Investor and Analyst Teleconference
16 August 2016

Transcript

1. Annual Results Presentation

ANDREW MACKENZIE, CHIEF EXECUTIVE OFFICER: Welcome, everyone, to our 2016 annual results. I am in London and Peter Beaven, our Chief Financial Officer, is joining from Melbourne. As usual, we have a disclaimer to remind you of its importance to this presentation.

The 2016 financial year was a difficult one, both for BHP Billiton and the resources industry generally. Notwithstanding that, we have achieved very solid results in the year, and we have done this by being true to our Charter Values and to our strategy, and focused on the very few things that really matter. That means that, as we begin the new year, we are extremely well placed. We have an even stronger culture of productivity that continues to build, and productivity – let me stress – that is always to be delivered safely. We have engaged people, engaged communities and engaged stakeholders and, above all, we have a new, but very powerful, disciplined approach to capital management.

Let me start with safety. Before I talk about safety, I have to acknowledge the tragic events at Samarco, which to some extent casts a cloud over much of what I have to say about the rest of our operations. You know this led to the loss of 19 lives, and it has deeply affected me personally and all of us at BHP Billiton. I am going to discuss Samarco in more detail in a moment.

While it is hard to be positive about the performance in the rest of our businesses in the shadow of Samarco, it is worth noting that we completed the year at our operated sites with no fatalities and with a significant reduction in significant injuries. During the 2016 financial year, this focus on safety and productivity has delivered a further reduction in unit costs, it has increased throughput across most of our operations but, as you all know, the significantly weaker commodity prices have more than outweighed this achievement and have led to our underlying EBITDA being down 44% to $12.3 billion and underlying attributable profit down 81% to $1.2 billion.

During the course of the year, we also recorded three exceptional charges in relation to the Samarco dam failure, the impairment of our onshore US petroleum assets and some ongoing global taxation matters, which contributed to a statutory loss of $6.4 billion. We are clearly disappointed with this result – really disappointed. However, our EBITDA has remained healthy at 41% and we are pleased by the strong cash generation of our assets, which has resulted in a free cash flow of $3.4 billion.

As most of you know, during the year we made a change to our dividend policy, designed to secure our balance sheet and provide flexibility to invest through the cycle. This has been a good decision. It has positioned us well. Our balance sheet is strong. Net debt is broadly unchanged from December, despite those lower prices, and we have been able to continue to invest in our strong pipeline of growth opportunities.

In line with our revised dividend policy, under the 50% payout ratio, the minimum dividend would be 8 cents per share. In recognition of the strong cash performance and the importance that we place on cash returns to our shareholders, the Board has determined an additional 6 cents per share to give us a final total dividend of 14 cents per share.

Now to Samarco, shortly after the tragic events at Samarco's iron ore operations in November of last year I went back in June. On both occasions, I remained deeply saddened but, on my second visit, I was also inspired by what I was able to see for myself on the ground. I took the chance to speak to representatives of the local communities and to some of the most affected families. Thankfully, quite a few of them were in their recently restored homes and businesses. The activity on the ground is extensive. There are over 3,000 people working to rebuild infrastructure, provide community and social services, remove the tailings and increase the defences around the failed dam ahead of the coming wet season.

We are continuing to work with Samarco, hand in glove, to restore conditions as quickly as possible. While some of the aspects of the plan are going to be delivered quickly, as I saw, others are going to take years. We that is BHP Billiton, Vale and Samarco, all believe that the Framework Agreement that we jointly entered into with the Brazilian authorities in March of this year includes the right and effective long-term work programme for remediation and compensation. Under Agreement, an independent foundation has been created to deliver 41 social and environmental rehabilitation programmes. When I was there, I saw a lot of progress being made with 38 programmes – 90% already significantly underway.

Many if not all of these are bottom-up programmes. They have been developed from the community's input, scientific studies and the advice of global experts to properly prioritise what we should do as decent people. The approval of funds for the Foundation, which we announced in late July, has further demonstrated our commitment to the Foundation's important work, our approvals and then obviously of Samarco and Vale.

Also, at the front of the mind for all stakeholders is the safe restart of the operations at Samarco. All our studies to date indicate that it is possible, but this is going to take some time. Samarco, and we agree with them, has confirmed that it is unlikely for us to have the necessary approvals to restart its operations this calendar year. We – all of us – will only agree to restart when it is clearly safe to do so and all the regulatory approvals have been granted.

In the coming weeks, we are expecting to receive the external investigation's report into cause, which we jointly set up right after the accident. We are going to share those findings with the industry and the public. There have been a number of financial impacts, which continue to evolve. Peter is going to give you an update, when he comes forward soon to talk about the financial details of these results.

Back to the rest of our operation, as you know, the health and safety of our people and the communities in which we operate must, and always does, come first. As I said, we are pleased to have recorded no fatalities at our operated sites in the 2016 financial year, and we were able to reduce high-potential-injury events by 20%. However, our total recordable injury frequency of 4.3 per million hours worked, while pretty low by historic and industry standards, is a slight uptick on 2015. We are determined to reverse this in 2017. I can tell you that we are already making a lot of progress to that effect.

In a moment, Peter is going to discuss the financial details, as we enter the new year I want to give you my context upfront. I am even more optimistic about the outlook of our company. We have done an awful lot of things, but we now have the right assets, the right commodities – a near-ideal portfolio, and an operating capability to match, which is enhanced by our new simplified structure and is able to deliver significant cash flow. We are going to direct this cash in line with our capital allocation framework, which is working very well, towards the balance sheet, our rich pipeline of investment opportunities and to shareholders, in a way that maximises both value and returns. We have a lot to say about this during this presentation but, first, I would like to hand over to Peter, who will summarise our results. Welcome, Peter.

PETER BEAVEN, CHIEF FINANCIAL OFFICER: Low commodity prices made it a tough year, but we were resilient. We delivered EBITDA of $12.3 billion at a margin of 41%, underpinned by the continued focus on safety and productivity. At Western Australia Iron Ore, unit costs fell 19%, through increased equipment utilisation across our fleets, and reductions in labour and contractors. Conventional petroleum costs declined 30%, due to lower maintenance and lifting costs. At Queensland Coal, costs were down 15%, primarily from increased wash-plant utilisation and a reduction in labour. At Escondida, record material mined and increased throughput partially offset the impact of an expected 28% decline in grade.

The grade decline at Escondida created a $1.6 billion headwind to productivity and yet our teams still achieved net gains of $437 million. That underlying run-rate gives us confidence that we will deliver a further $1.8 billion this financial year. That is in addition to more than $10 billion of gains we have already delivered since 2012.

Now, let us talk about our performance in more detail. Going forward, we will report on an EBITDA basis. We think this more closely reflects underlying operating performance and is also aligned with our reward structures and a new operating model. The impact of weak commodity prices reduced underlying EBITDA by $10.7 billion. To put this into better context, it is equivalent to approximately half of last year's EBITDA. Inflation reduced this by a further $328 million, although this was more than offset by favourable exchange rate movements.

Now the factors we can control: we achieved record production at Western Australia Iron Ore, and five of the eight coal mines in Queensland. For the first time in a decade, Olympic Dam produced over 200,000 tonnes of copper. Despite these strong performances, volumes were down at the group level and principally for two reasons. First, we decided to defer development activity in our Onshore US assets due to the low prices. We are focused on maximising value and preserving cash. We will add barrels when prices recover.

