Petroleum briefing
Investor and analyst call

09:00 AEST, 10 October 2016

STEVE PASTOR, BHP Billiton

Good morning and thanks for coming today and it's a real pleasure to do the Australian Petroleum investor briefing and I talked with a few folk right before getting started and as I'm sure… in the room, but hopefully some of you have had the chance to dial in last week and catch some of the briefing that we did in London and clearly we've got a lot of briefing material. There's a booklet on your chair, a comprehensive pack of information that we spoke to last week. But before getting into all that, for those who haven't and who I haven't had the good chance to meet just yet I'm Steve Pastor and I was appointed the President of Operations Petroleum in February earlier this year and before taking this role I was the Asset President for BHP Billiton Petroleum Conventional Assets and spent a number of years working in senior operating roles in both conventional and shale as well as deepwater developments. I joined BHP Billiton in 2001 and before joining BHP Billiton I spent about 11 years and was fortunate to have worked on some of Chevron's deepwater development in the Gulf of Mexico. So there you go, that's me. What we've done today is we've taken a few of the slides from last week's very comprehensive overview and we thought it would be worthwhile to start with a few of those slides and some of the key ideas that we talked about last week as a warm up to the Q&A session.

So I've got about maybe 10 minutes or so that I will talk and then Alex Archila will talk about Shale, Geraldine Slattery will talk about Conventional and Niall McCormack will talk about Exploration, and then we will open it up for a broader Q&A. But hopefully you all, either through joining us last week or through a review of the material, will appreciate some of the key themes and, really, it's about this is our opportunity to introduce ourselves and show you the commercial and dynamic way that our leadership team are taking this Petroleum business forward. So before we get started I just want to point everybody to the disclaimer on the slide and clearly it's relevant to our conversation today and, again, to this second disclaimer which speaks a little bit more specifically to petroleum resources.

So, as I said before in the briefing in London we covered a number of key points and so we're thinking about how do you consolidate five hours of overview into something that's a little bit more concise and appropriate for this morning's warm up. I figured I would take the top key five messages that we emphasised over the course of the program.

Number 1, Petroleum is a strong business and we're founded on a basis of very high quality assets that have delivered strong operational and financial performance to the business over a number of years. Number 2, our operating performance is quite exceptional and in basins where we operate we're either top quartile or we're leading across basically all dimensions and we will cover that off a little bit more later. Maybe more importantly as part of number 2 is that we have made remarkable productivity gains over the last few years as we've been driving for better performance. Even ahead of over supply of markets and depressed prices, we've been driving very hard on productivity, getting our costs down, getting our performance up and we're going to share some specific examples later on through the day with you that shows you what we've done. Maybe more importantly, it will talk about the momentum that we have and our outlook for how we're going to continue to drive productivity in the future. Number 3, and this has been an interestingly hotly debated topic since I can recall joining BHP Billiton back in 2001, but it's around BHP Billiton Petroleum, is it a core part of BHP Billiton broader group and I will touch on that lightly and, clearly, if there are questions, we can deep dive into it, but what I would tell you is it absolutely is and we shared last week and I will share a little bit more in a moment as to how BHP Billiton benefits greatly from being part of the wider BHP Billiton Group and also contributes very, very significantly into it. Number 4 around markets. Clearly, today and certainly in the most recent past markets have been well supplied and prices have been pretty weak as a consequence, right, and so fundamentals are clearly indicating to us across oil and across gas in the regions where we produce that markets are starting to rebound. So we will talk a little bit about that, but, further, we will talk about the longer run outlook for both oil and gas and how those fundamentals are actually quite encouraging to us as we see significant supply opportunities, particularly in oil that are opening up over the next decade and beyond. Number 5 is about our disciplined approach to capital allocation, and we can't be more emphatic about that, but that discipline approach is I think, as much as ever, is focused on – and we've said this many, many times – value over volumes, right. And so, further to that, what we will talk about is how we're going about ensuring that it's well informed and agile at the same time to make sure that we're making timely, effective and consistent decisions on the allocation of capital across the BHP Billiton Group. Those are the top 5, certainly from my overarching perspective and, again, we will get into a little bit more detail asset by asset as we get through. Our Petroleum Leadership Team; I think this is an opportunity, as much as any, for you to meet us and hear from us and get a chance to engage with us, but we have – I think – I'm very proud of our leadership team. A lot of very experienced people with proven performance, and then further to that, very deep functional expertise.

