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Coal briefing
Investor and analyst call

17:15 AEST, 21 June 2016

Introduction

ADRIAN WOOD, BHP BILLITON: Thank you, Valerie, and thanks everybody for dialling in to today's briefing. I'm joined here in Melbourne today by Mike Henry, President Operations for Minerals Australia. We also have Rag Udd, the Asset President of BMA, and James Palmer, the Asset President of the New South Wales Energy Coal, BMC and IndoMet. We also have Rob Clifford from BHP Billiton Investor Relations on the line in London. Mike is going to provide you with an overview of our coal business and then he will take questions from the phone but given the time restrictions, we will be limited to one question per person. So without further ado, I would like to hand over to Mike.

Mike Henry, President Operations, Minerals Australia

Well, thank you, Adrian. Hello everyone. I'm going to spend the first 20 to 25 minutes on my overview and then I will open it up for questions and I will be using the slides that have been prepared for this briefing.

Now, on the first couple of slides we have included the usual disclaimer slides that I would simply ask you to take note of.

If I start on slide 4, in today's presentation I'm going to speak to what we're doing to improve returns in the coal business with a particular focus on productivity. We believe that coal will be an increasingly attractive, high-returning business in the medium to long run. Now, this will be underpinned, first and foremost, by the simple concentrated high-quality nature of our portfolio but also by market dynamics which we believe will improve over time.

Now, of course, we're not waiting for better markets to try to improve returns. We are continuing to protect and enhance returns through improving the underlying performance of our operations and we have been deliberate in shaping a portfolio that allows us to do so with greater speed and certainty. We have progressively moved to a simpler portfolio of only the highest quality assets and the management focus that this enables, coupled with our new operating model, will support our ability to continue to drive ever increasing levels of safe productivity, and I will touch on each of these elements as we move forward to the presentation.

But first, let's start with our people and how they come together. So moving on to slide 5, we've already introduced Rag and James but perhaps a few comments on the rest of the regional leadership team as well. This is a strong team comprised of leaders with a depth of experience across all types of operations, geographies and all steps in the value chain. The intent of the new operating model is that the whole of the team is stronger than the sum of the parts.

For example, with Rag and James, they're able to draw upon the collective capability of the broader team to help support coal's performance, and that's already starting to happen at an accelerated pace. The new model frees up our line leaders to focus more of their time on the delivery of safety, volume and cost. They're supported by functions that are now consolidated global teams under the leadership of world-class functional experts. The consolidation of the functions will support the development of even higher quality functional capability, will remove duplication of effort and will enable functional continuous improvement. They will be able to provide support that it's both more efficient and more effective. The new model also supports our ability to continue to drive productivity forward through the bringing of proximate regional assets together under consolidated leadership. This is intended to enable a more rapid and systematic approach to continuous improvement.

Of course, even before the change to structure there was some leveraging of capability and practices between the regional assets but the new model will make this approach to improvement easier. The new structure will help us to foster the culture and focus required to more quickly progress all of the assets to internal best practice. For key activities, this will be further supported by the centres of excellence that have been established for maintenance, capital projects and geo-science. The maintenance centre of excellence is led by Brandon Craig reporting to me. It will be a major driver of future safety and operating cost reduction. Our belief, supported by analysis, is that through the maintenance centre of excellence we can achieve a circa three to five percent uplift in equipment availability, improved operational reliability and substantial cost reductions.

The maintenance centre of excellence will help us make maintenance a profession of focus in BHP Billiton. We will drive better aligned maintenance strategies, plans and ways of working for like equipment and activities across the group.

Now, of course, none of this matters at the end of the day if we're not keeping our people safe. There's nothing that's more important. Moving on to slide 6. We believe that in the long run, performance on safety is an important indicator of sustainable high operational performance. They're supported by the same things; highly capable people engaged in a positive way and planning and executing work in a highly disciplined fashion. In early 2015, senior coal business leaders came together and resolved to make the business even safer. We decided to replicate the field leadership safety approach that had been successfully deployed previously in our iron ore business.

Now, I should note that this is not simply time in field which you might otherwise assume from the name. It's a structured approach to infield verification of controls, improvement of processes and very importantly, safety engagement. Enabled by field leadership, our frontline workforce has made the business safer. Since June 2015, we have reduced total recordable injury frequency, or TRIF, by 50 per cent. TRIF is not the only measure of safety, of course. We have seen similar improvement in our higher potential incidents as well. Now, it's notable that this has been achieved at the same time as significant productivity gains and record production at six of our nine operations. Let me turn, now, to the market dynamics for metallurgical coal, and this is slide 7. We believe that the long run dynamics from met coal are positive.