Second is Escondida's 28% grade decline. The recently approved life extension of the Los Colorados concentrator will address this, enabling a 9% increase in production in this financial year alone, as it ramps up in the second half.

Importantly, the reduction in volumes has been more than offset by the significant reduction in controllable cash costs of $1.4 billion. That reflects our continued focus on labour productivity, equipment and plant utilisation.

I will cover the three exceptional items that are not included within EBITDA. At the half-year, we recognised an impairment charge of $4.9 billion after tax, in relation to our Onshore US business, and that reflected the change to price and development plan assumptions. Our view on shale is unchanged. The underlying resource is high quality, large and provides us with exposure to commodities we like. We have security of tenure, so we can be patient and we can invest at the right time. Our second exceptional item of $570 million includes amounts provided for global taxation matters in relation to unresolved disputes.

Lastly, Samarco: as Andrew mentioned, we are committed to doing what is right. We will support Samarco through the Framework Agreement to rebuild the communities and restore the environment in Minas Gerais and other impacted areas. As we continue to engage with Samarco, Vale and local authorities, we are now able to provide further clarity as to the financial impacts for BHP Billiton.

As you may recall, at the half-year we recognised an exceptional charge of $858 million after tax. That included our share of loss from Samarco relating to the dam failure and an impairment reducing our carrying value in Samarco to zero. This impairment recognised the uncertainty in the timing of the restart of the asset. Since then, we have signed the Framework Agreement. To the extent that Samarco does not meet its funding obligations under the Agreement, each of Vale and BHP Billiton is liable in proportion to its 50% shareholding in Samarco. Therefore, at the full year, we have recognised a further $1.2 billion charge. This represents an amount equivalent to 50% of Samarco's current estimate of potential obligations under the Framework Agreement.

Included within this provision is funding of $134 million, which will support the Foundation. Direct group costs of $62 million have also been incurred in the half. The total full year exceptional expense amounts to $2.2 billion after tax.

We, with Vale, are providing some additional funding support to Samarco. A short-term facility of $116 million is being made available to Samarco to carry out repair and dam stabilisation work, and to support operations. This short-term facility will preserve the value of our investment. Outside of Foundation obligations, progress towards the safe restart of operations and the restructure of Samarco's debt will be important considerations before any further funding. We believe a safe restart is possible and is in everyone's interests. Apart from our Foundation commitments, further investment in Samarco will be considered, but in accordance with our capital allocation framework, and must be in our shareholders' best interest.

Now, to discuss our cash flow and balance sheet: our assets generated $10.6 billion of net operating cash flow during the year. We accelerated the release of working capital, and have further reduced our overhead costs, in part enabled by the recent organisational restructure. Free cash flow of $3.4 billion was also underpinned by significant improvements in capital productivity. We reduced capital expenditure by 40% in the 2016 financial year. We are making each dollar go further, by investing in low-cost high-return latent-capacity projects, and more disciplined cost management.

As a result, we generated free cash flow at every one of our segments, Iron Ore, Copper, Coal and Petroleum and, notably in the last quarter of the 2016 financial year, Onshore US and Nickel West were both free cash flow positive. This momentum will continue this financial year, as we reduce unit costs by a further 12% and invest $5.4 billion in capital and exploration on a cash basis.

Assuming current spot prices and FX, we expect to generate over $7 billion of free cash flow. Now, of course spot prices will change, but this is an illustration of the cash-generating capability of this simple portfolio. This free cash flow supports our balance sheet, which remains strong. Our maturity profile is long dated, we have over $16 billion dollars in total liquidity and we have maintained our A credit rating.

Net debt of $26.1 billion is broadly unchanged from December 2015. In this half-year we reduced net debt by $1.3 billion from excess cash after dividends. This was offset by our $1.4 billion non-cash increase in the face value of our debt book, reflecting falling interest rates in the period. The non-cash movement was entirely offset by movements in interest rate and currency swaps included in other financial assets and liabilities on our balance sheet. The value of these swaps is not captured in our net debt calculation. However, the rating agencies do recognise the value of these swaps, as they include these items in their net debt calculation. Importantly, we expect net debt to fall from current levels, given strong free cash flow projections for this coming year.

Now, moving to our capital allocation framework, our strategy is simple. We generate shareholder value through the cycle by owning the best assets, in the best commodities, with sector-leading operating capability, all underpinned by a strong balance sheet. Our new operating model has also centralised strategy and capital allocation. This will drive even greater discipline in how we allocate capital. It ensures a level playing field for all demands on the capital we create. Our capital allocation framework has, in turn, created clear parameters for deciding between these demands. This ensures that we have the right balance between sustaining the business, maintaining a strong balance sheet, giving cash back to shareholders, and growing the company.

I have depicted the outcome of our capital allocation decisions for both halves of last year, and will focus on the second half. In this half, we maximised cash flow from our assets. We generated $5.3 billion of net operating cash flow. We have to maintain safe and reliable operations as our first priority. Therefore, we invested $1 billion in maintenance capital. We then tested a broad range of internal metrics and confirmed our balance sheet remains strong. Once we satisfy these first two requirements, which we have, then we have a commitment to pay a minimum dividend of 50% of underlying earnings. After the minimum dividend determination, further shareholder returns, strengthening the balance sheet and investment compete for excess capital.

We have a suite of high-return, valuable growth projects in our portfolio. We continue to invest in these projects, with $2.3 billion allocated. Each project has higher returns than buying back our own shares. In this period, we paid the interim dividend of around $850 million. While our balance sheet remains strong, it is fair to say that cash-flow-to-net-debt and gearing metrics currently sit towards the higher end of our target ranges, so we were happy to send $1.3 billion to strengthen the balance sheet.

For this period, our minimum dividend, based on the 50% payout, amounts to 8 US cents per share. Given our strong cash flow performance, the Board elected to pay an additional amount of 6 US cents per share, which brings our total dividend determined for the half year, to 14 cents per share. This is comfortably covered by free cash flow.

We carry this momentum and discipline into the 2017 financial year, where we expect to increase volume by up to 4%, excluding shale, deliver further productivity gains of $1.8 billion, invest $5.4 billion in capital and projects and, importantly, further strengthen our balance sheet as we generate more free cash flow from our assets. We remain focused on safety and productivity to maximise cash flow. We are committed to being transparent and making disciplined capital allocation decisions. Our quality portfolio, broad suite of organic opportunities, and financial flexibility, means we are well positioned to grow value and deliver cash returns to our shareholders. Back to you, Andrew.

ANDREW MACKENZIE: I appreciate some of the Samarco stuff is pretty complex and extends what I was saying, but maybe we can return to it on questions. Let me now start by giving you our current views on economies and commodity markets, which are largely unchanged.

In the near term, we expect a continuation of the economic uncertainty, the political instability and the well supplied markets that we have seen of late. That is going to prolong commodity price volatility, but within more recent ranges. However, in the medium term, we feel that as markets begin to rebalance – and they are starting to – the risks to the downside of those ranges should reduce. We will spend a little bit less time towards the downside and more towards the upper part of those ranges.