And so we have here with us, Alex Archila, who is our asset president of Shale. He will introduce himself a little bit more later, and talk about his very deep experience. Geraldine Slattery, our asset president for Conventional, who's probably got as much BHP Billiton's specific experience as any of our leadership team here today. Niall McCormack, Vice President of Exploration, who has been instrumental in transforming our approached exploration over the last several years. He will talk about that and the position that we have, and then how excited we are about is potential going forward.

Michelle Turner, probably the newest member to BHP Billiton. We're extraordinarily pleased to have Michelle, who has got deep financial experience. She's our Vice President of Finance. She reports to Peter Beaven but she is a core member of our Petroleum Leadership Team, co-located with us in Houston and a fantastic contributor. So you're going to hear from each of us later today, some prepared remarks from Alex, Geraldine and Niall, and then Michelle is going to join us for the Q&A. What I hope, and I expect that you're going hear from all of us, and take away, is the dynamic and commercial way that we're approaching the business in an effort to unlock its maximum potential value. All right. So just going back a little bit on some of the key points. Petroleum has been and continues to be, a key contributor to the overall BHP Billiton Group. Some of the measures that we point to that really demonstrate that are our earnings, EBITDA, and EBITDA margin.

Last year, Petroleum contributed – it was about $3.7 billion in EBITDA in a very low point in the price cycle. A very challenging time. Our margins were 66 per cent, and what you see in the graph in the upper right are Petroleum EBITDA margins relative to the minerals average and the range. And so we're the strongest EBITDA contributor consistently, year on year, across the group. Roughly about 30 per cent of the overall company's margins, and that's true, not only last year, but historically has been the average, so a very material part of the overall BHP Billiton Group. You know what's even more important, and not shown specifically on here, maybe, is our contribution to free cash flow. I mentioned last week that, you know, our contribution in fiscal year 2016 was $800 million, which is really strong, when you consider that many, if not most, of our peers across industry had a negative cash flow situation last year. And further to that, and this speaks to the materiality of the quality of our assets and the consistent performances, we've delivered $13 billion in free cash flow over the last five years. So, you know, really, this is – this is all a function of and demonstrates that the portfolio of assets that we have in Petroleum are high quality and then further, well aligned with the overall BHP Billiton strategy. And I know many of you, if not most, have been following BHP Billiton for a long time and you know that we – you know, our strategy is around owning and operating large, long life, low cost expandable upstream assets. And we're successful. I mean, we do that in the safest and most cost effective way possible. And that's from finding to developing, operating and delivering resources in a way better than our competitors do. But further to that Petroleum also diversifies the portfolio, and I think you all know that. Diversifies the portfolio, in terms of markets, in terms of regional diversification. It also provides an element of diversification to cash flow that's recognised by credit rating agencies and in turn, lowers our cost of capital. I mentioned before, the earnings and the cash that Petroleum contributes, and clearly, that plays a really important part of defending and positioning of our very strong balance sheet. And so it's that strong balance sheet that then affords not only us, but other visitors within the BHP Billiton Group, the opportunity to invest smartly and assertively in tier one assets, like our tier one oil exploration program, even at a time when otherwise, cash flows might make it difficult to do so counter cyclically. The true power of Petroleum – I talked about this last week, particularly as you compare us to pure-play oil and gas competitors is that differentiation in the diverse opportunities that we have to invest and the important point that we aren't as compelled to chase volumes and chase reserve placement, even at a time and a pace that doesn't make sense to do so.

And arguably, we've seen that. At the low point in the price cycle you see that when you see many of the peers that we have, particularly in onshore shale. Kind of anxious and rushing back in, you know, even in a period this year, where we've still got well supplied markets, we aren't dis-compelled to do that. And so we can act a bit more counter cyclically. And then finally, and the graph in the lower right speaks to this a bit, as we look across all our core commodities and we analyse a number of scenarios about the future, we see oil and gas markets as re-balancing first. And that's kind of a simple way to show that it's really petroleum, particularly oil and copper, that we see as tightening up first and offering a significant supply opportunity. Now, turning to markets, and very briefly. In oil, I think we all know that non-OPEC supply, in particular, has pulled back significantly and it has declined over the last year, year and a half, on the back of reduced activity and historical pull back in investment levels, and that's primarily – and when I say, "non-OPEC", I'm including onshore US shale, pulling back the rig count and declining rates; and that's what's primarily leading to the markets rebalancing. And we see that continuing to play out. Looking ahead, absolute demand, and you see this in the graph in the lower right with the red line, is forecast to grow at roughly one per cent compounded annual growth rate. Now, that doesn't sound all that stellar, but if you put that on the back of natural decline on the order of three to four million barrels per day per year, which you can see in the dark blue wedge, then it opens up a very significant supply opportunity. And you know, one of the interesting