Met coal is essential for steel production and the world is going to need a lot more steel as the emerging economies continue to develop and for many of these economies they will need to source their met coal through imports and we have the portfolio of assets best placed to meet this future demand or to replace current supplies that deplete. Not only is our portfolio well suited in terms of size and location but we also believe that high quality hard coke and coal of the type we produce will be even more valuable as the steel industry continues the trend towards larger blast furnaces. Short run dynamics belie this long-term positive outlook and we expect this to continue in the short to medium term. Productivity improvements across the industry in recent years has led to an overall compression of the cost curve which has impacted price. We are, however, seeing signs of supply side response to low prices, albeit slower than originally anticipated.

High cost supply is being displaced. US exports are down 25 per cent year on year and around 16 million tonnes per annum of Australian capacity has closed since 2014. Productivity improvements have offset some of these cuts and year-to-date exports are down only five per cent year on year. As part of its commitment to supply side reform the Chinese Government has announced plans to shut in 500 million tonnes of coal mining capacity and this will assist in creating a more sustainable industry. In the province of Shanxi this is being enacted through limiting the number of working days to 276 days a year from 330 which has resulted in total coal output declining 23 per cent in April. In the medium to longer term, we expect demand for met coal to be supported by steel growth in developing economies outside of China. For example, India represents a significant growth opportunity as accelerating economic growth there drives demand for steel. In fact, the positive exposure to India is a key differentiator for met coal from some of our other commodities and is a net plus in terms of market diversification within the portfolio. We are well positioned to meet the continued growth and demand for metal and for coal given the size, location and quality of our resources.

Now turning to the outlook for thermal coal. And this is slide 8. We continue to see a long-term future for thermal coal but we do recognise that the way the world will make its energy choices is inherently uncertain. And that's part of the value of the diversity of our energy portfolio, which covers a spectrum of conventional and unconventional oil and gas, LNG, uranium and thermal coal. And, of course, copper as renewables share in the energy mix increases. Thermal coal's proportion of global power generation is likely to decrease over the next 20 years. However, we still expect overall thermal coal demand will grow in absolute terms as the total power production pie increases, consistent with the new policy scenario of the International Energy Agency. We expect that thermal coal will remain front and centre in Asia's energy portfolio into the foreseeable future because it's the cheapest and most readily available fuel source for power generation. And we expect that seaboard capacity will be required in the early 2020s.

So this brings us to the resilience of coal in the BHP Billiton portfolio on slide 9. We accept the IPCCs assessment of climate change science. We believe the world must pursue the twin objectives of limiting climate change to the lower end of the IPCC scenarios and ensuring access to affordable, reliable energy.

We have spoken publicly previously about the fact that even under BHP Billiton's global accord scenario, which describes an orderly transition to a two degree world, BHP Billiton's diverse portfolio is resilient. In fact, even in that scenario, we expect demand for the majority of our commodities to continue growing in absolute terms although at a slower pace than in our central case. Demand for high grade metallurgical coal is resilient under all scenarios. In fact, in a world in which there is even stronger focus on reducing emissions and increasing efficiency, the need for particularly high quality coking coal, like those in our portfolio, can be expected to increase. We also anticipate ongoing demand for high quality thermal coal. It's a secure and affordable source of energy and is expected to be with the world for decades to come. Though a transition to a two-degree world will, of course, impact demand, but it can also be expected to impact supply, with the latter acting to mitigate the impact on thermal coal market prices. We do quite a bit of work in assessing a broad range of plausible future scenarios. Through this work, we believe that in a severely constrained world, product quality and costs of production become increasingly important factors in determining which fossil fuel reserves will be brought to market to meet growing energy demand. We are confident that our assets in particular will remain resilient even in an increasingly carbon constrained world.

So now let's step back to the foundation of our business, our high quality assets on slide 10. Our simple coal portfolio of tier one assets is strongly aligned with our group strategy. We have a geographically concentrated suite of some of the largest coal resources in the world. Our resource base in the Bowen Basin is characterised by its proximity to tidewater and market, the high quality nature of its premium hard coking coal and by the size of the resource, with over a century of inventory. This underpins our position as the largest seaborne metallurgical coal producer. Our integrated supply chain in Queensland coal supports our productivity, sustainably keeping our operations at the low end of the cash cost curve where we expect to remain for decades to come. And the assets in our thermal coal portfolio in New South Wales and Colombia are high quality resources and some of the lowest costs in their sector. These factors have allowed us to continue to improve costs and cash flow and to remain competitive in the face of recent industry challenges.

Now, the quality of this portfolio is not an accident. It's the result of deliberate shaping in recent years.

Moving onto to slide 11. The demerger of South32 helped create a simpler portfolio of coal assets, primarily situated on the east coast of Australia and a joint venture in Colombia. We recently announced an investment of our interest in IndoMet Coal which did not compete with a range of other growth options in the group's portfolio. We finalised the sale of San Juan Mine in January of this year. While, the transfer of operatorship of Navajo Coal to the Navajo Transitional Energy Company remains on track for the end of the year following its divestment in 2013. We have also been disciplined in our response to the economics of individual operations. For example, six months ago, our Crinum operations closed following the decision not to develop the final high-cost longwall panel. In August last year we outsourced the drill, blast and pre-strip operations at Blackwater to ensure the ongoing viability of the mine. We suspended the loss-making capacity at Norwich Park and Gregory Mines back in 2012 and have reduced higher-cost production at New South Wales Energy Coal, and of course, we will continue to evaluate further optimisation of our portfolio.