In the longer term, despite lower-than-expected growth than this time last year in the developed world, we are confident that, as China and other emerging economies, particularly the high-population centres of India and countries of South East Asia, start to successfully navigate the various stages of economic development that we follow closely in China, the demand for our commodities will continue inexorably to increase. As you know, we are particularly positive about the outlook for oil and copper, which is because field and grade decline drive the sharpest reduction in base supply and they will pull the markets back into balance more quickly than other commodities. As you know our portfolio, which I am going to address now, is particularly well placed in these commodities – oil and copper.

The actions we have taken over recent years to focus the portfolio and establish world-class systems and processes, to embed a growing culture of productivity and safety and, more recently to adopt a new operating model, have all set us up well for the conditions I have described, which we are going to face into the future. We have a focused portfolio of tier one assets – close to ideal – in the right commodities rich in growth options, which can be exercised at the time of our choosing, which unlocks the most value. They all enjoy a good security of tenure. Our new operating model, which is the most successful organisational story of the last six months, is going well. It has been embedded and it is creating a very simple structure, which is freeing our asset leaders to focus even more on what matters to us – safety, volume, cost. As a result of this, I am seeing a much more urgent and rapid sharing of our best practice.

For example, in the year, it was very gratifying for me to observe the much greater exchange of our best-in-class scheduling and maintenance practices. This is why we have been able to increase our average truck production hours right increase the fleet and our coal assets have gone up by 7.5%. That is an additional month of operation per truck, per year, with more to come.

In Petroleum, we continue to deliver startling performance improvements. Our Black Hawk field is a great example. There, our drilling times are down from 19 days for a well in the 2015 financial year to under nine, and the drilling costs per well have gone from $3.4 million to less than $1.5 million now. This all heralds a fundamental change to the way we work. That is where the big value comes, but it has also resulted in fewer layers of management. That is why, as Peter was able to report, we have lowered overheads substantially, not just last year, but in the two years before that, by over $1 billion in aggregate. That is an area where momentum is still following through, so there is a lot more to come.

What really matters about this new organisation is that it is driving a culture of higher collaboration and commitment to further advance safety and productivity to get more people coming to work with a real can-do attitude. As well as that, and you have seen an example when Peter was presenting, we have a much more complete integration of strategy under Peter and his leadership. That is where we are attaining much greater capital discipline, which is securing the financial restraint and the returns on capital invested, which Peter spoke about. We will continue to do this through the clear and very transparent capital allocation framework, which he talked you through.

If you think about all of these things together, they are the many foundations that provide us with a super-firm footing from which we are going to grow value per share, both in the near term, as we navigate the volatility in the current markets, and beyond as fundamentals improve, driven by the growing demand for our products.

Three months ago, I was in Miami and I outlined our roadmap for longer-term growth. It was based exclusively on existing opportunities that already sit within the portfolio. They did not require a significant recovery in commodity prices. When we pool them all, we are going to increase the base value of our company significantly. That was back in May, when we used mid-April spot prices and foreign exchange rates to estimate what that value uplift might mean and it came to about 70%.

I can tell you that, even in those three months, progress has been quite impressive. It has been significant. You have seen from Peter that, this year, we delivered further productivity gains despite the intense headwind of Escondida's grade decline, but still net of over $400 million. For all the reasons I have just spoken about, our productivity momentum is growing and getting even stronger, so that we see enormous potential still ahead.

On latent capacity, you know that we have a lot of opportunities to release additional volumes across the portfolio for very small amounts of investment. For example, in copper, since I last spoke, the Spence Recovery Optimisation project has been commissioned. That is different from the big Spence project; it is just changing the way we leach. Olympic Dam has started to deliver the higher grades we spoke about from the Southern Mining Area. At Escondida, the three-concentrator strategy is going well. We now have full approval from the shareholders for the $180 million life extension at Los Colorados. Since then, our onshore US assets have moved into free cash flow positive territory, and at consensus prices, we expect them to remain so for the rest of the 2017 financial year.

Coming to our projects, our quality resource position gives us many options to increase volumes as prices recover. We have found many ways to do this, and in petroleum we are starting to use the hedging of gas and production costs to pull forward profitably some of the monetisation of our vast gas resources, even in the current volatile price environment. We have continued to progress our attractive suite of more traditional medium-term growth options, which all have average returns in excess of 15%. In this financial year, we expect to submit to the Board the Mad Dog 2 project, and our estimated share of capital is now below $2.5 billion. The Spence Growth Option will follow towards the end of the next calendar year, and its capital cost is now below $2.2 billion.

At a time when the industry is cutting its discretionary spend, we have accelerated our exploration programme, and we have planned to invest $800 million in the 2017 financial year. We have commenced important drilling programmes in the Gulf of Mexico and Trinidad and Tobago, and the early results are already being assessed. We shared some of that with the market last week. As always, as you know, the risks with exploration are high, but we are excited by the potential of our extended campaigns in both oil and copper.

Finally, technology is becoming more and more important to us as we wish to extend our productivity track record. We have progressed a number of projects. Since I spoke last, we have approved the replication of iron ore's Integrated Remote Operating Centre, which has been so successful, to cover our Australian coal assets. At Olympic Dam, our heap leach trials, which are so important for the next major expansion, remain positive, and we have chosen to advance them to the next, larger scale of testing. While there is much to do, those six areas are all showing strong progress.

As Peter said, we are always focused on growth in value over volume. We are also focused, of course and as you have heard, on the increased utilisation of our assets and the release of their latent capacity. Pushing these buttons hard in this year means that volumes will increase by up to 4%, excluding what we do in shale. In order to maximise shale's longer-term value, we have to be responsive to market conditions and produce when we think prices are high and likely to remain so.

Across the Group, we have already unwound a decade of cost inflation, and we are far from finished. We are going to deliver a further decline in unit costs in the 2017 financial year of 12%, and with all the things that we are building in terms of technology and culture, we have a lot more still to come in subsequent years. As Peter described, these things combined are going to secure productivity gains across BHP Billiton of $1.8 billion in 2017. The dramatic increase in capital productivity also continues. We have the lowest spend in shale, and that combined means that our capital exploration expenditure in this year will be $5.4 billion on a cash basis. That will fund all projects that are ready for and deserve capital.

This combination of steady volumes, lower costs and higher capital productivity is what drives us to forecast at current spot prices and foreign exchange rates – I repeat that – a free cash flow for the 2017 financial year of more than $7 billion. Our disciplined capital allocation framework will take this cash generation and allow us simultaneously to progress our broad suite of growth projects, which I have just described, further increase cash returns to shareholders, and most importantly, pay down debt.

While BHP Billiton has been through a period of significant change, we start the new financial year with real momentum and with the portfolio, structure and culture to prosper even in the challenging conditions that we face currently. Through decisive actions, we have emerged from the rise and subsequent fall in commodity prices with a stronger, simpler portfolio of exclusively high quality assets, and an operating model that is delivering increased levels of both safety and productivity. This combination will continue to deliver lower unit costs and increased cash flow next year and beyond. We are far from finished, because our unchanged strategy to own the best assets and operate them at full potential so as to generate strong cash flows through the cycle, coupled with our very rigorous and transparent capital allocation framework, which delivers balance sheet strength and investment discipline, will continue to increase the value of our business and our shareholder returns. Thank you.