sort of facts that Michiel Hovers, our Vice President of Marketing, shared during the briefing last week, which I think really drives us home, is that just in the next nine years, that supply opportunity opens up about 30 million barrels of oil per day that need to be replaced. Roughly, a third of today's production needs to be replenished in just a nine year time horizon. So couple that with what we all know about the extraordinary pull back in investment level that we've seen across the industry and some of us, I think, believe that we could be in a place where we actually shafted it to the other side, because we aren't investing at an appropriate rate to replenish.

The last point I will make here is that to deliver against that supply opportunity, what the world needs, what the world wants. Reliably and low cost, is going to require more than OPEC and so that light blue wedge on top of the dark blue wedge are what we estimate OPEC will be able to deliver. That's gross on top of current OPEC production levels, and then what we see is that beyond the mid run, when the sweetest spots and the best oil shale place, which are finite, you know, beyond that mid run, when those sweet spots have been developed, we see a reasonably steep cost here. And again, those are the things that altogether, make for a very attractive investment opportunity for us going forward, particularly in oil. Now, turning to gas. In the US, gas markets have already started to re-balance. I think we've all seen how that has come through. Oversupply 2015, you know, a mild winter last year, significant excess to historic average inventory levels, but then we've come through summer with strong power burn and a very significant pull back in investment level. And not surprisingly, as we were realising two dollar and sub-two dollar per mcf gas. And so now, things are starting to re-balance and set up for, I think, quite an interesting and reasonable winter, and we see that re-balance will continue and prices will continue to rise as we get into 2017 – very weather dependent. But if you look at, for example, on the demand side, very robust demand, US demand, colder gas switching and just general growth, exports to Mexico, increasing exports, LNG exports. All those things compounding into a very healthy demand side. In Australia, I think you all know better than anybody, that, you know, markets are a bit mixed with the Eastern Australian domestic gas market being relatively strong on the back of the LNG plant start-ups in Curtis Island, and with Western Australia having a relatively flattish demand for domestic gas and sitting alongside the very significant increases in volumes that coming along with new projects like Gorgon starting up. There's kind of a short run in Australia, as you know. Long run, both gas and LNG demand over time are very robust. However, as we've said a number of times, given the relative abundance and the ease of access in finding and developing gas, we see a relatively flat cost curve. And so, our view is that the most attractive investment opportunity going forward is going to be with oil relative to gas.

All right. So against that background and, again, emphasising that our focus is on value over volumes, we're going to continue our focus on tier 1 assets, and we will focus in areas where we have or we have the opportunity to build a material position and that play to our competitive advantages, particularly in conventional deepwater and Onshore US. Our portfolio, as you know, is concentrated in Australia and the US, and you see some of the statistics about our position and also the materiality. And so, we continue to focus in those areas, but we're also very optimistic about the exciting opportunities we have to grow the position that we have in Trinidad and Tobago – again, now we're going to talk more about that in a moment.

We're also looking to rebalance the portfolio towards oil, for the reasons that are described in the market outlook. And then, reemphasising, the significant pullback that we've had in investment and activity level during the period of low prices that we've had over the last few years demonstrates that we will be patient and prudent as we work to unlock the very significant value that we have in our assets. Alongside that our teams are doing an absolute fantastic job and continue to drive productivity in a safe way to get costs down and increase the investable inventory that we have.

At the end of the day, that's going to further increase the competitiveness that we have going forward, which is particularly important in the highly competitive onshore and the margins that we can generate in the less competitive arena in deepwater conventional. Now, before turning over to Alex and Geraldine to share their insights about their plans and assessability of their portfolios and their performance, I just want to – I want to share a few thoughts on sustainability. And we thought about, "Hey, should this be first?" Because the fact is, this is first. At BHP Billiton safety always come first.

And we're actually quite proud of our performance in that we're an industry leader in terms of total recordable injury frequency rate, and you see that in the chart in the upper right. And then, further to that, we've reduced our TRIF by 26 per cent just over the last year from already fantastic, strong performance relative to industry. At the end of the day, though until that's zero, we're not happy, and so we're going to continue to focus on eliminating injuries from our work place, and we've got a particular focus on those risks that have the potential for seriously hurting somebody – very significant injuries.

