we execute the sales and purchase functions. To give you a sense of what we are talking about, marketing is accountable for $67 billion in sales, raw materials purchases of around $4 billion, shipping and distribution costs of another $4 billion, and a working capital balance of around $3.4 billion.

Our ability to maximise unit prices is underpinned by the centralised nature of our marketing organisation, where insights and practices can be readily shared across teams. We also bring deep, technical capability to bear in understanding the value-in-use of our products. We seek to ensure that markets operate in a way that allows us to capture the full value of our products, including by way of quality-differentiated pricing.

On the operating costs front, our common systems and centralised standard marketing structures support our ability to benchmark performance between teams and to replicate best practices. That has allowed us to reduce costs for the marketing organisation from $31 per copper equivalent unit in 2012 to $22 per copper equivalent unit last year. We are on track to achieve another 20% reduction in the coming few years.

In terms of working capital reductions, we have deliberately gone about restructuring our supply chains and optimising our sales books in order to sustainably liberate working capital. Since 2012, we have reduced debtor days from 25 to 21 and marketing inventory days from 15 to 6. This is equivalent to well in excess of $1 billion of cash that has been liberated to be deployed elsewhere in the organisation, and there is more to go.

The area holding within it the greatest potential value-add is the role that marketing plays in helping the businesses to unlock the true potential from our upstream resources. A great example of this is our deep understanding of value-in-use. Historically, we plan resource extraction against a set of hard and fast quality cut-off grades. We now have the capability to engage in penalty-optimised planning of our resources. In other words, we model and plan resource extraction against a set of time-based penalty curves. In doing so, we are now better able to optimise between price, volume, and cost for value. In 2014 this allowed us to ship an extra 3 million tonnes of iron ore that would otherwise not have been produced and sold.

I have brought you inside how our common systems, standards, structures and processes have improved our level of operating discipline and productivity. But what does it all mean? We have generated more than $6.6 billion dollars of sustainable, productivity-led gains in two years, including $2.9 billion of volume and cost efficiencies in 2014. Our commitment to increased productivity is a continual process. It will drive growth in free cash flow and shareholder returns, even in the absence of higher prices. As we concentrate our effort on 12 operated assets and seven joint ventures in our core portfolio, we will be able to improve productivity even more quickly. Within our core portfolio, with greater focus we are now targeting at least another $3.5 billion of productivity gains by the end of 2017.

Thank you.

## 4. Presentation – Iron Ore

JIMMY WILSON, PRESIDENT, IRON ORE: Good morning, everyone. Following a successful investor tour of our Western Australia Iron Ore operations just a couple of weeks ago, I am pleased to be in London to share with you our exciting business outlook.

As Andrew mentioned, we are fully accountable to our owners for the performance of our business and the delivery against our plans. As such, today I will reiterate the key targets, against which I am sure you will track us going forward. As usual, please take note of the disclaimer.

Before I progress, it is worth pausing briefly to reflect on the iron ore market and how we have positioned ourselves for success against this backdrop. As Mike mentioned earlier, supply growth is currently outpacing demand growth for the first time in a decade. The majority of this new supply is relatively high quality and relatively low cost. This has resulted in a flattening of the cost curve with an associated reduction in iron ore prices. We anticipated this transition. Over two years ago, we made a commitment to maximise returns from our major supply chain investments. We currently have no major projects in execution and we have sustainably and relentlessly pursued productivity ever since.

Our production has grown significantly and we have refocused our business on productivity, cost reduction and capital efficient growth. For the remainder of this presentation, I will focus on: our commitment to value, safe and sustainable operations above all else; what makes our resource base the strongest in the Pilbara and why this is a distinct competitive advantage; how our relentless focus on availability, utilisation and rate is lifting performance across all areas of our integrated supply chain from mine to rail to port; our confidence that this approach will drive unit costs, before freight and royalties, to below $20 per tonne in the medium term; coupled with our low sustaining capital expenditure, this underpins our aspiration to become the lowest all-in cash cost supplier of iron ore to China; and our plans to grow our supply chain capacity by 65 million tonnes to 290 million tonnes per annum, at an exceptionally competitive capital cost of approximately $30 per annual tonne.