Questions and Answers

RENE KLEYWEG, DEUTSCHE BANK: I appreciate the humanitarian element related to Samarco, but focusing on the financial side, away from the framework agreement, can you give us a little more visibility on the current cash burn on a monthly basis in terms of the operating costs; how long you can continue to sell energy back to the grid; and what sort of working capital would be needed to restart operations, plus any capital commitments? Peter mentioned that any future cash injection would be subject to the normal discipline within the Group. That suggests that things will come to a head at some point in the next six months in terms of how you are thinking about this and what your strategic options are. Is that a reasonable timeframe?

ANDREW MACKENZIE: That is a very complicated question. When I prepare for these results, I bone up as if I am studying for my finals, but we may not be able to give you all the details right now, otherwise we might get it wrong. I am going to be a bit nasty here and pass the ball to Peter and see how well he can do, and then I will add anything else that I can. Subsequently, we will also get Investor Relations to talk to you about the details. We also have Vandita Pant here, who is our Treasurer, and she may have even more details than she has told her boss.

PETER BEAVEN: We and Vale have provided $250 million of short-term financing assistance to Samarco. $134 million of that goes to the foundation agreement; the balance essentially goes to Samarco to support the repair of the dams and so on, as well as ongoing working capital. We are not putting timeframes on that or anything else like that, so I am afraid I am not necessarily going to be able to provide as detailed an answer as you are looking for, but what is important here is that that preserves value. This is a valuable asset. It should restart. We believe it can restart safely and it is everyone's interests to do so, so we should support this for the option value, if you like.

In the event that we get ourselves to a place where we have the community support, the licences and so on, Samarco itself is an investment decision. We have an asset that is currently not started. We will have to invest some money in that. Again, we are not providing guidance at this point in time as to what that would cost, but in the event, we will assess that as if it is a normal project. Let me be really clear: the framework agreement liabilities, on the other hand, are separate to that, and those will be supported because those are an obligation that we possess at this point in time.

RENE KLEYWEG: If I could push you, is there additional capital required before calendar year end, or will you make a strategic decision on Samarco before then?

ANDREW MACKENZIE: It is a moving feast. Between what we presented and what Peter has added, we have said that the costs involved in Samarco fall into a few buckets. First, through Samarco we are funding currently the foundation, and because it is bottom-up, we believe the foundation, which of course relates substantially to the provision we have made, is an appropriate estimate of the reasonable costs that decent people would pay to make good this disaster. We stand very strongly committed to that. The second part is funding the strengthening of the dam system, and that is also included in the provision. There are then some ongoing care and maintenance costs within Samarco, and of course the costs that we now have of our legal actions and the work that we are doing in Brazil. I do not foresee anything in the near term, but given the uncertain things, it is a very dangerous thing to say with any huge confidence. I do not know whether you want to add to that, Peter.

PETER BEAVEN: I just want to come back to this, Rene. We have fully provided for the foundation agreement and the costs. We have made an assessment of that and it is our best estimate at this point in time. It is Samarco's best estimate; we do not disagree with it. On the other hand, the asset itself will be funded on the basis that it makes commercial sense to our shareholders, so I think that is what is important on an overall economic basis for Samarco and the funding decisions thereafter.

ANDREW MACKENZIE: We fully anticipate that we will be giving you regular updates.

RENE KLEYWEG: You referred to Mad Dog 2, one of the growth projects. You mentioned $12.5 billion in the presentation.

ANDREW MACKENZIE: It is $2.5 billion, sorry. Thank you for giving me the chance to say that. Our share is $2.5 billion.

MENNO SANDERSE, MORGAN STANLEY: You talked about the ideal portfolio structure, and copper is clearly high on that list. Do you not worry that we collectively suffer from groupthink? Everyone in the world thinks that copper is the best thing since sliced bread, including the prices paid in M&A transactions. Therefore, are you not worried that more will be squeezed out of all these copper assets around the world and therefore copper will never fulfil the potential that we all see in it?

Secondly, the $7 billion of free cash flow is clearly a great number, but the capex figure of $6 billion cash is clearly at a cyclical low. From listening to what you are saying, Mad Dog 2 spends and so on are all coming very close. How should I think about capex and free cash flow generation at the moment?

ANDREW MACKENZIE: We have a balanced portfolio, so if your contrarian view on copper were to prove correct, there are other things that we could do to develop our company, but I do not quite share your contrarian view. We have seen a period in copper when new supply has come on in a more predictable way than has been the case for some time, and that has led to slightly lower prices than you might have been forecasting previously and has probably pushed out the time when the copper market will come into balance. The reality is that with ongoing grade decline and a whole range of developments, including moving to a greener world, which for a number of reasons actually consumes an awful lot more copper, we remain very bullish and positive about copper and very positive about both our growth options at Spence and Olympic Dam and maybe over time at Escondida, and our exploration programme. But we have a portfolio, so we can to some extent smooth out some of the concerns that you raise.

I am not going to give you lots of forecasts for the future capital expenditure of the company. It has to be driven by the capital allocation framework, but we have done a great job at improving the efficiency of our capital. There are an awful lot of things we are doing within the $5.4 billion that previously we would have required an awful lot more money for. Danny Malchuk is here, and I am going to put him on the spot for two things. As well as running Minerals Americas, he is our copper expert and can give you more details on that. As part of our new operating model, we have pushed three areas where we think more functional excellence would be good, including maintenance, which is run by Mike Henry, and capital, which is run by Danny. He is at the end of the row if you want to talk to him about it. Those are the things that will allow us to continue effectively to grow the value of this company with what will seem like historically quite modest capital expenditure.

SYLVAIN BRUNET, EXANE BNP PARIBAS: I have a follow-up question on cost. On conventional oil, it is fair to say that we have seen a catch-up and improvement this time compared with the mining portfolio, which was probably ahead. How much of that do you reckon is left? Could you share some examples of what is being looked at for the coming years? I also have a follow-up question on the portfolio. Should we read that you have less of an incentive to look at other JVs at this point, which were said to be under review before? Lastly, there were some press comments that you could be interested in some coal assets. Could you clarify where you feel your exposure to coal could grow, or are you happy with where you are today?

ANDREW MACKENZIE: On petroleum, that is an important acknowledgement, but one of the great things about the sharing that is now going on in our portfolio is that while cost reduction in petroleum has perhaps lagged that in minerals, their ability to reduce costs has derived huge input and help from some of the pathfinding that has been done in some of the minerals assets. Most of what has come about is in the onshore area, but the offshore area has continued to drive down its costs as well. It is very capital intensive, so a lot of those things are related to being able to reduce drilling costs by just reducing the cost of drilling in the supply chain.

On the coal thing, because the counterparties to those deals are probably more important bellwethers for what is and is not going to happen, I would rather you talk to them, as the sellers, than you talk to us as potential suitors or buyers.