In addition to that, as you all know, it's very important to BHP Billiton our core values that we contribute meaningfully and materially to society and particularly in the communities where we operate. And in saying so,

we've got a particular focus on health, education and the environment. Look, I won't elaborate for now for the sake of time, but if there are any questions, certainly, we can go through that in greater detail later. So, with that, I'm going to turn it over to Alex to share his thoughts on Onshore US.

ALEX ARCHILA, BHP Billiton

Thank you, Steve. Good morning. It is great to be back in beautiful Sydney. I was here last year with Peter and I think that I had the opportunity to meet some of you. For those of you that haven't met, my name is Alex Archila. I run our US shale assets. I've been on the job for about a year and a half. Like Steve, I spent 23 years with Chevron Texaco, seven countries around the world, a total of 33 years.

I'm very excited to be here with you this morning and have an opportunity to share how we have been turning around the operation, but – but more specifically, having the chance to share with you the plans that we have forward to take our operation to a new level. We want to capture the full value of the asset while at the same time we want to drive increase returns but also put the operation in a positive cash flow position.

So there were three over-arching messages that I gave in London when we were there last week. The first one is that, as you can see in the pack that we gave you, our North America shale assets are very, very large. We have north of three billion barrels equivalent of 2P reserves including 500 million barrels of oil. And recently we have updated our inventory of drillable locations, as you saw in the pack. Right now, we can see a total of 1,400 net locations to BHP Billiton that can return 15 per cent or more IRR at prices of $50 per barrel, less than $50 per barrel, and less than $3 per MMbtu.

In addition to those, in the spectrum of prices that the investment community is using with their consensus, we see another 1,600 in net locations to BHP Billiton at prices ranging from $50 all the way to $70. That can return more than 15 per cent rate of return, and when you put all that together, you're talking about 3,000 net locations to the company. So these 3,000 net wells turn into a 3,800 total of growth wells. If you add all of the wells that we put in the appendix, you will get 3,800 wells. And just to give you an idea of the magnitude of this, if you drill those at about 25 wells per rig, just taking an average, with five rigs it would take you 30 years to go through those. So very high quality and very large.

The second point that I want to make to you this morning, that I made in London, is that during these past five years of operation in the Onshore, we have grown our operating capability very, very significantly. And you have seen the data we provided to you where we reduced the drilling and completion costs by 40 per cent in the past three years. Operating costs were reduced by 30 per cent in the last year alone. And we also provided you information from IHS third party data benchmarking our wealth into Eagle Ford and into Permian, and you can see in those charts that our wealth are beating the competitors when you normalise them for lateral length and for vicinity, so it is the same rock, the same length of wells. And we have a lot more to go. The shale industry is a young industry relative to the conventional industry, and we are convinced that we have ahead of us, supported by our continuous improvement culture that we're driving hard, opportunity ahead.

The third message that I will describe to you today, and it's going to be in the area of the focus of my conversation with you in the next few minutes, is that by taking a range of prices that the investment community has provided to us, we constructed three scenarios of investment along the lines of the prices. So, under these three scenarios what we are seeing, and it is one of the most important points I want to share with you today, is that our business is going into a new chapter. We have been in the minus $1 to minus $3 billion negative cash flow for the past five years, and as you will see we're going to turn that around; we're going to be starting with this fiscal year, delivering positive cash flow, and after that we will have the opportunity – the option to decide what are we going to do going forward.

And the last thing that I will mention to you is that large opportunity that we have ahead of us has some amount of acreage in it that is more long-dated, drier gas, and what we are planning to do is complement all those activities that I just described to you, and then monetise for value, if we can get a value above what we get ourselves as we move into the future, and this year alone we have obtained about $100 million of those dinvestitures already. Okay, so that is the message that I wanted to consolidate to you, and let me now give you a little bit of the details with the materials you already have at hand.

So, this is the scenario that I described, and I just wanted to highlight a couple of points to you about each of the scenarios. The one on the left is based on the price of oil and gas that goes to $60 per barrel, and three dollars per

an MMbtu by FY18. Under that scenario, what you see is we're ramping up our investment to about $2 billion per year, but I want to highlight to you two things that are important. First, you see us coming back to Haynesville, right here, in FY18 under that scenario. That is because we have had really good success at lowering the cost and increasing the productivity of our Haynesville wells to the point that we were able to hedge on rig line for three years with returns of more than 30 per cent. The next point I want to make to you is under that scenario, you see our Hawkville coming into development now. We haven't been very active at Hawkville, and we have been doing some trials, and you can read in the materials that we've given you, but that's also in our plan.