Now, let's take a look at productivity and what we've been able to achieve with this portfolio. Moving on to slide 12. Now, I don't want to dwell on past successes, but I will note that we were one of the first to make the shift to reset out cost base and since the 2012 financial year our coal business has embedded US$3 billion of productivity gains. However, success should be measured by what we're delivering today and what we will deliver tomorrow. We are targeting another $600 million of productivity gains by the end of the 2017 financial year off of our already low cost base and this will be achieved through our continued strong focus on the five elements of productivity: equipment, supply, people, capital, and marketing.

Our focus on equipment productivity continues to be sharpest on our bottlenecks. Our bottlenecks are currently, roughly, evenly split between wash plants and our stripping truck shovel fleets. This is moving progressively to the wash plants as we improve truck productivity. At most of our coal operations, the bottleneck will be at the wash plant next year and we are targeting average wash plant availability of 96 percent, utilisation of 95 percent, and annual operating hours of 8000 hours. Year to date, we have increased wash plant operating hours from 7000 in financial year '15 to 7400 annualised year to date and performance in recent months has been closer to that 8000 hours annualised target that I mentioned. To date, the bottleneck at several of our operations has been the truck shovel stripping fleet and there's a wide range between our best and worst performing ultra-class truck fleets, but on average, year to date we're achieving 4900 hours, which is an improvement on 4500 hours last financial year. It's important to note that these figures exclude time that the trucks are queuing, so they're conservative numbers.

Now, Rag and James have been very focused on lifting our truck performance. They have reached out to both iron ore and to Nickel West, whose truck fleet is achieving 6600 hours, to determine what best practices are for each leg of our trucking operations. Individual operations within coal have then been tasked with leading the deployment of those practices across the coal assets and we're seeing results. We've seen performance in the past couple of months lift to 5700 annualised hours on average, with our best operation in coal now increasing to 6600 hours. There's lots of examples like this where we have the opportunity to improve performance through best practice replication within the region. The benefits the coal assets can derive from replication of best practices from the other assets are substantial.

Continuing on with this example or theme of our dirt-moving activities, our coal assets move over twice as much material as our iron ore operations and given this volume, each 10 per cent in our costs of stripping equates to roughly $100 million improvements in coal costs – BHP Billiton's share. As we move more material and produce more, we need to do it with the same or fewer people and we are targeting a 30 per cent increase in people productivity over the next five years. Building a motivated and engaged workforce with the right culture and capability, enhancing our workforce diversity and improving our industrial relations, which I will touch on later, continue to be key enables to deliver sustained improvement in both safety and productivity.

So what is this consistent focus on productivity yielding in terms of cost outcomes? Moving on to slide 13. You can see here, from the charts on the right, the outcome on unit costs and margins of our productivity journey. Our Queensland Coal unit costs are down by more than 50 percent since the 2012 financial year, they're down 14 percent since last year, and half-on-half they will be down by nine percent. They will decline again in 2017 to $52 per tonne. At New South Wales Energy Coal, unit costs have declined by 25 percent since 2012 and will drop to $38 per tonne next year – down to 2010 levels. I would note that this year production is down and costs up at New South Wales Energy Coal. This is due to a combination of factors: wet weather, choices taken in the face of variable coal prices and individual pit economics, increased strip ratio, and work under way to set ourselves up for more consistent productivity in the coming years. Productivity is going to be even more important in New South Wales Energy Coal in the coming years as the mine traverses a monocline structure. Progression through the monocline is characterised by increased seam dip and substantial pit deepening which will combine to increase the strip ratio and increase truck cycle times. This will see costs increase, but our intent is to mitigate this through even higher levels of productivity. We are also assessing the optimal operational configuration for this period. While the mine is deeper beyond the monocline the strip ratio is consistent and, therefore, will support lower operating cost. Now, it is important to note that in spite of needing to traverse the monocline we expect that New South Wales Energy Coal will remain in the lowest quartile of the thermal coal cost curve.

As I said, we're not waiting for better markets to deliver improved returns. We expect our efforts in cost performance across our operations to drive a recovery in our 2017 EBITDA margins, despite continued lower prices under consensus forecasts and, in the current environment, all of our operations remain cash positive. This effort has also translated into the release of latent capacity.

Slide 14: we now expect to deliver 42.5 million tonnes of metallurgical coal production this financial year. This is six per cent above initial guidance and comes despite the early closure of Crinum and the convergence event at Broadmeadow during this period. This will increase to 44 million tonnes next year and 46 million tonnes in the 2018 financial year, entirely driven by our focus on productivity.

