



# Investor and Analyst Call 16 November 2015

## Transcript



## Andrew Mackenzie, CEO, BHP Billiton

Thank you all for joining this call. Everyone at BHP Billiton has been deeply affected by the terrible incident at the Samarco iron ore operation in Minas Gerais in Brazil. It seems quite a while now, but it was just over a week ago, and we remain filled with sadness and concern for the community there. I travelled to the region last week with Jimmy Wilson who, as many of you know, is our President of Iron Ore. The devastation that we witnessed on site and around the community was really quite heart-breaking. It was important for us to go there to learn more about the local situation and better understand how BHP Billiton can best help, both now and over the longer term.

We spent time with the Samarco workforce and the Samarco management team. I spoke to the local mayors, the state governors and indeed the President of the country. I also had a lot of time with the first responders, who had had to handle the very desperate and difficult rescue conditions but, in all cases, we told them that they could be confident that we will offer Samarco our full support in their response efforts.

This will come in many phases, but now the immediate focus is very much on making what we have there safe, continuing the rescue operation and getting started with the very early humanitarian support, and we are making good progress in these areas.

Talking particularly with people on the ground, I heard stories of huge courage, heroism and real commitment to the response effort. The courage and the resilience of the workforce at Samarco, the communities that were so badly affected and the responders in the face of this quite awful event quite inspired me.

For now, our priority must be the welfare of the workforce and the local community, and I was encouraged and remain encouraged – because I get reports on a very regular basis – by the support I saw Samarco providing. Samarco is continuing to provide food, water and emergency supplies to the local communities. They are also continuing to work with the authorities' efforts to supply clean water to the communities that are further downstream along the Doce River.

More than 600 people lost their homes in this tragic accident and they have been placed in a hotel or in bed and breakfast accommodation. Samarco is now consulting with each family to understand whether they would prefer to stay in hotels or move to some rented houses that we have identified. They have evaluated more than 300 potential rental properties and they will be validated by the community before they move. The first families are starting to transfer to this accommodation; in fact, that began not long after we left.

I am also pleased to say that the children from the Bento Rodrigues and Paracatu return to school today with classes taking place in Mariana. Samarco has ensured that they have the same teacher and classmates as before the accident, in order to help with this quite painful adjustment.

In BHP Billiton, we recognise that we have a responsibility to support Samarco and the local authorities in the response effort, and I assure you I am absolutely determined that we will fully play our part in that response. BHP Billiton has a growing team of our own experts on the ground, including geotechnical people, disaster relief and humanitarian response experts, senior health and safety executives, environmental scientists and a number of other support staff, both drawn from our own complement and also hired externally. They are going to be working with Samarco, the communities, local authorities and a similar team from Vale to determine what additional resources we can provide to the local authorities and to support Samarco's response effort over the longer term.

You would now know, as a result of a press conference that both myself and Murilo Ferreira gave last week, that we and Vale have pledged to support Samarco in creating an emergency fund for rebuilding works to help affected families and communities and potentially also for environmental remediation. We are working with the authorities to ensure that this is established and is operational as soon as practicable.

Minimising the environmental impact of this incident is also a priority, and an environmental recovery plan is being developed with our assistance by Samarco, and of course with the support of some of our external experts. Samarco is continuing to monitor the impacted tailings facilities, including the Germano dam, and in conjunction again with further independent experts is developing a plan to reinforce the dam structures that no longer have the support of the contents of the dam that failed and to stabilise the area.

Samarco's mining operations at Germano were immediately stopped following the incident, and Samarco's operating licence has subsequently been suspended. The operations will remain suspended as authorities commence investigations and rectification work plans are developed. Samarco employees have been put on paid leave. Some are of course continuing to work with the rescue and recovery operations, and options are being considered by Samarco for managing the workforce longer term.