Let's move to the next scenario, the one where oil prices get to about $80 per barrel by FY19. As you can see in that scenario, we are reaching investment levels of about $3 billion per year, but interestingly, we have elected to show you here that we have capped our rig count at around 20. It's not a hard rule, but with the organisational capability that we have developed we think that maintain our levels of efficiency that would be about the right area that we would like to be if prices get to that level. Again, not a hard rule; we can always add more people, but that's what we've chosen to show you in that scenario.

Finally, the scenario on the right reflects a world in which in the next five years oil prices stay at around $50 a barrel, and gas prices stay at about $3 per MMbtu. And what you can see in there is that under that scenario we would focus our activity largely on holding our acreage, and you will see the effects of that on production and the net cash flow in the next couple of slides.

So, let's move to the next slide, that's our production response slide under each of those scenarios. So, let me highlight a couple of things in here. The first one is that as you can see, if we invest nothing more in the business other than maintenance capital our production would decline at about 15 per cent per year starting in FY18, okay? Now, the important thing in this scenario to mention to you is that in the scenario 3 when we are doing minimum activity we are able to maintain the production levels that we would have somewhere in the next year or two through the next five years with an investment of about $500 to $600 million.

So, if you take all of this together you move to the next scenario. You put the investment scenarios, the production, the capital, the rig and end up with cash flow. There is a couple of things that I want to highlight to you. As I already said, we go out of our history where we have been in this range of negative cash flow that I mentioned to you earlier in my conversation this morning, and we move into the next couple of years that we can have positive cash flow, but I want to highlight to you that that is at our election, because actually in scenario 2 and scenario 1, prices at $60, prices at $80, we are investing a significant amount of capital. We don't have to do that. We could have only – or less investment and more revenue, but we're electing to do that. Why? Because that positions ourselves to have the production and the cash flow that will give the shale $3 billion or so of net cash flow in – by the end of the next five years, which by the way, is what the BHP Billiton made last year from its operations.

So, essentially, that's the things I wanted to highlight to you today, looking forward to your questions. Let me now introduce Geraldine, and I think that after that, Niall will come and speak to you on exploration.

GERALDINE SLATTERY, BHP Billiton

Good morning, ladies and gentlemen, and thank you, Alex. My name is Geraldine Slattery. I am the asset president of the Conventional business and have 22 years with BHP Billiton, all of it with the Petroleum business here in Australia, in the UK and in the US in various operational, HSE, engineering and management roles. Over the course of the next probably ten or 15 minutes, between myself and Niall McCormack, the exploration Vice President, I want to cover off on four things with you on the Conventional business.

First, I will talk a little bit about our high quality assets within the Conventional portfolio, and how they underpin the performance in the Petroleum business both today and into the future. Secondly, I will speak a little bit about our operational and our development capabilities, and how that's important for today, but also as a key lever in the value we think we can create through exploration and development going forward. Thirdly, I will talk to the near and the medium term in terms of our growth potential, be it through in-fill and brownfield projects, and also the greenfield projects. And then finally, Niall will speak to you about how we're seeking to extend our production runway through exploration, and also through our development capabilities and being able to accelerate development from discovery through to post-production.

All right, well, if we start with our operational and our development capability, and this is something we're very proud of, and something that we have sustained over quite a long period of time. I will start with our deepwater

drilling performance. So, I think they have got a rival in shale in terms of demonstrating year over year performance improvement, but the deepwater drilling performance in the Gulf of Mexico in particular, where we compete with the supermajors is second to none, and the top – the bottom left there on your screen show you one of the – show you one of the metrics that's used to measure that performance. So, this is the number of days that it takes to drill 1,000 feet, and you see we're on the far left of that chart. And indeed, we've been in the top quartile performance rating there for quite some time. If the Drilling & Completion team were here they would tell you that it's not one single thing, but a continual culture to drive for continuous improvement, be it in the relationships that are developed with our business partners, or with a regulator, or with the contracts that are put in place in the operating processes.