At BHP Billiton, we have a shared belief in a common set of values, as articulated in our charter. Our first value is sustainability. At Iron Ore, the team is unwavering in its commitment to prioritise safety over production aiming for 10 safety conversations for every production conversation. We have seen a substantial reduction in total recordable injury frequency rates over the long term, and our recent safety performance has improved again with a 19% reduction year-on-year reduction from 6.5 in FY13 to 5.3 in FY14.

Over the past five years, Iron Ore has contributed 22% of BHP Billiton's production while delivering 46% of its underlying EBIT. The five-year underlying EBIT contribution of $57 billion came at an EBIT margin of 59%. Over the same period, $22 billion was invested in the Iron Ore business and an average return on net operating assets of 66% was achieved. Iron Ore remains one of BHP Billiton's key pillars.

In recent years, we have significantly improved our understanding of our Pilbara resource base. Through a systematic programme of work, our Pilbara mineral resource base has tripled. Currently, we have resources of 23 billion tonnes inclusive of reserves of 3.7 billion tonnes. While our current focus is to increase resource definition around our existing hubs, in the longer term our exploration targets could add substantial tonnage of high-quality resource in close proximity of these hubs. It is this phenomenal resource endowment that will support our business for over 100 years.

While size is critical to the longevity of our operations, it is the characteristics of our ore bodies that set us apart. From a cost perspective, our resources are concentrated around our major hubs, have a stable average strip ratio of just 1.3 and support operations that are predominately above the water table. In addition, we have a suite of high-quality products such that we can maintain our lump percentages at 25% of total product mix and have the ability to maintain our high-quality product specifications for decades to come.

What does all this mean? We can deliver the high-quality products that our customers want through our existing hub infrastructure at a low operating cost. This concentrated resource endowment also means that we do not need to develop a major mining hub to sustain production for at least 30 years.

Achieving flow, synchronisation and balance across each part of our supply chain is critical to optimising the performance of the whole. In terms of flow, our simple objective is to ensure that we have the right product at the right place at the right time. With synchronisation, we ensure that the planning and scheduling for the various components of the supply chain are seamlessly coordinated. Lastly balance makes sure that we are matching equipment availability at key supply chain interfaces to improve the consistency of operations. Our integrated remote operations centre (IROC) has been instrumental in driving this whole-of-system-approach.

I will now move to the key components of the supply chain – mine, rail and port – and explain how our relentless focus on availability, utilisation and rate is increasing operational performance. At the mines, reclaimers and train load-outs are critical to supply chain performance. Our centralised approach to shutdown maintenance has allowed us to reduce shutdown frequency and hence increase availability. For our ore handling plants, we have achieved a 9% increase in utilisation and a 12% increase in processing rate. These results have been delivered by identifying and alleviating ore handling constraints through minor modifications, such as changing screens and increasing belt speeds. The net result has been an uplift in plant capacity.

Moving to our rail network, we have enhanced availability as a result of focusing projects to improve track integrity. Through improved scheduling, we have seen a 28% improvement in the number of train departures each day, coupled with a 23% reduction in travel time, both of which have raised the utilisation of the network. In terms of railing rate, we have changed our braking profiles and significantly reduced the number of speed restrictions, which has improved rail safety and speed. Essentially, we are sending more trains down our track and those trains are travelling faster through the network.

At the port, we have an intense focus on increasing the availability of our car dumpers and shiploaders. Through an improved approach to car dumper maintenance, we have seen a 50% reduction in electrical delays over the past 18 months. Our focus on regular train presentation at car dumpers has contributed to a 21% improvement in dumper utilisation. We have also seen an improvement in shiploader utilisation through improved ship sequencing and presentation at our berths. Our focus on direct-to-ship loading of our product, where we bypass our stock yards, has enabled rate improvements. Further rate improvements are envisaged from the Inner Harbour debottlenecking project, which I will say more about shortly.