New South Wales Energy Coal will deliver 17 million tonnes this year before increasing to 19 million tonnes next year and 21 million tonnes in 2018. This represents an aggregate eight per cent volume uplift from our Queensland Coal and New South Wales Energy Coal businesses between 2015 and 2018, without major capital expenditure. Our capital expenditure is predominantly minor and sustaining in nature and the average level we expect to be able to maintain in the coming years has almost halved since 2012 to $US6 per tonne at Queensland Coal and $4 per tonne at New South Wales Energy Coal.

We have a low capital growth option at Caval Ridge where a small capital investment in mining fleet and an 11 kilometre conveyer belt can unlock a further four million tonnes per annum of full cost volume. We can trigger this small investment when the time is right. Under both current spot prices and consensus forecasts these incremental metallurgical coal tonnes would generate high returns. We also retain long term growth options in the Goonyella complex optimisation project and in Wards Well. Now, neither of these two projects is in our current five-year plan but they offer high return future growth options that can be triggered at an appropriate time.

Now, I know that in this business our industrial relations are often a topic of discussion, moving on to slide 15. I'm happy to report that in the past year we've successfully concluded enterprise agreement renewal for Caval Ridge, Poitrel, Daunia and Mount Arthur Coal. Discussions continue at Broadmeadow and, of course, BMA is currently in the process of renegotiating the BMA enterprise agreement 2012 that covers employees at five operating Bowen Basin mines. The aim of this agreement is to ensure terms that reflect the need to be able to work with employees to rapidly innovate in order to maintain competitiveness. This will not only ensure that our assets generate more acceptable returns but will increase certainty of employment even in tough markets.

We are also seeking a separate agreement for Blackwater to reflect this mine's different geographic location, different product quality and different financial circumstances. We're only partway through this process but I believe that our employees understand the very challenging times we're in. They've certainly heard the case for more flexibility to drive productivity and to be able to respond rapidly to the world around us.

So in closing, let me provide a quick recap. We are very well positioned to benefit from market dynamics which we believe will improve over time. We are differentiated by our simple portfolio of only the highest quality assets. We are well positioned to meet incremental demand for depleting supply. Their position on the cost curve ensures our assets are resilient in all markets. The culmination of the geographic focus and our operating model is supporting our ability to continue to improve safety and productivity and we've seen a stepped change improvement in safety performance and in the past year we've also reduced Queensland costs by a further 14 per cent in US dollar terms and we are achieving record production in six of our nine operations with less capital.

We will generate more free cash flow this year than at any other time in the past five years. There remains significant opportunity to improve further in terms of both safety and productivity. Our recent run rate on the drivers of productivity give us confidence that we are on track with our plans. We are targeting another $600 dollars of productivity gains by 2017 with absolute costs down by 16 per cent. But this is not just a productivity story. We retain the ability to grow the business not only through productivity and the use of latent capacity but through growth options that can be exercised when the time is right. Thank you for listening and I'm now happy to take questions.

Questions and answers

OPERATOR: Thank you. Once again, if you wish to ask a question, you will need to press star one on your telephone. If you wish to cancel your request, please, press the hash or pound key. Your first question comes from Heath Jansen of Citibank. Please, go ahead.

HEATH JANSEN, CITIBANK: Yeah. Hi, Mike. Just a question in terms of your markets on the slides 7 and 8. Obviously you talk about the short-term challenges, both in met and thermal coal, but obviously, in your supply/demand balances that are on the right, you've effectively got them in oversupply for the next, you know, five to 10 years. So I'm just wondering, in terms of your timeframe of these, you know, short-term phenomena playing out – I mean, how long do you think these markets are going to, you know, sit where they have been? And then just secondly, in terms of costs, you're now sort of guiding to sustaining capex – about six in met and four in thermal. I mean, how confident are you that you can sort of hold those sustaining capex numbers down for the next few years?

MIKE HENRY, BHP BILLITON: Okay. Hi, Heath. Look, so in terms of the first question around oversupply, I think I referenced in the speech that in the short to medium term, we expect that the current market dynamics are going to persist for the reasons that you outline. Now, you will see – we believe that we will continue to see this trend of higher cost supply shutting in, but the fundamental rebalancing of supply and demand is going to take a period of time. Our story is really one of a longer-term story of that demand/supply gap opening up long-run as you see demand increase and as you see supply attrition simply through current resources depletion. If I move on to sustaining capital. In bringing these numbers forward to market, there's a level of confidence that sits behind them. We think that they are wholly credible and achievable numbers for sustaining capital over the five-year plan. Rag or James, did you want to add anything on either of those two questions?

RAG UDD, BHP BILLITON: Yes. Just in terms of the sustaining capital numbers, we've actually benchmarked and reviewed that historically factoring out major capital and other elements and are actually quite comfortable in terms of that $6 a tonne in terms of sustainability.

OPERATOR: Our next question comes from the line of Myles Allsop from UBS. Please, go ahead.