We have done a review of our JVs. In fact, Danny led that review. Obviously, Samarco is much more straightforward: things have not worked out. As we move to the potential restart, we will have a much more engaged conversation with Vale about what kind of governance structure is right and will give both sets of shareholders increased confidence about the operations. There is not quite the same pressure to advance changes at Cerrejón and Antamina, but Danny is establishing a new component in his organisation to look at ways in which we can enhance the governance of those independent joint ventures so we can make sure we learn all the lessons from Samarco and tighten some of the controls. Obviously, we have a number of things to announce, but I want to be clear that there is no black and white evidence that had the governance structure been different, the outcome at Samarco may have been different. But it does give us an opportunity to revisit these things and put the governance on perhaps an even firmer basis. Again, Danny has looked into that in considerable detail, if you want more at the end of the meeting.

CLARKE WILKINS, CITI: On the capital allocation, I do not know whether this is being too nuanced on your comment, but when you were talking about how the $7 billion flows through that capital allocation, I think you said ‘most importantly, to pay down debt’. I am just trying to figure out how that fits into what effectively happened in the second half, when the decision was made to top up the dividend rather than further pay down debt. If we do generate this free cash flow in 2017, what is the top-up to the dividend versus the pay-down of debt? With that excess cash, I think the comment was made that buy-back is not attractive versus organic growth options. Does that effectively mean that topping up the dividend is clearly more attractive than doing buy-backs at the moment?

ANDREW MACKENZIE: We have to cut it every six months, Clarke, before we can give you that, so I am not going to give you precise guidance. What is behind a couple of things? We acknowledge that although we feel our balance sheet is strong and very much fit for purpose, reducing debt from its current level will be an important priority for us when we are able to do so. That is all I am signalling. When you look back to the decisions that we have made around the dividend this time, the level of the dividend on the 50% pay-out ratio is clearly relatively low compared with past practice, and we do have a bias to get cash returns through to our shareholders. To some extent, we took a Solomon-like judgment: we put some on the balance sheet and some on the dividend. The buy-back comment was really just Peter reiterating a commitment that he and I made that we will test any investments that we might make against the possibility of investing in our own shares.

HAYDEN BAIRSTOW, MACQUARIE: On the productivity target that you set yourself, all the guidance for 2017 seems to be set at around 71 Australian cents. Is there plenty of headroom in that target, or do we think that might be a bit of a stretch given where the FX currently sits? Secondly, on the shale assets, with the talk of hedging the gas prices, is there anything we need to think about in terms of the book value of those assets if you start locking in forward gas curves as they sit today versus whatever your previous assumptions were on long-term gas prices, or is that factored into the current book value?

ANDREW MACKENZIE: I am going to start, and then Peter might want to add something on both questions. Our productivity target for this year of a 12% reduction in costs and $1.8 billion of savings is primarily based on things that we will do within our own operations and is not dependent on a significant change in the foreign exchange rates. Peter can either correct me or add to that.

We are doing a relatively small amount of gas hedging at the moment. We are only doing it with existing production, and we are doing it because in this very tight US domestic market, we see patterns in the way the price varies because so many of the players are hedging that we need to be part of as well. The reality is that we only get two or three years of production to make money from any individual wells or groups of wells, and that is not enough time to run the full cycle. We have observed that we can actually lock in a decent margin through hedging both our prices and the majority of our costs through this small trial. Peter can answer the broader question, but the first trials have been good and we seem to be achieving returns in excess of 30%. We will see where that takes us in the longer term.

PETER BEAVEN: We calculate productivity – and we displayed it on the EBITDA waterfall chart – independently of FX, as well as price and so on. The productivity number that we have provided and will provide is independent. Our unit costs are impacted, and the 71 cents is embedded in those. That happens to be the number that we had at BAML conference. It is essentially the average of what the forward curve was saying at that time. It has moved by maybe 1 cent since then. Essentially, it is a number that we use to pin our guidance and nothing more than that. Overall, we are quite happy with the $1.8 billion, irrespective of where the currency goes.

On the shale book value, hedging is independent of how we assess the carrying value of our shale assets. Like most companies, we will take a look at the development plans and the associated costs, and of course we have a revenue line that is dependent on a price assumption. That price assumption is not going to change because we do or do not hedge. You cannot assume a long-term price and then add something because of hedging. That would be somewhat aggressive, shall we say. Hedging is independent of the carrying value. We are quite comfortable with our carrying value on shale.

LYNDON FAGAN, JP MORGAN: My first question is on Jansen. More than half a billion was spent on the project during the year. Can you perhaps give us an update on what is happening there? There is close to $3 billion of net assets there as well, and it would be great to learn how we can get that realised for shareholders. My second question is again on the book value, this time of Haynesville, which was carried for almost $3 billion. There was an EBITDA loss of $67 million, with no plans to ramp up the rigs there. It feels as if there is an anomaly on that. Can you perhaps talk about what is driving that book value and how it survived the impairment testing?

ANDREW MACKENZIE: Peter will handle the second question in detail, but just to give some colour, if the hedging strategy works, we may consider putting a rig back into Haynesville.

We are making good progress on Jansen. We had a challenging start, but we have got through a lot of the technical challenges and the two shafts are down roughly 600 metres, with 300-400 metres to go, depending on whether you are in the production shaft or the service shaft. We are doing that with less money than we allocated –

the $2.6 billion that the Board approved a couple of years ago. That means that we will probably finish the shafts around 2018/2019, and at that point we will face a decision, to your point, as to whether we start to construct an operation around the shafts and start to enter the market. Again, there is some good news: while we have been progressing the shafts, we have continued work on the engineering studies. We have substantially reduced the costs of future development – by the way, those are not just capital costs but potentially operating costs – and we have broken it down into a smaller number of phases, or modules, so we can go into the market with a smaller amount of capital and therefore a smaller amount of potash as we go forward.

The decision to do that is at least a year or two away – probably more like two, and possibly more. If at that time the market is not going to be ready for potash in, say, the subsequent three years, it is certainly perfectly possible that we could mothball the shafts once we have completed and properly lined them. We continue to talk to partners who may consider taking a stake in the Jansen development, and obviously, as the shafts are going well and we are able to bring down the capital and operating costs of our project, it is easier to attract more suitors. We will definitely keep you posted, but our commitment is absolutely to unlock real value for shareholders through the careful and increasingly efficient investment that we are making. When we look forward, say, 10 or 20 years in the plans for this company, there is one scenario where quite a bit of the EBITDA is going to be coming from potash – if when we look at the capital allocation framework and the market, as time unfolds, that looks like a good investment for us to make.

Peter, maybe you want to talk about the carrying value of Haynesville.

PETER BEAVEN: The Haynesville carrying value again depends on our view on costs and our development plans going forward. We of course have a long-term plan for Haynesville. That will not surprise you, given what Andrew just said a moment ago about the sort of returns that we can see from particularly the core of the Haynesville, which is tremendously high quality. We would expect to put rigs back into action there and start to harvest some of the fantastic returns and value that we see in the core Haynesville. That is really what underpins the carrying value of Haynesville and it is a large number because it is a very good, high-quality asset and it is large, so we are looking forward to that.

MYLES ALLSOPP, UBS: I have a couple of questions. Going back to your over $7 billion of free cash flow spot and how you are going to allocate this, you are saying that the balance sheet is at the peak of this cycle, so you are looking to get net debt down, but how are you thinking about balance sheet strength? Obviously, some peers are talking about a 20-30% net gearing range. You have talked about a solid A credit rating. You have talked about absolute levels of debt in the past. How should we understand when you are absolutely comfortable with the balance sheet and when we should see a higher proportion of cash being allocated to shareholders?