As part of our productivity focus, we have a disciplined and focused technology agenda, which we will leverage to accelerate our push to 290 million tonnes per annum. We have already discussed the supply chain benefits that have been unlocked through the use of IROC. Other key technology enablers for the West Australia Iron Ore operations include autonomous haulage, autonomous drills, train automation and smarter exploration tools. Importantly, the BHP Billiton operating model that Mike spoke about earlier ensures that the work that we do can be leveraged across the group at scale and, as we continue to share learnings, we also learn from the other businesses.

Ultimately, the benefits of our productivity agenda will be measured in dollars and cents. We are already making progress in reducing our cash costs, which declined by 12% in the second half of the 2014 financial year. Looking ahead, we see no reason why we cannot drive cash costs, excluding freight and royalties, below $20 a tonne in the medium term. The resource advantage that I referred to earlier will also allow us to sustain our business by investing at an average annual rate of approximately $5 per tonne, across our five-year plan. In combination, through this reduction in unit cash costs and our relatively low rate of sustaining capital expenditure, we aim to be the lowest-cost supplier to China on an all-in cash cost basis.

To ensure that such a significant reduction in costs is sustainable, our plans have been built from the bottom up. Approximately a quarter of our targeted unit cost reduction is as a result of volume dilution as we move towards 290 million tonnes per annum. However, the vast majority comes from absolute cost reductions split across our mines, rail, port and other business overheads. As we seek to systematically reduce our costs, there are three key areas that we are focusing on. These are three of the five that Mike mentioned earlier.

The first is equipment productivity, namely improving the availability, utilisation and rate of our equipment. I have covered this in detail already. The second is supply productivity, through which we plan to reduce our external spend by approximately $1 billion per annum by financial year 2017. There are several levers we can pull in this regard. It is generally assumed that supply productivity is simply securing price reductions through contract negotiations. This is of course vital, but it is only one element. Beyond this, across each major category of expenditure, we are looking to optimise our processes such that we can reduce demand for consumables and rely less on contractors. The third area of focus is people productivity. Here once again to some of the points that Mike mentioned, we have been able to leverage improved people productivity outcomes from the implementation of our common systems and our standard organisational design.

Our disciplined delivery of growth projects over the last decade has delivered outstanding growth and is now providing a strong foundation for additional volumes through equipment productivity. Delivering the Jimblebar project ahead of schedule in combination with our sharp focus on equipment productivity resulted in a 14th consecutive annual production record in the 2014 financial year of 225 million tonnes on a 100% basis.

Our full-year guidance for the 2015 financial year is 245 million tonnes, again on a 100% basis, representing growth of another 9%. Beyond financial year 2015, we will continue to grow our business by increasing equipment productivity and by pursuing a series of no-and very-low-capital debottlenecking projects across our supply chain. In doing so, we expect to add around 65 million tonnes of supply chain capacity at a capital intensity of approximately $30 per annual tonne. This will take us to our aspirational run-rate of 290 million tonnes per annum towards the end of the 2017 financial year. Let us take a look at how we will deliver this in a little bit more detail.

Starting from our 2015 financial year baseline of 245 million tonnes, our first step will be to raise the capacity of our mines without the need for any major fixed plant investment. This will take mine capacity towards 275 million tonnes. 10 million tonnes will come from Jimblebar by simply adding mining fleet. A further 8 to 10 million tonnes will come from Area C and Newman as we continue to improve equipment productivity. Our dual track is capable of supporting this uplift, so the bottleneck will progressively shift to the port.

There are two key components in the second step that will take us to 290 million tonnes per annum. Importantly, both have a very low capital cost and are subject to board approval. The first component is focused on debottlenecking at the port through discrete equipment upgrades. The second component relates to the addition of a primary crusher and mining fleet at the Jimblebar hub, which will take its capacity from 45 to 60 million tonnes per annum.