As the operator, it will be Samarco that will continue to update you more regularly on the situation and support efforts, but we will also provide you further updates as more information becomes available. However, in this context, I am sure you understand that we do not yet have the answers to all the questions that you and indeed we might ask, but I do want to reemphasise that we are deeply sorry to everyone who has and will suffer from this terrible tragedy. Do let me be very clear: we are 100% committed to doing everything we can do to support Samarco as it works to rebuild the communities and restore the environment, in a way that I think would be acceptable to reasonable men and women. Are there any questions?

## Questions and Answers

MENNO SANDERSE, MORGAN STANLEY: Is there any indication of the timeline to get to the bottom of why this terrible event materialised?

ANDREW MACKENZIE: No. We are going to put in place an inquiry, which will be one inquiry, supported by both Samarco and Vale, as well as ourselves. Our intention is to get this going as soon as possible, and work night and day to drive that, but it is going to take its time to get submissions from a wide range of experts and look at the history of the tailings dam.

HEATH JANSEN, CITI: Can you give any indications of rehabilitation costs or if and when the mine might restart?

ANDREW MACKENZIE: Again, I cannot be specific about this. It is clearly our intention to do what is right by reversing, in the right way, some of the environmental consequences of this accident. As I said in my remarks, we will be carrying out a fairly detailed survey to understand what has happened and what will be required to restore the environment to an appropriate level of health.

For now, we have to make our first priority the humanitarian efforts necessary and starting on some of the environmental remediation. As a company, we are obviously keen to find a way, once we understand what caused this accident, to safely restart mining operations, but we will not be the only player in that. We will have to consult with the authorities to obtain the various permits and clearly satisfy them that we are safe to begin mining. There are a large number of jobs at stake here. They have been speaking in the press to the mayors of local towns, who would certainly like to see that happen, for obvious reasons.

JASON FAIRCLOUGH, BANK OF AMERICA MERRILL LYNCH: You mentioned that you are 100% committed to helping Samarco here. Could you talk about the willingness of yourselves and Vale to inject more capital into Samarco to keep it liquid, as required?

ANDREW MACKENZIE: What I can say is that we clearly have to provide appropriate funds for Samarco to enact the humanitarian activities and remediation that we think are the right things to do. That is our intention.

MYLES ALLSOP, UBS: Could you give us a bit more detail about the insurance you have at the Samarco and BHP levels, what it covers you for and if it impacts your view of the dividend?

ANDREW MACKENZIE: I do not want to comment on that, Myles. The insurance policies you ask about are inherently complex. How they act in response to catastrophic losses such as these has to be worked through. Until we have given the insurers time to assess claims, I would like to leave it there, please.

JAMES GURRY, CREDIT SUISSE: Can you tell us what this might have generated internally for what you might be doing to look at your other tailings facilities globally to ensure or double check that they are safe, and perhaps your approach or attitude to your other joint ventures that are independently operated and ensuring that they are operating to BHP's standards?

ANDREW MACKENZIE: I can tell you that, in both cases, we are not waiting for some of the reviews I spoke about earlier and the investigation of cause. We are carrying out a thorough review of all of our dam facilities of scale around the organisation.

The other thing that we will look into, for our own benefit, is the arrangements that we have at Samarco which mirror similar arrangements we have at Antamina and Cerrejón. Given what we learn from our own governance processes and before that, where there may be more ways that we can tighten up some things in the manner that I think you suggest we should be.

For now, those are the only two additional pieces of work that cut across the organisation, which we are contemplating while we get on with the rescue, humanitarian and environmental issues at Samarco, and the investigation. The people on the call would expect me to say that the vast bulk of our company continues to consist of very high quality assets that are being well run. They are all and have been hitting close to or greater than record production, and you have seen the track record we have built of unit costs falling between 30% and 50%. Projects are on track, and we have certainly met a couple of times as a management team to ensure that that work is in no way distracted by what we now have to do at Samarco.

More importantly than that, as we are hungry for the lessons that we can learn from Samarco, we are clearly looking at ways we can run the vast bulk of our business even better. That of course is where the very large majority of our workforce are. Despite the distraction and the distress that they feel, we are asking them to concentrate on safely lifting what was already a good performance in the circumstances even further, as we go forward.