MYLES ALLSOP, UBS: Yes. Thanks. I was just wondering if you could talk a little bit how you evaluate M&A options too. There are some attractive complementary assets available at the moment. What are the financial criteria that BHP uses just generally, but also with met coal in terms of evaluating whether the price is right?

MIKE HENRY, BHP BILLITON: Let me reference back to the speech first. And obviously I'm not going to comment on any individual opportunities, but I can talk thematically about how we go about thinking about these things. In the case of met coal, I've outlined something that we're quite proud of, which is how we've created this portfolio: of only the best of the best assets, with a fairly tight geographic concentration. We're more aligned with strategy than we have been at any point in the past in terms of coal portfolio and it meeting, the criteria of large, long-life, low-cost, expandable and upstream. So, through that portfolio, not only are we able to drive productivity more quickly by sharing between sites, leveraging synergies between sites and so on, but we can be confident that we've got a portfolio that is resilient to all market cycles and all market scenarios.

So anything we were going to look at in terms of small bolt on growth, would need to meet with that direction and the success that we've had in recent years. Now, for it to meet the resilience test, that's going to come down to underlying asset quality, but it also comes down to the purchase price or the price that you are paying for those assets. So we would have to be confident that we were acquiring tier one assets at a price that still met with the success of recent years and the overall portfolio quality that we have. If I then take it up to a group level and say what does the group look at. The group would assess any individual M&A opportunity against all other opportunities to deploy the same capital internally and it would have to compete on financial returns. What are the returns that we look at? It's a range of things. Obviously, we would be looking at NPV, but also with a fairly sharp focus on IRR, on payback, and overall capital efficiency.

OPERATOR: Great. Thank you. Our next question comes from the line of Anna Mulholland from Deutsche Bank. Please go ahead.

ANNA MULHOLLAND, DEUTSCHE BANK: Hi, Mike. Thank you for the presentation. Could I ask, please, where your biggest opportunities are in terms of improving productivity on a mine-by-mine basis, so effectively what are the biggest drivers of the uplift in volume that you have told us about this morning?

MIKE HENRY, BHP BILLITON: Great one for Rag and James to talk to. Rag, do you want to start?

RAG UDD, BHP BILLITON: Sure. I will. Look, they're probably broadly characterised across three themes: operations, maintenance and supply. And you will see there's interlink between those three. What we're finding with the new Minerals Australia structure is that we're able to identify very quickly because we have common reporting mechanisms across operations. BHP Billiton has been focusing in on that area, creating playbooks for application manuals and then rapidly deploying across all of our organisations. And we're seeing really quick paybacks. Mike referenced during the speech that we have seen about a four or five hundred hour uplift during this financial year compared to the last financial year in terms of our truck hours. He also made a mention that the last couple of months we have seen a further step up of almost 800 hours.

That is primarily driven basically by that replication or best practice coming out of the other assets like Nickel West and WAIO and conversely us taking some great ideas out of coal and replicating that back into the other operations. On the maintenance front, we see a similar theme and that is actually driving those operating hours as well. What we find is basically, as an example, replicating some of the maintenance methodology that exists basically in iron ore, we've been able to figure out how to service a truck where historically it would take us about 12 hours replicating the same journey that they take in iron ore and then doing that in about four hours over here. We had the benefit of providing more operating hours and requiring less labour to actually complete the maintenance. On the supply front, what we're seeing is we continue to be amazed by the number of times we were going out and trying different mechanisms in terms of supply. We continue to see lower costs coming in to our supplies, both by looking internationally in terms of low-cost options and also by innovative and different ways of actually operating.

MIKE HENRY, BHP BILLITON: James, was there anything you wanted to add on that?

JAMES PALMER, BHP BILLITON: I would really just like to echo Rag's comments and I think particularly in the way that we're going about our continuous improvement effort in a way that we believe is sustainable. This is particularly in the way that we're engaging our people, the way that we're building it into our systems, as Rag said, there's the playbooks and building it into our routines. That's what is giving us the confidence that, while we've picked a lot of the lower hanging fruit, there's so much more to go. I think also in the benchmarking space we're able to benchmark internally to a much more granular level than we can with external benchmarking. That's allowing us to go right into operations maintenance and supply; then the processes that make up each of those and in the sub-processes such as the truck hours right down to rosters, crib change and more. That's what has been able to be built in, analysed and improved and replicated.

RAG UDD, BHP BILLITON: As a further example of best practice sharing. We announced yesterday in our organisation that we're bringing in an innovative remote operating centre like the one used in our West Australian iron ore operations into our coal operations. We believe will enable us to lock in best practice across our sites through the replication across the assets.

OPERATOR: Our next question comes from the line of Fraser Jamieson from JP Morgan. Please go ahead.