In summary then, the planned growth to 290 million tonnes per annum will come from our existing mine, rail and port asset base with discrete high IRR growth-related investments made at Jimblebar and the port. It specifically does not require a new mining hub, additional car dumpers or shiploaders.

In conclusion, we remain committed to safe and sustainable operations above all else. Our resource position is a distinct competitive advantage enabling sustained delivery of a high-quality product at low cost from our existing mining hubs over the long term. We are maximising the return on a decade of supply chain investments through a sustainable and relentless focus on productivity across our integrated supply chain. We are targeting FOB unit costs of less than $20 dollars per tonne at WAIO in the medium term, and anticipate a relatively low requirement for sustaining capital of around $5 per tonne. This, combined with the lowest cost expansion opportunity in the industry to 290 million tonnes per annum, will truly deliver outstanding returns for our shareholders.

With that, I would like to thank you all very much for your attention and hand over to my esteemed colleague Tim Cutt who will talk about our Petroleum business.

## 5. Presentation – Petroleum and Potash

TIM CUTT, PRESIDENT, PETROLEUM AND POTASH: It is great to be here in London today to speak to you about our Petroleum business. I do have any slides on potash, but I will answer questions on potash at the end. Again, I will point you to our disclaimer.

I do not plan to read all of the key themes, but I want you to come away with three important points. Our Petroleum portfolio is underpinned by high-quality large assets, in both our conventional and non-conventional business. This next point is probably the most important: our shale portfolio is poised to deliver strong growth in free cash flow, moving forward. Finally, we are managing our portfolio to maximise value for our owners.

Let me just detail the portfolio. Andrew has talked a bit about the world-class nature of our earnings for the company, but you can see that Petroleum continues to deliver about $6 billion per annum. Petroleum's portfolio is large and high quality, as I mentioned. Very importantly, cash flow is poised to grow significantly as our shale business becomes free-cash-flow-positive next year. We have a robust resource base of approximately 12 billion barrels of oil equivalent. The core portfolio is in the US and Australia, where we have a strong and long history of producing in stable fiscal regimes. Approximately 90% of our 700,000 barrels of oil equivalent per day comes from these two regions. I have highlighted Trinidad and Tobago on the map; I will talk to you about those shortly. We hope that, in the future, that also becomes a core producing basin for us.

I will just touch on the conventional business. Australia and the Gulf of Mexico will continue to be stable producing regions for the foreseeable future. You can expect that we will continue to invest about $1.5 billion per annum to maintain this steady production. It goes to a few places. It consists of field extension projects in Bass Strait, in the North West Shelf, and we continue to do infill drilling at our important assets in Shenzi, Pyrenees, Atlantis and Mad Dog. All of these projects are delivering returns in excess of 50%.

You know that our exploration programme has not delivered substantial returns over the last 10 years. We have refocused the programme. Our exploration programme is now primarily focused on liquid-rich basins with tier-one potential. We have established clear criteria for the exploration programme. When I talk about Trinidad, you will see that we check off most of those boxes. The completion of the seismic will help us to understand a few of the rest. Our core offshore conventional exploration programme remains the Gulf of Mexico and Western Australia. We have now moved into Trinidad and Tobago with a substantial programme as well.

We have a long history in the deepwater Gulf of Mexico, and understand the geology well. The deepwater Gulf of Mexico sits within a world-class hydrocarbon super-basin that has delivered over 300 billion barrels of oil equivalent from both the US and Mexico. I will talk a bit more about that basin in a minute. In Western Australia, we are leveraging our expertise in the region to evaluate liquid-rich opportunities. I will provide a bit more now on Mexico, and Trinidad and Tobago.

I am personally excited when I think about Trinidad and Tobago, and the position we have put together there. In the late 1990s, we established operational presence in the region with our shallow water Angostura project, which continues to produce today. Very importantly, we have now established a first mover, and that was one of our criteria, deep water position with greater than 70% working interest. This is one of the last, large deltaic river basins yet to be explored in the world. It has characteristics very similar to both the Niger and the Mississippi River delta basins. It contains world class source rock, large traps, and the opportunity is supported by acceptable fiscal terms.