Secondly, thinking about Trinidad, obviously you are spending a lot of money on exploration, the first well was dry, it looks like or it did not have liquid, shall we say, at depth, which is what you are looking for. Is that a meaningful setback? Is that something that we should be concerned about, as shareholders, in terms of the amount of money still being invested in exploration?

ANDREW MACKENZIE: Peter will handle your first question, because it all relates to how we drive the capital allocation framework. On your second question, the well was not dry; it contained significant amounts of gas in shallow reservoirs and the indications through the well were that liquids are present, but just not trapped, in that structure, in an appropriate kind of reservoir. We have proven that this is potentially a prolific oil and gas province and we are on to drilling the next prospect. With all these things, there are different ways in which we might envisage entrapment of oil as opposed to gas and so I would not be too dispirited at the moment. If would have been great if the first well had found a major oil accumulation, but the reality is it is part of a multi-well and multi-prospect programme and, from the geology we saw, other than the absence of a large reservoir in a big trap, everything else, all the ingredients were there and give us the encouragement to carry on.

Peter, maybe you want to talk about the first question now.

PETER BEAVEN: Yes, sure. We have described our strong balance sheet and the number of measures there are. The primary one is around the cash flow to debt ratios and it is really net debt ratios that we prefer, to be honest with you and we are seeking an ‘A’ through the cycle and essentially that is what we are on the path to maintaining. We are already there, but as we said earlier, at this point in time, probably we are in the range, we have a good, strong balance sheet, but we would prefer to reduce that net debt a little over the next year or two. We will continue to assess that every six months, as Andrew mentioned, as part of our capital allocation framework. That is pretty similar to the messages we have given to you in the recent past; and we are not going to give a net debt forecast.

ANNA MULHOLLAND, DEUTSCHE BANK: Just a quick follow-up question on Trinidad and Tobago. What is your timeframe for this or the next milestones? Can you accelerate the programme? I do not know how much of the 700 million total offshore exploration you are pushing through on the Trinidad side. Overall, in terms of capex starting to go up slightly in fiscal 2018 versus 2017, what are the key drivers of the uptick? Are you assuming, for example, that you spend on Mad Dog or is it something that is already in the pipeline?

ANDREW MACKENZIE: We have one rig dedicated to Trinidad, so it is one prospect at a time. The LeClerc well went down a lot quicker and was a lot cheaper than we expected, so that might allow us to get through the drilling programme faster than we originally thought, but it is early days and I do not want to give you a forecast on that.

A very slight uptick, I would say, in capital going forward. Of course, it would include something for Mad Dog 2 and, potentially, in the subsequent years, something for Spence. I am not quite sure if there is anything else behind your question, but like I said earlier, these levels of capital we are seeing today, maybe with a slight uptick, we can, in the next few years, pursue most of the things we want to do by way of growth that is happening organically and internally.

JAMES GURRY, CREDIT SUISSE: I have two questions. First, in relation to the dividend, you had $5.3 billion of cash flow in the half, less maintenance capex of about a billion, so that is a healthy $4.3 billion, but under the dividend policy the minimum commitment was only $200 million to pay to shareholders. Do you think that under the current dividend policy the depreciation and amortisation figure is unfairly penalising expected dividends going forward? If it is or it is not, how should we think about the additional portion of the dividend that you are likely to pay every six months?

In relation to hedging, it is obviously a big step forward for BHP, because you did not consider hedging in previous years when you had a different suite of assets. Do you think that you will step up the hedging if you change your capex estimates for the Shale division and would free cash flow step up in lock step if you were to lock in some hedging or increase the capex for shale?

ANDREW MACKENZIE: On your first question, it all really comes back to the capital allocation framework. Maybe remind me of what you asked, sorry.

JAMES GURRY: Depreciation and amortisation is a very large figure.

ANDREW MACKENZIE: Oh yes, I am reminded. I would not get hung up on that. The important thing is we now have a new capital allocation framework and we have a new dividend policy and we feel very strongly that this is the right dividend policy for the conditions that we now face. That is why we made the change when we made it. We are now committed to it, we have to be for a while and we will operate it exactly as we have laid out very clearly – 50% of underlying attributable earnings – and then we will use the capital allocation framework, in the way that Peter and I have described, to decide whether, in any one period, it is appropriate to top that up. However, your factor is not one we consider in that. Your observation is right, but it is not a factor or something that we would consider. It is the capital allocation framework we will use to drive that.

The second question is on hedging. What I want to make clear is that the hedging is very specific to US domestic gas, where there are a couple of factors that suggest that we would be foolish not to consider this as a commercial opportunity. One, it is a very flat cost curve and therefore the possibility of losing exposure to the upside is quite a small loss of exposure compared to, say, something like the oil cost curve, where we would be very much more reluctant, to the point of no, at this point, of ever hedging. Certainly everywhere else in our portfolio, unlike these domestic gas opportunities, we have much longer paybacks where we have the opportunity, if you like, to see the full cycle of price that we cannot see in gas. It is very specific to gas and it is one of those things that we are going to approach reasonably slowly. So far so good and, as I suggested, maybe we will update you on that and it may be the case, if the market suggests it can be done, of justifying an additional rig in the Haynesville on the basis of our ability to hedge. I would not put it stronger than that and that, in itself, is not going to have a huge impact on our overall capital budget.

Peter, if I have missed anything, please jump in.

PETER BEAVEN: I think you have covered it. On the first point, on the dividend, the depreciation is independent. We are not locked into a 50% payout ratio. That is the minimum, so in the event that, as we find ourselves at this point in the cycle, where depreciation is higher or lower or any point in the cycle where depreciation is higher or lower than the capital and therefore the cash flow generation underlying, we will take that into account through the capital allocation framework. We are fine with that, not penalised.

ANDREW HINES, EVANS AND PARTNERS: Can I just take you through your slide 12 again, your capital allocation framework? It seems to me that there is one item missing on that slide, which is sustaining capital. When you think about what level of capital is required to sustain the company at the current size that it is, it feels like five or $5.5 billion is just not enough capital. Obviously nine billion D&A is not representative given the over-capitalisation over the last few years, but you mentioned a few times in the presentation the headwinds of a depleting copper grade at Escondida, you have depleting resource in your Petroleum division, at some stage there is a big lick of capital required in iron ore when Yandi needs to be replaced. That is a lot of capital just to stand still. How do you think about what that number should be, because if feels like five is really too low?

ANDREW MACKENZIE: We do not recognise sustaining capital in the way that you are talking about it, so I would not want to put an additional item on the capital allocation framework. The only capital that we would feel obliged to spend in advance of checking the balance sheet, paying the dividend and then getting into the multiple choices we face with any excess cash is that which we require to maintain the integrity of existing assets and make sure they are safe and reliable, as part of our twin focuses on safety and productivity. Whether we are investing to increase volumes or increase performance or replace volume that we have lost through field decline or grade decline, they are all projects that have to compete for capital with each other and also for other uses of capital, whether it is on the balance sheet, it is to the shareholder or even to buy back our own shares. It is not an extra line that we would consider putting in the capital allocation framework. That is point one.