JAMES MMCGECH, CITI: I was just wondering if there were any inconsistencies in the approach that you have shown and Vale have shown towards Samarco and the steps forward from here. We have certainly heard more from BHP than we have from Vale, at this point in time. In-country, the stakes for Vale seem a little higher. I was wondering how your relationship with Vale and into Samarco has been going?

ANDREW MACKENZIE: It is good. You are perhaps reading too much into that. I arrived in country early Tuesday last week, and met with Murilo Ferreira and some of the senior members of the management team at Vale. We put in place a number of processes that will keep us strongly aligned. We have already said we are going to collaborate on the creation of a fund, primarily for the humanitarian issues and potentially for some of the environmental remediation. We are working together with and through the Samarco board on the response to the incident and, indeed, we have connections within my team to their opposite numbers in Vale to keep this tight. By and large, we have a similar value set and are marching in lockstep, which is good and reassuring because we contribute different things and their involvement in-country gives us that bit more assistance on the ground to ensure the two of us do the right thing and stand shoulder to shoulder with Samarco.

RENE KLEYWEG, DEUTSCHE BANK: Just following up on Myles' question, could you clarify whether the indemnity insurance of 1.2 billion a year is the same as the loss-of-earnings insurance or if that has a lower ceiling? The second question is broader, and maybe now is not the time, but how are you as a management team thinking about assets where you are not the main operator within BHP's portfolio? Does that affect how you think about assets like that going forward?

ANDREW MACKENZIE: I have partly answered the second question. With that detail on the insurance, you are asking me to go further than I am able to right now. As it becomes clearer, I would certainly expect to be able to help you with that, or maybe Peter Beaven or some of the IR team could. First of all, I have not dived into that; I have been busier with other things. Secondly, as I explained to Myles, there are so many inherent complexities around insurance policies that it would be wrong to give an over-simple answer.

Rene, basically we have two types of non-operated joint ventures. There are those where somebody else is the operator, which is chiefly the case in the Petroleum business, and then there are three mining examples I quoted earlier, which are set up as a standalone company, which often has third-party funding, but the equity is held and accounted for as equity through a mixture of mining companies, like ourselves and Vale at Samarco; Anglo, Glencore and ourselves at Cerrejón; and Glencore, Teck, Mitsubishi and ourselves at Antamina. That is the kind of arrangement we need to review and have been reviewing, to be honest, to decide not just the perspective of our shareholders, but the shareholders of the companies who are partners to that joint venture and whether a more petroleum-type model might be more appropriate in the future.

BEN MCEWEN, CIBC: Do you have any indication as to the chemical composition of the tailings material and sediment?

ANDREW MACKENZIE: Yes, we do broadly. The headline is that the tailings material is reasonably inert. It is effectively the reject from a density separation to concentrate the iron ore. It is a mixture of iron ore and what occurs in banded iron formations, which is a cherty silica that has been ground more finely. It is not inherently active and does not contain things like heavy metals. It is slightly acidic but, with the dilution, is reasonably benign. I do not want to go beyond that. We need to do more investigation. We have to a lot of baselining to see what is really happening, but the mixture is broadly inert.

DOMINIC O'KANE, JP MORGAN: Could you confirm that the Samarco bonds are non-recourse to BHP?

ANDREW MACKENZIE: Yes. The financial structure is such that they do have a number of non-recourse external debt, which is not guaranteed by BHP or Vale.

PAUL YOUNG, DEUTSCHE BANK: First of all, good luck with this. For yourself and all the people involved, it is a very difficult situation.

ANDREW MACKENZIE: Thank you very much, Paul. That is much appreciated.