We have accessed a large acres position, and we are actually running the largest seismic shoot ever executed by an IOC anywhere in the world. It's about 17,700 square kilometres. To put this into perspective, our acreage in Trinidad and Tobago is already twice as large as our entire position in the Gulf of Mexico region. We plan to begin drilling in 2016, and as I mentioned, we are excited about the possibility of turning this into another core producing or heartland business for the company.

I will just point you quickly to the image in the bottom right. It is about the metric map of Blocks 23A and 14. It is basically a topographic map of the bottom of the ocean floor. Importantly, you can see on the right, it looks like bubbles, positive seabed indications. We see these in both the Oligocene and the Miocene clay, and natural seep such as this has been a great indicator of hydrocarbons since oil was discovered in Trinidad and Tobago back in the 1800s, so we remain encouraged. It is very important though that we have to wait to get too overly excited until we finish off the seismic. We will start getting good data in early next year and we will be able to provide updates at that time.

Mexico has recently approved historic energy legislation that has brought unprecedented changes to the MP investment climate. This new legislation has increased industry confidence in the framework under which Mexico's up-shoring sector will operate. In September we were in Mexico, and we saw a memorandum of understanding. This enables us to exchange data and knowledge that we can evaluate prior to the events of the first round of bidding.

The Gulf of Mexico basin, and that is the super basin I described really as our backyard. We are proving, development and operating capabilities in the deepwater Gulf of Mexico, and now the onshore shale. If you look at the map you can see included in that super basin is the Eagle Ford and Haynesville. That is actually the source rock for the entire basin, so we produce from that source rock that feeds into Shenzi, Atlantis and Mad Dog. That same source rock underlies the Gulf of Mexico goes all the way down to Trinidad. We understand the geology here; we understand the basin.

If you look a little closer into the Western Gulf of Mexico, moving down into the Mexican waters, the Perdido plays an extension of the geology in the US Gulf of Mexico deepwater, where we have the deep expertise and a strong acreage position. The other thing I would just point out on the map briefly is the green blocks. Those are blocks that the Government will bring forward, and be offered at round one for bidding. That will commence, we hope, early next year.

The last thing that is extraordinarily important to understand in this is the fiscal terms have not been published. That is going to be keenly important for us to understand investment competitiveness with our global portfolio.

BHP Billiton has a long history in the petroleum industry, and our roots go back, as most of you know, to the 1960s with the discovery of Bass Strait in south-eastern Australia. We have been actively developing and operating large scale assets and projects for decades. Most recently, as you all know, we have moved into the onshore shale, and we are now developing some of the bigger fields in the US onshore. The timeline just highlights some of the projects we have done and delivered to the industry over the last 20 years.

We have a proven ability to build and operate both onshore now, and offshore, including the deepwater, and we are well positioned to deploy this expertise for technical project management and also operating expertise in Trinidad and Tobago, we hope, potentially Mexico, and other opportunities around the world. We are one of the few companies that carries both the expertise and the agility we have to work in both the onshore and the deepwater offshore, and we hope to leverage that expertise.

Now these are two of the projects, I think there was a question earlier that Andrew said I would mention – potential growth projects that fill in some of that capital wedge, and these are just under evaluation at this point. Let me talk about both Mad Dog and Scarborough. Mad Dog, we are working to develop one of the largest discovered undeveloped reservoirs in the Gulf of Mexico. The partnership is now aligned on a semi-submersible subsea development concept for phase two, and we had a lot of influence in that discussion. And the project is expected to reach final investment decision in 2016. Scarborough is a complex project, and we are in the early stages of the project development. We know this is in Western Australia, a very large gas resource discovered a number of years ago, but now we've progressed to the point where we are confident in this technology and the commercial viability of the development. Very importantly, we have now received environmental approval. We are aligned with the operator ExxonMobil, but Floating LNG is a lead development option at this time.