Point two, all the things you talk about are plenty of reasons that we may see high-value opportunities to invest in the future and we will continue to advance them, but we will continue to find ways of doing them with ever-increasing capital efficiency so that the costs of doing that might be quite a bit lower than historical precedent would guide you towards. The exact numbers, until we make that expenditure clearer and more concrete, I cannot forecast, but we are doing a heck of a lot for $5.4 billion and we can continue to do an awful lot with that sort of money, including looking after maintenance capital, in a manner that would continue to grow this company. We have talked a lot, if you like, about our latent production capital; in Miami, I talked about $1.5 billion to grow volumes by 10%. Remember, it is value over volume, so the value has to be there. We can steadily increase the production from the Permian and that may require more capital, but you will have heard the wells in the Permian are not yet as cheap as those in the Eagle Ford, but the reductions in costs are equivalent and because we are doing less there they are likely to continue. Looking ahead, it is only $2.5 billion over a few years for Mad Dog 2, less than that over a few years for Spence and it is a little while before we would have to make a very significant investment, for example, in a new shaft at OD. It is still hard to foretell exactly what it will be, but it is going to be a lot lower than you are used to seeing in terms of capital expenditure if you take the last 10 years as an example.

DUNCAN SIMMONDS, BANK OF AMERICA MERRILL LYNCH: On shale, I wondered if you could rank the opportunity for reinvestment, say, in your oil portfolio versus restarting your gas portfolio, particularly with hedging in mind.

Secondly, which is probably a lot briefer, press reports are talking about the divestiture of Bass Strait oil assets within the JV. I am just after a little more granularity in terms of what the JV is trying to achieve, what is the materiality, say, as a percentage of production or something similar to that. Thanks very much.

ANDREW MACKENZIE: I do not know about ranking. Obviously, it depends on how the prices move, but what we have done through the hedging programme and thinking about it is we have probably moved the Haynesville up the ranking relative to what it would have been six months ago. That is why we are considering the possibility that if the current conditions that we have been able to do something in with hedging were to persist – and remember in the gas market in the US, at the moment, rig rates are continuing to go down, whereas that is not true on the oil side of shale and we have this very flat cost curve, which we think is likely to persist, but we can counteract that a little bit through hedging – means it is possible we might move a rig from one of our oil developments into the Haynesville. We have a formal process where we review that monthly, it is very dynamic and between myself, Steve and Peter we talk about it more often than that, so that is all subject to change, but the simple answer is we have probably moved the Haynesville relative to where it was. Whether it stays there and whether it is a slice of something, I am not sure.

Peter might have more details on the Bass Strait. Remember, we are not the operator there; it is ExxonMobil. They are effectively tidying up the portfolio there by divesting some of the smaller and less critical assets while keeping the bigger production centres. That is obviously handled by them in concert with our acquisitions and divestments group that reports to Peter. He may have some of the numbers or not, so I will leave that to Peter.

PETER BEAVEN: I will just add to that. This is not particularly material, certainly not for Exxon and not for us either. These are late-stage assets that have been tremendous for us, but in the lifecycle of any asset there comes a time when others will be the better owner of those assets. There is still upside available in exploration. There is, of course, workout specialists on those types of assets and we make those assets available for those folks. They will be, potentially, worth more and they are willing to pay more than we think they are worth in our hands, so that is a perfectly sensible piece of capital recycling that we are very happy to undertake and continue to undertake in the rest of our portfolio as we see opportunities.

ANDREW MACKENZIE: That is entirely consistent with our own strategy of simplification, so we are very much aligned with our partners.

GLYN LAWCOCK, UBS: Just two quick questions. Firstly, your productivity of $1.8 billion for fiscal 2017, you talk about value over volume, which I assume means volume may not be achieved if it impacts price adversely. I am just wondering how much of that $1.8 billion is true savings that you can lock in versus what is volume, which may not eventuate if you impact price.

Secondly, following on from Andrew's question, I am just trying to look at the normalisation of the business in terms of capex and I want to make sure I understand you correctly. You are basically saying that it looks like steel production is going to peak around about the mid-900s now, you talk about, so you are saying that you could be peak iron ore as well and that you would be prepared to let the volume decline and not reinvest to replace Yandi if the market did not need it. Is that how I should interpret this? This is now a cash flow business.

ANDREW MACKENZIE: That is a somewhat heroic extrapolation going on your last question. Remember that we sit pretty close to the bottom of the cost curve on iron ore and although there is going to be fierce competition to claim the bottom of the cost curve crown between ourselves and the other three low-cost operators, we will be playing that game to win. Therefore, even in, as you say, reduced demand out of China, we still see this as potentially being a business with a very high margin and a big cash generator going forward. It is perfectly possible in that environment that we would still be able to justify an extension or, if you like, a replacement of the production from Yandi when the time has come, and we are working very much on options. As I said in my talk, there is a strong indication that India will import iron ore, and iron ore will be required by many of the other nations of South East Asia.

And I think the other thing that is interesting with the Chinese One Belt, One Road is that they are now currently exporting close to 10-12% of the steel they manufacture. Under some models that could grow – particularly under One Belt, One Road. I think that is still very much all to play for, and I would be reluctant to make the extrapolation you did.

On the productivity number, I think that $1.8 billion is not obviously something we have been too heroic about. It is based on our bottom-up plans for what we already intend to do and it is certainly does not presuppose some rapid ramp-up in shale, given our current prices, and that is about the only volume growth that we would make conditional on markets. Peter can confirm that, but I do not think this idea that we may actually have to forgo volume and, as a result, not make it is material to that estimate.

Peter, do correct me if I have got that wrong.

PETER BEAVEN: No, not at all, Andrew. I think, as you know, Glyn, we have already given guidance as to what we expect our production to be for our major assets and our major groupings of assets next year. You can see for yourself that we have decent productivity gains, volume-wise, across the board – with the exception of petroleum, as Andrew mentioned a moment ago. We do not put shale into that category in any event. We do split the volume piece out in terms of growth and productivity and that growth piece is where we really put shale, because it is dependent on the capital we allocate to those rigs, and therefore we keep it in that category.

I think that as we have delivered this tremendous track record over the last three years and over the last year or so, I think we have consistently hit targets people really felt a little bit sceptical about. Hopefully this time people will start to believe a little bit, but we will wait and see. I am sure you will. We are confident.

ANDREWKEEN: I just have a couple of quick follow-ups on Samarco, if I can. Your $1.2 billion provision for it does not include any potential punitive charges, I imagine. It also assumes a restart of the asset over time. There are potential liabilities there, which are also offset by the long-term option value of the asset. I guess my question is, if somebody turned up today and said, 'I will take Samarco off your hands and you write me a $1.2 billion check,' would you take that offer, or do you think the long-term value of the asset outweighs those potential risks?

You talked about better owners in Bass Strait. Is BHP always the best owner of that asset or does there come a point in time when you might look at divesting that?

ANDREW MACKENZIE: Look, the disaster in Brazil is terrible. No matter how you examine what caused an accident, we were part-owners of that and we have, I think, a moral obligation to make good the environmental damage and the humanitarian disaster that has resulted from that. In order to do that, I think we have to stick around for a while. Therefore, it's not an appropriate time to answer any part of your questions.