PAUL YOUNG: It is obviously going to take some time to work through the investigations and, therefore, it will take some time to give us timelines on potential restarts and then also the costs, but you have been there. Can you talk about the scope of two components, the potential rehabilitation and secondly restoring the tailing dams? Can you go into the scope of what you think the environmental clean-up will involve? Will you be rebuilding towns or cleaning up waterways? What exactly do you think will be involved? This is a traditional tailings dam; you had to rock-fill and it failed. Rock-fill is used consistently throughout the mining industry with sealing application but, to me, to rebuild this dam you are going to have to reinforce and concrete it. It will be a very different dam from one we have seen before in the mining industry. Can you maybe share any thoughts you have on the scope of that rebuild of the dam?

ANDREW MACKENZIE: First of all, I did not say restore the tailings dam, I said let's get the mine back working, and we have to think of ways we can do that that would be deemed safe once we understand what happened in this instance. There are a number of ways which, depending on the outcomes of the inquiry, we might seek to do that. I do not know what they are yet, but we clearly have a potentially viable mine, as long as we can find a way of properly processing and making the tailings from production safe. It is too early for me to speculate on that, and I would rather not.

On the environmental side, clearly we have the tailings that came from the dam that have settled out along the river and the banks. We have to understand how best to remediate that. As the river becomes wider and deeper, and moves towards the ocean, then, as I am sure you are hearing in reports, we will have issues with increased turbidity. We have to ensure that that does not disrupt water supplies to towns or even the operation of industry. There are a number of things underway, at least temporarily, to make that impact as minor as we can, but we obviously need to make sure we have a long-term solution to the health of the river, as a source of drinking water and industry. Until we do a lot more sampling and have environmental experts on the ground, I cannot be more specific than that.

DUNCAN SIMMONDS, MERRILL LYNCH: Following up from Jason's question, how long does Samarco have the ability to operate as a going concern without extra support from BHP and Vale? Is there an initial amount of provision that Vale and BHP are thinking about supplying Samarco and any idea of the quantum of that?

ANDREW MACKENZIE: I understand why you are curious to have those answers. I am too but, to be quite honest, it is too early in the assessment of a wide range of issues for me to attempt them at this stage.

GLYN LAWCOCK, UBS: I would personally like to commend you and the team for being on the front foot as regards this tragedy. I know it has been a tough week for you.

ANDREW MACKENZIE: Thank you very much. It is very nice of you to say so.

GLYN LAWCOCK: I know it is early, but you have a history as a company of standing behind everything that you have done. If I think back to Ok Tedi, you created a fund and put it in the hands of the locals. I know it is early, but

how do you feel as a company towards tailings that have this potential outcome when they fail? Longer term, do you think you will put Samarco right? What about your long-term commitment to this type of potential outcome?

ANDREW MACKENZIE: My commitment is to learn every lesson we can from what happened here and to do two things with that: to substantially improve the technical competence of this company, so that we can continue to enhance our reputation as a top operator, one that does it safely with respect to the environment, but also in an efficient way. I also think this is going to provide a lot of very important data to people who build and design dams around the world, as part of mining, and other issues as well. That knowledge will move forward as a consequence. That is why we will be entirely open with the findings of this report to hope that regulators and companies around the world benefit from that learning, so that something like this never happens again.

I just wanted to say thank you for joining this call. I apologise if I could not be as complete in my answers as I would normally be, because of some of the work that is still ongoing. I am sure that some of those things will become available in the coming weeks and months. We absolutely commit to update you.

I would just remind you of something I said in the middle of this question and answer session. As well as managing this crisis in a way that ensures we do the right thing by the people who have been so terribly affected by the failure of this tailings dam, we are also making extra efforts to ensure that the vast bulk of our employees concentrate on running our great assets better and better, safer and safer, and more and more efficiently, without being too distracted. Obviously they feel the pain of what is going on. In such a way, we will retain a very healthy company, look after our balance sheet and create the wherewithal to grow this company in the future. I am very satisfied and reported to the Board today that we have a mechanism to achieve that, while also creating the right kind of specialist activity on one side to absolutely recover and learn from this incident as quickly as practical, but in sympathy with all the wishes of the people affected in Brazil. Thank you for that.