FRASER JAMIESON, JP MORGAN: Hi. Thank you. A couple of my questions have been asked but I wonder if I might go slightly off topic on slide 9 where you're highlighting the various or the outlook for various commodities. Actually, the one that stands out most there is uranium, in terms of the sort of current demand versus either your long term central case or, certainly, the upside from a sort of a lower or the two degree world. So I just wondered in that context if you could maybe talk about your plans around uranium. You've obviously got a huge resource there at Olympic Dam. There have, in the past, been some very grand plans around that. It's been very quiet more recently. Could you maybe outline some of your thinking around that and perhaps the timeframe. When you talk about long term here are we talking, you know, 10 years, 20 years, 50 years kind of thing?

MIKE HENRY, BHP BILLITON: Just to make sure we're understanding this chart in the same way. This chart is represents the event that we went with the global accord scenario rather than our mid case scenario and, as I said in the presentation, global accord means that the world moves more rapidly to the two-degree world than is embodied in our central case. We then examine what we would then believe would happen with the individual commodities and, in this case, because the world is moving more aggressively on climate change, we see more rapid deployment of nuclear which sees a sharper demand uplift for uranium but it isn't the central case. If I then overlay that on Olympic Dam, yes, uranium is a contributor to Olympic Dam. It is a fantastic uranium resource but it is, primarily a copper business for BHP Billiton and our growth plans there are predicated upon copper. Now, I think Andrew's reference recently externally that we've had work under way to look at how we can go about getting more production out of Olympic Dam sooner than otherwise might be the case through smaller scale capital investments and we're confident that those opportunities exist but it will take us a number of years to get there.

OPERATOR: All right. Thank you. Our next question comes from the line of Tyler Broda from RBC. Please go ahead.

TYLER BRODA, RBC: Good day. Thank you for the presentation. Just in terms of this energy price fall recently, I was wondering if you could just give a summary of how energy prices affect the coal business, I guess, what percentage of costs are coming from oil and energy and what oil prices were used to determine the forecasts going forward. Thank you.

MIKE HENRY, BHP BILLITON: Rag or James, do you guys want to comment on that?

RAG UDD, BHP BILLITON: In terms of met coal it's not a significant one of the components. If you take a look at slide 19 you will see the breakdown there in terms of what components make up the cost base and the fixed versus variable costs contribution to the cash cost for BMA. In the case of fuel and electricity, you will see that sits around about eight percent. Obviously, not all that will be diesel or fuel but a component of it will so obviously volatility in that will impact up and down but its scale, generally, is small, so about two three percent at most.

OPERATOR: All right. Thank you. Our next question comes from the line of Hunter Hillcoat from Investec. Please go ahead.

HUNTER HILLCOAT, INVESTEC: Good morning. I was just noting on the cost curve that the curve was very flat. You're very well positioned in the curve but I imagine all the competitors are working just as hard to get their costs down so given that it's an over supplied market, all miners might think that increasing volume and reducing the share of the unit costs just to preserve the position on the cost curve, can you tell me how much of that is driven by that sort of thinking, if at all?

MIKE HENRY, BHP BILLITON: The place that we want to be is one where we are improving our position on the cost curve relative to our peers and I think that your statement around everybody chasing costs down is absolutely true. Firstly, we don't have the choice not to do that because that's the surest way to do ourselves out of a business so we have been focused on driving productivity not only as well as everybody else but better than everybody else and we are finding that we're moving towards the left-hand side of the cost curve and we believe that the resources we have, coupled with the operating model that we have put in place, are going to allow us to continue to drive productivity further and faster than the rest of the industry.

RAG UDD, BHP BILLITON: And maybe if I could add to that, Mike, just to put an element in there. One thing that really differentiates us compared to a number of competitors is actually the quantity and quality of operations in our portfolio within Australia. Consequently we have the ability to look at five or six iron ore mines leveraged with basically nine or 10 coal mines, Olympic Dam, Nickel West. You can see that we have a huge ability to learn once and then replicate across those other 15 operations so that differentiates us and really, what Minerals Australia is allowing us to do is to leverage that even quicker and replicate that into our business. So while we've been aware that we've been doing pretty well on this in the past, we think that new group will actually be a catalyst to actually speed up our ability to actually chase that left-hand side of the cost curve.

JAMES PALMER, BHP BILLITON: And again, really, this point of the sustainable nature of the way that we're approaching and building it into our systems. That's what we believe is going to differentiate.

OPERATOR: Right. Thank you. Once again, if you wish to ask a question you will need to press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Our next question comes from the line of Christian Georges, Societe Generale. Please go ahead.

CHRISTIAN GEORGES, SOCIETE GENERALE: Thank you. My question is about your capex. In longer term, if we consider the potential depreciation on your coal mine, what should be the increased capex pattern we should expect in order to compensate for the depreciation?

RAG UDD, BHP BILLITON: We're actually quite satisfied with the $6 a tonne in terms of sustaining capital. I suppose one thing to actually reference with the Bowen Basin assets is that these are 100-year deposits. So, yes, we are chasing a seam down depth, but we see that option basically going for a long period of time. So we don't see the need for additional mines for a long period of time. Where our growth options sit in front of us, Mike has really referenced the biggest long-term option to us at this point, which will be around Caval Ridge Southern Circuit. That's a low-cost option given that it is really simply just a matter of building a conveyor belt and adding minor pieces of truck to our fleet.