Let me shift gears into our shale business. We have a premier position in four Tier 1 unconventional players in the US. Two are gas, and two in the liquid-rich. We continue to focus on the development of our liquid-rich opportunities in the near term, and we expect a 50% growth, as Andrew said, in our liquids production, during the financial year.

Early in last year's financial year, in FY14, we lowered our rig count. I will just point to the chart in the top right. We lowered from about 44 rigs down to 25, and we refocused from a balance of gas and liquids down to a primary focus on liquids. This was important from several different perspectives. Probably the most important thing was the fact it got to us a pace that was manageable and we could start driving up productivity improvements. That was lowering from the 44 to 25. But just as importantly, you look at the balance between gas and oil. We continue to develop the Black Hawk, that is in the green in the middle there, at the same pace. We slowed down a little bit in the Permian to make sure we were in the very, very best spot, but then in the Permian you can see we continue to grow back to about five rigs now, and we had anticipate by FY18 we would be back to 14 rigs in the Permian.

Where did we move out of the gas? We moved out of the Hawkville. You can see that in the salmon or the pink colour, and we brought that down. We are still drilling with three rigs in the Hawkville, but they are primarily in liquid-rich regions. Finally, I will talk about the Haynesville, one of our best assets, in a minute. We did pull back there also, but primarily to take the time to focus on the completion technology. We have seen huge improvements by focusing on that technology in both the Permian and the Eagle Ford. We are doing the same now in the Haynesville.

At the bottom of the page you can see the potential growth in free cash flow. You can see it two years ago, minus 3 billion, moving to minus 2 billion, and we project by next year we will be positive in free cash flow. We are very pleased to reaffirm our plans to deliver 200,000 barrels a day of liquids by FY17 from the combination of the Eagle Ford and the Permian.

Now let me get into a little more detail on productivity improvement. This has been an exciting journey for us, and we are doing well. You can see in the chart on the top right we have reduced our drilling times by 21%. That has been important, but by reducing the drilling time and improving our drilling practices, we have achieved substantial cost savings. If you come down to the chart on the bottom right you can see each of our fields and that improvement journey that we are on. In the Black Hawk, if you go back to the beginning of FY13, we were drilling at $5.5 million per well. That has come down to about $4 million a well, and the dots on these charts are the best wells we are drilling now. In the Black Hawk we are getting very repetitive at $3 million per well.

I would also point to you that in the Permian we are drilling at about $7 million. Just about a year and a half ago we brought that down to an average of $5 million, we are now repetitively drilling at $4 million a well, and we continue to drive that lower. Also, it is very important to focus on our completion cost; it is about half the cost we spend on the drilling completion. We expect in FY15 to bring our completion cost down by about $1 million per well in the Eagle Ford for the year. And you can imagine when we plan to drill about 2,100 wells over the next five years, a substantial reduction in these well costs in both the drilling side and the completion side will add huge financial viability to our shale portfolio. We think all of this will be repeatable in all of the areas, and I'll talk in a few minutes about Haynesville and what we are doing there.

The next aspect of productivity for us, and Mike did not really talk about this much, but it is super important for the shale business; is it about how much we recover out of each of the wells we drill. You can look at the chart on the top right, and it is basically the footprint of the Black Hawk. The wells in the grey are the competitors; thousands of wells drilled in this area, and the orange dots are our producing wells. You can see the Black Hawk is fairly narrow, it is about 20 miles across, probably 80 to 100 miles long. We are in the sweet spot of that reservoir. That helps us, but we have a lot of competitors in that same spot and we are competing heads up on that.

If you go to the chart on the bottom, I think this is critically important to talk about. Many of our competitors talk about initial rates, which are important. They help us understand where this will ultimately go, but it is not the most important thing. Most of the value in the shale business is delivered in the first three to five years of production, and we watch this very closely, and we see how we do against our competitors.