Secondly, operating uptime. So, this speaks to the uptime that our operator facilities in the Gulf of Mexico and in – here in Australia. So, over the course of the last two years our uptime performance has moved from 92 per cent to 96 per cent in FY16. That's the leading performance within the basins that we operate. And as well as being a function of the operating performance today, it also speaks to the basis and design that we've employed in the facilities during the development stages, so there are decisions that are taken then that continue to play out and add value over the course of the life of the assets. Finally, our deepwater GOM operating costs. So operating costs is something that benefits from the individual activities that are executed at the operational level, so be it contract negotiation or use of aviation and marine and logistics, but we're also starting to see the benefit of being part of the simplified operating model across the BHP Billiton Group and what I mean by that is whereas we're a relatively sort of small operation in an operation sense in Australia, we've benefited from being part of a much bigger group in terms of our payment terms and optimisation of working capital and the ability to reduce some of our overhead costs. So we're starting to see those benefits come through that really speak to the benefits we get from being part of a bigger corporation, but also allow us to take the necessary technical decisions that are more akin to our industry. The chart on the bottom right speaks to our Gulf of Mexico operating costs, so we've got two operating facilities there and this speaks to the Shenzi Deepwater facility, so you will see our operating costs rising again with our supermajor peers in the neighbourhood. Over the course of the next two years, despite a small decline in volumes, we are continuing to see our operating costs at about the $10 a boe.

All right, so turning to our growth potential. So, first, in near terms. So over the course of the next five years we have a rich portfolio of brownfield opportunities that provide us with some high-return, low-risk project execution. So, ordinarily, the base decline would have seen us with a decline rate of about 13 per cent, but with the portfolio projects that are, for the most part, already sanctioned and approved and in execution, that base decline will go from 13 per cent to just five per cent. These are predominantly in our production heartlands in the Gulf of Mexico, Atlantis in-fill and development drilling, but also here in Australia are a suite of projects; in-fill projects in the North West Shelf and the high CO2 reserve coming online in Bass Strait. These are well understood reservoirs. They were facilities that were built with tie-ins in mind, so they provide to us a pretty lower risk source of future profitability. I will maybe mention the – before we get to the greenfields – over the course of the five-year period our capital expenditure is forecast to be about $1 billion per annum and it will start at a little bit less than that; about $800 million for the coming two years. So the projects that you see in the greenfield are contained within that. Also contained within that, if we turn to our greenfields – so beyond the five-year outlook – two projects to talk about. One is the Mad Dog Phase 2 project.

So just before I get to the project, let me just tell you a little bit about the Mad Dog field. So you probably know the Mad Dog field is one of the largest fields in the Gulf of Mexico with recoverable volumes of about a billion barrels. The Phase 2 project is actually the second phase of the development after the Spar A facility came into production some years back. The development is a wet tree subsea development with a semi-submersible. The project is a great example of a project that has been recycled over the last number of years and, in particular, the capital costs have halved since the original development concept was put together. Now, there's a number of things that have contributed to that. Firstly, through challenge and collaboration between the co-owners, between BP, Chevron and ourselves the development concept was challenged, the contracting strategies were challenged and so what you have now is a project that has very attractive economics approaching a likely FID within this calendar year for the operations and then will come to our board most likely in the first quarter of next year. If that happens, as we expect to see it happen, then we would start the drilling in FY18 and the likely first production – directionally at this point – at about FY22. So we're very excited about that project and the numbers I spoke to previously, that assumes that that FID decision would go ahead and you would see about 35 per cent of our capital allocated to Mad Dog 2 over the course of five years.

Secondly, our Scarborough – as you know, Scarborough is a large gas resource off the north west of Australia. Now, as Steven spoke to, we think that the LNG market is challenged in the current, but we continue to be very confident about the long-term prospects for Scarborough. One of the things that it offers is development concept optionality and we're currently working with the operator, Exxon, to further refine the right development concept for

Scarborough. All right. Well, what I'm going to do now is hand you over to probably, arguably, the far more exciting part of the Conventional story and to Niall. Thank you.

NIALL McCORMACK, BHP Billiton

Well, good morning, everybody, and thank you very much, Geraldine. My name is Niall McCormack and I am the Vice President for Petroleum Exploration. I have been with the company for about four and a half years. I've been involved in reshaping the portfolio and the strategy for Exploration over that time period. Prior to that, I worked around the world in exploration and production as a geoscientist, pretty much working six continents through the previous 20 years. So Geraldine has given you an overview of the conventional asset base, the high quality of the asset base and the strong operational capability. From that, it's very obvious that this is an area where we want to ensure more high margins for decades to come and, essentially, that's my role. So consistent with our strategic mandate, what we're exploring for are large, long-life, low-cost assets and consistent with our capabilities we're exploring for areas in the deepwater that are liquid-prone. The additional piece in there is we're looking for high interest and operatorship and across all of our key exploration acreage today we are the operator and our exploration acreage average is 60 to 100 per cent equity. While we've been rebuilding the portfolio over the last few years – give or take four years – and rationalising from 12 countries down to three, with the focus on large operator positions, we've started in the last 12 months executing against that with what is, I would argue, one of the most exciting exploration portfolios and activities set in the Petroleum business today.