OPERATOR: All right. Thank you. Our next question comes from the line of Nick Hatch from Canaccord Genuity. Please, go ahead.

NICK HATCH, CANACCORD GENUITY: Hi, Mike. I'm looking at slide 14 and the comments you've made about production over the next few years and I want to focus on Energy Coal. Back in Q3, with the production report, you talked about an unchanged 37 million tonnes of guidance, notwithstanding the sale of San Juan and the unfavourable weather conditions. You're now talking about 34 million tonnes. I'm just wondering what has happened in the latest quarter. Clearly, the Indonesian assets are being sold, but can you make up that three million shortfall for me, please.

MIKE HENRY, BHP BILLITON: It's a combination of things that I highlighted in the speech, it was weather, which we highlighted further at the time, and our recovery from that. There are some choices that we've taken around when we invest in reorienting some of the production in the pits at New South Wales Energy Coal in a low-price environment. We have been rigorous about going through on a pit-by-pit basis to assess whether we should be producing now or producing later. And we've elected in the current environment to set ourselves up better for production and productivity in the coming years through the work that we undertake now. Now, part of the three million tonnes is here, part of it is across at Cerrejon. The drought at Cerrejon has continued, which means that we're having continuing constrained production at Cerrejon primarily due to dust and like we do at New South Wales Energy Coal, Cerrejon continues to look at pit-by-pit margins and has made elections around how much to produce given those assessments.

OPERATOR: All right. Thank you. Our next question comes from the line of Jason Fairclough from Merrill Lynch. Please go ahead.

JASON FAIRCLOUGH, MERRILL LYNCH: Good morning, everybody and thanks for this. Just –given your plans to improve returns in this business, do you actually see coal attracting capital in a meaningful way on a go forward basis? And I guess particularly here I'm thinking about versus other potential consumers of capital in the wider group, particularly oil, particularly copper. And therefore, on a medium-term view, is this business decapitalising or shrinking or do we actually grow output here?

MIKE HENRY, BHP BILLITON: In the medium term and certainly in the coming years we are growing production value through productivity. I spoke earlier about the Caval Ridge Southern Circuit, Brownfield opportunity to release latent capacity through very low capital is a highly efficient project. If we then look at growth projects, the Goonyella complex optimisation project or Wards Well, both in met coal. These are projects that clearly in the current environment aren't at the top of the list in terms of projects that we deploy capital to within the overall group. In some scenarios – and in due course – depending on what happens in met coal markets and depending on the other opportunities in the group, are they credible potential growth projects? Yes. But the great thing is we don't have to trigger them now because we have other opportunities in the group and because we have got other levers that we can pull in within coal to drive returns.

OPERATOR: Okay. Thank you. Our next question comes from the line of Nicolaj Sebrell from Santander Asset Management. Please go ahead.

NICOLAJ SEBRELL, SANTANDER ASSET MANAGEMENT: Hi. So looking at your divestments around the world that you've done so far, it does look like the Colombian assets – and I apologise if this is already asked, but does it look like the Colombian assets are a little bit geographically separate from the rest of what you're focusing on? What are your plans with those?

MIKE HENRY, BHP BILLITON: James.

JAMES PALMER, BHP BILLITON: Yes. So exactly right. That's why we have made the changes that we have made with the operating model. Cerrejon now reports regionally into Minerals America where it's actually a very short plane flight from Santiago rather than 32 hours from Australia. So we're very confident we can get value off the ground very quickly through the regional model.

OPERATOR: All right. Thank you. Our next question comes from the line of Carla Tagacia from Church of England. Please go ahead.

CARLA TAGACIA, CHURCH OF ENGLAND: Yes. Good morning. We welcome your work on this strategy under the two-degree scenario, you mentioned in your report the development and deployment of low-emission technology such as carbon capture and storage. But in your presentation today, I have not seen any of those investments, and I wonder how compatible or embedded in your productivity and cost reduction strategy those are.

MIKE HENRY, BHP BILLITON: The fact that we haven't referenced it in today's presentation is not because we're not doing it, where there's actually a lot of effort under way around that and you may have seen a couple of recent projects both in Canada and up in China where we have deployed investments into carbon capture and storage. So in the case of Canada, it's a project with SaskPower, where we're helping them share the knowledge that they've gained through their CCS project for the benefit of others. And in the case of China, it's a tie-up to progress carbon capture and storage there. Those are activities that address the broader need to reduce emissions. Within our own business, what are some of the things that we're doing? Key one is to increase productivity because if you're getting the same product for less inputs, we are reducing the emissions footprint. We're also pursuing absolute emissions reductions through things like fuel efficiency in engines, through becoming more efficient about how we go about using power. Rag, it might be worthwhile talking about what we've done with regeneration and recapture of power on draglines, for example.