In the Black Hawk region you can see that we produce almost 500,000 barrels equivalent, it is actually 468,000 barrels in the first three years of production. When you compare that against our competitors, we are about 250,000 barrels equivalent ahead of those competitors. Now, all of us are getting better. You can see the competition move up, will continue to move up, but it is critically important that when we started three years ago we were in a good space, and every year we continue to get better against this.

Applying the same completion technology across all of our shale assets is critically important. We are doing the same thing in the Permian. We slowed down to understand this; we slowed down to understand the sweet spot and now we are doing the same thing there and we think we have the right solution. I will talk again about the Haynesville; we are doing the same there.

So now let me dig in a little bit deeper and talk more broadly about the Black Hawk. Black Hawk is a very significant asset for the corporation. It is currently the most desirable liquid play in shale anywhere in the world. You saw from the previous chart we sit right in the heart of that play. 75% of our onshore drilling and development expenditure for FY14 went into the Eagle

Ford. As a result, we are currently a top producer. If you look at the chart on the top right, we do not have the competitor data to September, but we continue to grow. In fact we just reached 213,000 barrels a day equivalent with our partner, Devon, over the last few months. That will continue to grow moving forward.

With this very high percentage of condensate, current market conditions – and when I say that a few times in the presentation I am talking as of the end of September – we were delivering EBITDA margins of about 75% from this great asset. Back to the point of initial rates, we produce about 1,040 barrels a day initially from the Black Hawk. Our competitors do higher than that; we do not see that as the highest metric, the best metric to study, and we focus on these cumulative rates and the maximum ultimate recovery.

At the end of FY14 we had 284 wells producing out of the Black Hawk. We are going to deliver another 120 net wells this year, and with over 800 drilling locations at this point, and we hope that can grow with time, our current development plan has a lot of running room. I talk about the Black Hawk, and I have only talked about the drill wells. We do see upside potential in many of our fields for re-fracking and coming back into these areas and making sure we get ultimate recovery from the overall resource.

Now let me move to the Permian. The Permian is an emerging play for the unconventional liquid production, and we have a strong acreage position. I just talked to you about the Black Hawk and how substantial that is. We have 58,000 net acres in the Black Hawk. Over the last year we have increased our position in the Permian in what we call the sweet spot for us, about 25%, and we now have 74,000 net acres in the Permian. We have more acres in the overall basin, but we are focused in certain parts of the Permian. We are a leader in the appraisal of the Wolf Camp, with more than 75 wells drilled. The appraisal programme has identified a focus area that I talked about, and we are building towards full development. I have already mentioned that we will build that out from five rigs today to about 14 rigs in FY18.

We are delivering consistent and very encouraging results across multiple wells, so that chart represents about 42 wells, I believe. This area is expected to yield 70% liquids and produce internal rates of return of greater than 30% at current commodity prices. At our current development plan we have 650 gross wells, but this may grow as we add to our acres position.

Great news; production is as planned, and we reaffirm our plans to build at least 100,000 barrels a day business by the end of FY18. It is important to note that there is an additional upside in the Permian field. This is a huge stack resource system; we are focusing right now on one part of that system. We have upside hopes for other parts of the system, and we continually appraise the entire system.

Let me move now into the Haynesville. The Haynesville is the premier dry gas asset in our portfolio, and one of the most prolific shale gas assets in North America. We have a vast acreage position in over 235,000 net acres, and we do have the majority of the acreage in the sweet spot. If you look at the map on the bottom left you can see the large area. In the overall play we believe we will have recoveries of at least six to 12 Bcf per well, and in the core we expect eight to 12 Bcf from the sweet spot.

Today's gas price forecast, these wells generate at least a 25% rate of return. Our focus in the near term is to improve that. If you look at the chart on the top right you can see what we've done. This is actually the chart, I believe, that had the 42 wells, not the previous chart, but about 42 wells in the Haynesville. You can see the decline rates over time, and we were not satisfied with those decline rates in the cumulative production we were seeing, and so we've done the same thing here that we've done in all the other fields. We've gone back and looked at the combination of things that would recover the most gas from the field. And you can see the last wells we have drilled most recently in the orange, there are two things that are important to look at.