The material positions we've built range across six plays; three in Trinidad, two in the Gulf of Mexico and one in Western Australia. It has got multi-billion barrel potential and primarily the pool sizes are greater than 250 million barrels. Additionally, with the results of the recent LeClerc well we've identified a material shallow gas opportunity in Trinidad and Tobago, as well as LeClerc supporting oil potential in the southern play in Trinidad and Tobago. On a risk basis, the portfolio has the potential of delivering over 100 million barrels a year to production stream in the mid-2020s, with the potential to deliver earlier production at a lower volume around our operated assets in southern Green Canyon. We're targeting pool sizes that have rates of return of over 15 per cent real, $5 to $10 NPV per barrel, and that can be developed at sub-fifty. So how are we doing the sub-fifty piece? This is really focused on two elements, in terms of our ability to develop. The first part is around technology and the balance between using what's standard in the deep water versus the technologies that are coming that will enhance our ability to produce at a low cost. The other side of that is contractor management and how we're working with our contractors to understand what is the most effective way, from a contractor management perspective, for development of the deep water today.

Finally, the other third element to that is something that we've been doing in exploration for two or three years and working with our development teams at the same time, is how do we bring sequential work flows and run them in parallel to allow us to get the benefits of the vertical integration that you get within the system from working together, as opposed to sequential handovers of the work flow. We've already seen that we have halved the time from access to first well from an exploration perspective, and we see the potential to reduce our development time by about 20 per cent, looking forward on any opportunity that we discover and hand through to the developments organisation. So we started to drill out the portfolio. In the Gulf of Mexico, we drilled Shenzi North and Caicos in the last 12 months. Both found oil, Caicos, and the encouragement that we have potential for a commercial development in the region, and with that we were moving to drill the Wildling well in Deepwater Invictus, which is the picture of the start there, returns from Trinidad and Tobago for phase one.

After that, we will move on to drill the Scimitar Well in the Gulf of Mexico, which is of similar play. It's in the same play, but it's independent of the Wildling opportunity. It also has the ability for a potential from an early tie-back perspective, as well as the potential for a stand alone well. In Trinidad and Tobago, we found the first hydrocarbons in the Deep Water. As I mentioned, we intersected gas in multiple horizons and we had oil shows in the – the gas opened up the potential for gas that could hit the markets in the 2020s, when both domestically and the LNG had capacity. The liquids in the deep and the oil shows that we found in the deep were incredibly important, in terms of understanding the liquids potential in the south and have given us the encouragement from a phase two perspective, when we arrived back down in Trinidad in FY18. So with that, we will move to phase two post-Scimitar and the plan today is that we will move back down to Trinidad in around the start of FY18 to execute phase two in Trinidad.

Additionally, we plan on testing the second play in the Gulf of Mexico in the Paleogene in 2018. We've amassed an acreage position of 152 operated blocks with 50 to 100 per cent equity across what we believe is the sweet spot of

the Paleogene that is competitive, from a margins perspective, with the Miocene in the central Gulf of Mexico. So overall, a relatively exciting period coming up, as we move from that phase of access through to execution. We should expect to hear a result out of that over the next 18 months and working out through that time period. I think with that, it would be good to get questions from the floor. I think Michelle is going to join us as well.

STEVE PASTOR, BHP Billiton

Look, we are going to shift gears into the second phase of the program. I would like to invite my colleagues to come up on the stage and we will start with some questions here in the room and then we will alternate a little bit if there are questions that are on Telecom.

Questions and answers

ANDREW HODGE, MACQUARIE: Andrew Hodge from Macquarie. I just wanted to ask Geraldine. On the conventional business, obviously, there's some pretty large declines happening over the next little while, and there's obviously a lot of work going into Mad Dog too, to be able to try and increase production a lot of the work is going to be starting new production post, sort of 2022, 2023. Is there anything else that we should be thinking of that should be able to help some of those declines over the next few years?