We have shown commitment to the Brazilian authorities and to the people of Minas Gerais to do the right thing by way of the environment and by way of the environmental disaster. That requires us to stay there for a while and to work with Samarco and Vale. I think I would prefer to leave your questions for now, if you do not mind.

Did you want to add anything, Peter?

PETER BEAVEN: I would add a couple of things, if I may. You are right that there is nothing included in the provision for punitive damages. We have made an extended disclosure on those. There is a contingent liability. You are free to read through that. To the other point you made, however, that the restart is included and netted off against the provision, that is not, in fact, the case. There are two parts to what we did in the last financial year. We set up the provision for the $1.2 billion, which is 50% of Samarco's estimate of the obligations that would arise under the framework agreement. That is completely independent of Samarco itself.

Now, on the Samarco side of things, we have written that asset down to zero on the basis that we do not know when it is going to restart. If it restated in accordance with the capital-allocation framework and so on, that would present value to the shareholders and in due course, I suppose, hypothetically speaking, you can start to think about writing back some of that – but, at the moment, that is not where we are at. That is just so, technically, you know how that would work.

GRANT SPORRE, DEUTSCHE BANK: I have a slightly broader question. There have been recent reports out of Western Australia that there is a proposal to increase the government take on the iron ore. I have a two-pronged question. The Australian mining industry was successful in heading off the MRRT previously. Have you given any thought to how you are going to head this one off?

Secondly, in the down-cycle we did see governments back off. Are you starting to see a bit more pressure on higher government takes, for instance, in Chile? Thank you.

ANDREW MACKENZIE: There are two parts to your question. I actually gave a very long answer, which I am sure will get widely reported, at the press conference an hour ago on the first part. Generally speaking, without wanting to get specific to individual countries, as governments around the world seek to balance their budgets, there does seem to be an increased desire to increase our rates of tax, which we have to challenge. You have seen that we have actually made a bit of a provision for some of those things. Yes, something we will point out is the risk in doing that – in actually turning down growth and future revenues for the sake of some short-term tax gain. That will happen all over the world.

It is a little bit from the MRRT, because this is a request specifically to ourselves and Rio Tinto. It is not broadened to the whole industry. I made two points earlier, which I am not going to develop at length now. It does strike us as a little unfair. You could double the numbers if you added Rio Tinto. We have built an incredibly successful export-driven business for Western Australia and for Australia, over 50 years, under the banner of fair agreements. We paid $65 billion of tax in Australia, and quite a lot of that came from that business we created by investing $25 billion just in the last 10 years. We have done a lot for the communities. Our community spend over the same period is nearly $300 million. We have put enormous amounts into the related industries in Western Australia. Over the last five years, it is about $20 billion into some of our service costs. Our feeling is that we have made a phenomenal contribution at all levels. Being asked to pay a bit more now seems a bit unfair, just for us, given what we have done.

Yes, there is a risk to jobs. We have just been speaking to Glyn about further investment that would be required and so on, and that investment is a little bit less attractive with the possibility of things like that. This is a lot of jobs. Tens of thousands of jobs have been created through that iron ore industry. It feels a bit unfair, and a bit anti-jobs – and we will make those points.

TYLER BRODA, RBC CAPITAL MARKETS: My question is around Eagle Ford. Oil prices continue to trade with significant volatility, but we have seen improved fracking technology and better costs. What sort of prices would you estimate you would need for you to start meeting capital-return hurdles at Eagle Ford, and how much inventory at that level would you see that you would have?

At the same time, you alluded earlier to the improving profitability in the Permian. Are we more likely to see spending return to the Permian first than Eagle Ford? I guess I will leave it there.

ANDREW MACKENZIE: Okay, there is a lot of detail you might want to get with Adrian and others afterwards to fill things in. I will keep it at a broad level.

Again, this is all back to the capital-allocation framework and how sustained we think the prices will be. What we have done on Eagle Ford is we have started fracking our DUCs, whereas we stopped fracking for a while when the price was below $40, and it has popped up now, and that has given us the encouragement – combined, obviously, with our lower costs to do so.

On Permian versus Eagle Ford, I think the Permian has not really been developed much, particularly our part, so there is an awful lot more to do up there, but the costs are a bit higher – whereas there is a lot less left to develop in oil in Eagle Ford, albeit at a lower cost. We will have to weigh up all those factors, but right now we have two rigs in the Permian and two in Eagle Ford. We have this competition I talked about in Haynesville, and we have started fracking back in Eagle Ford. It is a dynamic situation, and I think Adrian can give you a little bit more detail on that after the meeting, if you like.

Peter, did you want to jump in.

PETER BEAVEN: Yes, I wanted to point out that I think this is one of the strengths of having a petroleum business inside a broader business – or, in fact, a shale business inside a broader business. We have a very, very strong business, particularly in Black Hawk. Those returns are available at well north of 15%, at today’s prices, given the strength of our position. On the other hand, however, because we think that oil price will increase, it is better for us to keep those barrels in the ground and produce them in due course for higher prices with higher return returns to shareholders.

It is that ability to time our investments appropriately that is also a very great strength of how this diversified model works. Again, the team has had a huge impact in shale, reducing the ongoing spend there to the point where, certainly in the last quarter, we are back down to free cash flow neutrality. Again, we have this option that we can hold without spending a lot of money, waiting for those better prices, which we think are very much on the way.

ANDREW MACKENZIE: Okay, can we have the last question, Rene?

RENE KLEYWEG: Historically, there have been discussions about potential acquisitions in offshore oil. Given where the current balance sheet is, should we assume that any acquisition activity in the low single billions of dollars for non-producing assets is highly unlikely over the next 12-18 months?

More broadly, in the longer term, if you look at your more conservative approach to iron ore prices versus where we are just now, there is potential downside risk to that $ billion. You are less excited about coal in the medium term, it would appear, than copper and petroleum. Is the coal division absolutely core, or is a three-legged stool more stable? Would you use potential proceeds from coal, in the medium term, to pursue opportunities in copper or petroleum if free-cash generation is insufficient and balance-sheet capacity remains constrains?

ANDREW MACKENZIE: All of these kinds of transactions are hard to pull off. That is why our plan for growth in value is entirely based on the portfolio that we now hold. That is our base plan, if you like. Maybe this is not quite the right time. I am not sure I want to go into the real detail, but I do want to make it clear that the coal division is not a poor division: we have seen $110 per tonne now for met coal and a substantial improvement on the thermal coal price. We are very clear that we have a four-pillar strategy with a potential fifth pillar in potash – and we have not changed our minds on that.

With that, I think I would like to wrap up. Thank you, everybody, for listening to Peter and me today. I am not going to come with a big summary. Clearly, we feel disappointed by the statutory loss, but, if you look through that, you look through to a company with a very strong portfolio of some of the best assets that is married to a very effective operating capacity, which have combined as prices have stopped falling. We continue to deliver on safety and productivity. We are starting to open up quite a decent margin and quite a healthy cash flow potential. In fact, if – I know it is a big 'if' – the $7 billion stands, our free cash flow yield would be one of the best we have had since the merger. Thank you very much.