We are starting off higher, so we know the ultimate recoveries will be better, and our decline rates are shallower than what we saw in the previous wells. So we are very excited about this early data. We are going to continue to do this, and we would expect over the next five years we would start moving into a full development of the Haynesville.

One important thing to note on the Haynesville economically is the EBIT and cash flow from the Haynesville has been depressed by legacy pipeline commitments, but these commitments will roll off in the next few years, so expect the financials for the Haynesville to rapidly improve.

As I mentioned at the beginning of the presentation, we have nearly 12 billion barrels equivalent of petroleum resources. You can see that although the liquid-rich portion of those resources continues to grow, we have a disproportionate amount of gas in the asset base. To improve the liquid mix I have talked about a few things, primarily extending our liquid rich runway in the shale business through acreage optimisation and also acquisition. Our exploration programme is now very focused, and focused on tier one liquid-rich basins, and we are divesting the smaller, more mature assets.

Let me talk to our unconventional gas. In the two big gas players we have talked about the Haynesville and the Fayetteville. We plan to fully develop the Haynesville Field. We are moving towards full development now, and we will be in full development during the five-year plan. As you saw this morning, we have announced the initial marketing of our Fayetteville asset. It is very important to be clear that we will only pursue divestments if we can achieve full value for our owners.

Let me sum it up. I hope you have an enhanced appreciation of the quality of BHP Billiton Petroleum's overall asset basin portfolio. I hope I have also demonstrated that by slowing down our development and deployment of rigs in the Onshore US, shifting to liquids and applying our productivity agenda to drilling costs and optimising recoveries, that we are truly operating with a strategic approach of value over volume.

Lastly, BHP Billiton, as one of the leading natural resources companies in the world, is also one of the leaders in technology application in the exploration and production space, and it is this very core competency that will ensure maximum value creation for our shareholders. Thank you very much.

## 6. Closing Remarks

ANDREW MACKENZIE: There may be a few wrap-up remarks. There were a couple of things that came up during the coffee break. One or two of you asked me about what we really meant by capital. I will just repeat it as it relates to FY16. Our process for that normally takes the better part of six months from now. It is a tradition that we normally come out with our formal thoughts on what it is going to be when we do our full-year results. However, I am confident, with the progress that we are making, that we will be able to give you some early insights into what is going to happen. So when we come back in November we will say a bit more. It will be less than 14 billion. By how much, I do not know yet. We will wait and see. We will probably not be spending up to our 14 billion dollar previously-announced ceiling.

A number of you also commented to me in relation to Mike's presentation that some of the productivity comments were what you would expect if you were hearing a presentation from an advanced manufacturing company. That is exactly what we are doing; we are applying the kind of rigour – with all the various probability distribution functions and so on – that you would expect from somebody who was trying to run a very highly tuned manufacturing operation.

This is massive for us, and for the company. We have not yet started to see any slowing in our ability to save more costs and continue to drive our unit costs down through getting better and better at this. Again, we will continue to update you on that as we go forward. Today we have provided you with an update on our business. We are going to follow up with copper and coal in November. We are also going to talk more about capital, and the way in which we are going to simplify and add to the productivity we talked about, relating to the BHP Billiton core portfolio minus new coal.

Allow me to reiterate our key numbers. 23% is the projected two-year growth rate of our core portfolio. $3.5 billion is our minimum target for productivity. $2.3 billion is our minimum cost out target, and 20% is the return that we can expect by investing in our best projects. The company is in great shape. We are delivering on our commitments and continue to do what we say we will do. I am personally focused on the things we have discussed: simplification, productivity, and above all the translation of them into returns – and ultimately into returns to you.

The simplification we will achieve from our proposed demerger will further underpin this drive and our productivity targets. It will increase and maximise the utilisation of our installed infrastructure and deliver additional growth in our company, and yield to our shareholders.