RAG UDD, BHP BILLITON: Some of the efficiency work on the draglines have allowed us to capture a significant amount of energy back from the power used to basically propel and swing the draglines. That has allowed us to run the equipment more efficiently.

MIKE HENRY, BHP BILLITON: Now, at an overall group level, we have continued to reduce our greenhouse gas emissions footprint, not just in unit terms but in absolute terms, and it's something that we think we have been, very successful at over the past and certainly the past five years and more.

OPERATOR: Thank you. Once again, if you wish to ask a question, you will need to press star one on your telephone and wait for your name to be announced. The next question comes from the line of Myles Allsop from UBS. Please go ahead.

MYLES ALLSOP, UBS: Yes. Thanks. Just a couple of quick questions. First of all in terms of labour costs, inflation. How much are wages actually going up in Australia at the moment? And, you know, how do you, sort of in terms of the 30 per cent improvement in productivity, is that through reducing the number of people, and where are we in terms of the risk of strike? Is that largely behind us now, with the agreements that are in place? And the other thing I just wanted to clarify, going back to what Andrew was saying in February, where he was saying New South Wales energy coal was touch and go. And now it looks like it's in the bottom quarter of cost curve Is that Cerejon diluting New South Wales down or is that because of the measures taken so far this year? Thank you.

JAMES PALMER, BHP BILLITON: On New South Wales, the efforts that we're putting into productivity have started to turn the corner, but we've got a long way to go. But, again, we've got the power to do that. One of the numbers there, 4700 truck hours down at Mount Arthur is below levels achieved at our other operations and means that we know we've got a path where we can continue to improve the profitability of Mount Arthur. Yes, it is very low on the costs curve, but we've seen with the energy coal is trading very deeply into the cost curve, so I think that's why we're seeing what we're seeing.

RAG UDD, BHP BILLITON: We absolutely have a focus on our operating practices, in terms of getting more with the same or less. That ties into the maintenance impact and also our suppliers in terms of how we become more efficient, more than getting lower prices, and also using less of Labour. The reality is unfortunately, from time to time, that the efficiency work will impact manning levels in our organisation. We work very closely with our teams on this. In terms of your comment around wages, I suppose generally, at eye level, we're seeing wages basically on the whole holding flat to actually declining over time. At the moment both through a number of mechanisms, in terms of how labour is being deployed, and, also, the rate we've seen over a number of years. In fact, of the four that we've basically secured in the next few years, the first year of which starts with a zero per cent increase.

MIKE HENRY, BHP BILLITON: Rag, I will just add one point. Miles, it's important that we understand what people productivity refers to here. That is essentially the units of labour per BCM of movement. So, as we move more material, even if you were moving more material for the same product, and if we were doing so with the same workforce, that would translate into improved people productivity. So the 30 per cent comes in part from moving more material with the same number of people. And in some instances it may come from having fewer people, because we've just become that much more efficient.

OPERATOR: Thank you. Your final question comes from Heath Jansen from Citibank. Please go ahead.

HEATH JANSEN, CITIBANK: Yes. Hi, Mike. Just following on from the costs question. I was just interested in slide 19, where you give the breakdown of costs between BMA and Energy Coal in NSW the notable difference is that you've got a higher contractors and consultants charge coming through in BMA, and I suppose if you look at the net numbers, you know, taking your cost guidance into account, it suggests that, you know, costs in BMA are sort of, like, 40 per cent higher based on labour and contractors and consultants. So I was just wondering what do you think that's going to look like, you know, going forward, and also, you know, the difference just between, obviously, the BMA met coal underground operations versus New South Wales and Energy Coal in terms of just the productivity differentials between those.

MIKE HENRY, BHP BILLITON: Okay. Sorry, Rag, do you want to comment on that?

RAG UDD, BHP BILLITON: What I might reference, is there have been some deliberate decisions in terms of how we actually go about manning and sourcing our equipment, so I think what you will see in comparing and contrasting BMA versus New South Wales is specifically that the labour number in New South Wales is actually referring to direct employees, in the organisation. You will see a much higher level sitting within BMA. Nonetheless, we still have a labour component in BMA sitting at 17 per cent. Now, has there been any deliberate decision in terms of sourcing one way or the other between New South Wales and BMA? The direct answer to that is no. We act on a case by case basis and actually make decisions around where we're going to do to get the best productivity, overlay by taking a look at whether we use contractors or our own employees.

ADRIAN WOOD, BHP BILLITON: Okay. Thanks. Thanks, Rag. This is Adrian Wood again. I think that's our time up, so I just wanted to thank everybody for your time today and for dialling in. A transcript of the call is going to be available on the BHP Billiton website later, but if you do have any questions following the briefing, please don't hesitate to contact the BHP Billiton Investor Relations team. That concludes today's briefing. Thank you.