GERALDINE SLATTERY, BHP BILLITON: Yes. Good question. So I think what I've spoken to you about the project execution at this point. I think beyond that, within the five year period, the opportunity to accelerate big volumes into that is somewhat limited, largely, as a function of the development cycle times associated with any new in-fill projects and we are looking at some, but it would be kind of more towards the back end of that. I think probably the biggest levers for our production growth is the degree which the exploration was [INAUDIABLE] in the early tie-back opportunities, or early production system, which we might see towards the back end of that five year period. I think the other Greenfield opportunities, the Mad Dog, or if there's likely some opportunity to optimise that schedule, it still doesn't really start to hit the production piece so it is a relatively modest decline at five per cent over the five year period with quite a kind of – you know, a number of scenarios that could play in after that.

PAUL YOUNG, DEUTSCHE BANK: Morning team, Paul Young from Deutsche Bank. Alex, a few questions on the US onshore. One is rather a technicality around that free cash flow chart. Just from my information, if I look at that, the free cash flow outlook, on scenario one, which – it shows that if free cash flow doesn't improve in FY18, your capex is not really stepping up. Your production is the same, yet you've got $10 a barrel lift in the oil price. I'm just curious as to why we're not seeing more cash lift. My bottom-up model, which is clearly, obviously, different from yours is showing some free cash flow in FY18. It could be a timing issue, but that's the first question.

ALEX ARCHILA, BHP BILLITON: So on that one, we gave some guidance earlier during the presentation in London that we're going to be fracking this year, I think, about 40 something DUCs, so that may be responsible for the discrepancy that you see between your model and ours.

PAUL YOUNG, DEUTSCHE BANK: In the Black Hawk.

ALEX ARCHILA, BHP BILLITON: Yes, sir.

PAUL YOUNG, DEUTSCHE BANK: Yes. Okay.

ALEX ARCHILA, BHP BILLITON: Yes, sir.

PAUL YOUNG, DEUTSCHE BANK: All right.

PAUL YOUNG, DEUTSCHE BANK: Okay. Great. And that question is actually on the Permian so if things improve, you will put six rigs into the Permian and obviously, capex will step up significantly. Now, you're given some good guidance and I commend you for that in the appendix about operating costs and well performance, etcetera, which is great, but just if you could add some more information after the whole Eagle Ford experience and drop in oil prices and you know, lack of free cash flow that we've seen. I mean, to convince us that, you know, it's worthy actually putting rigs into that field, and what are we assuming here, as far as the stack is concerned? So are you assuming that you're going to be drilling into sort of the scene of the D bench and the Wolfcamp, rather than just the upper band, and also, is the infrastructure CAPEX all in. You know, so I know you mentioned about the mid-stream strategy on the call the other night, or last week, but can you just give more information about the mid-stream strategy and the CAPEX requirements there, thanks.

ALEX ARCHILA, DEUTSCHE BANK: Yes clearly, we are very tight on the Permian we have the manager there actively drilled the upper Wolfcamp and to one of your questions, it is the most liquids rich region of the three horizons. We call them, you know, upper, middle, lower, and into the development that we show them, in terms of the different wells at different price and our assumption is that we are going to start with the upper Wolfcamp, then move it into the middle and into then into the lower. I think that in terms of risk management, as you know, Paul, when the company purchased the Petrohawk assets, the Eagle Ford asset, which I referred to, was already under development and the $100 per barrel, a lot of the strategies that the company followed were volume driven, and so, you know, there were very high returns at the time, but then, of course, the commodity turned around and you ended up selling an option in the lower prices. So what we're trying to do this time, Paul, is a few things, the first one is one, we are working very, very closely with Steve and Peter and we're having quarterly reviews of capital.

That is allowing us to tweak and be very, very close to what to do and what not to do in the short term. Our marketing guys are helping us with new and refreshed views of the short-term dynamics of supply, demand and inventories, so that is one thing that I can tell you we are already doing. For example, next meeting is 24 October. I'm going to bring to Peter some issues – and to Steve – regarding our gases Haynesville, so on and so forth, so very dynamic process. So we're doing that. The second thing, going back to Haynesville, is one of the reasons we took investment out of Hawkville, out of Haynesville a couple of years ago, one, because the uncertainty band for the return in those fields was relatively large, given the wild swing on gas prices that we all have experienced. And in the pack you have that slide from Michiel, our marketing guy, outlining how that has been working. So right after I came we spoke to Andrew, we spoke to the rest of the group and they decided that we needed to get into the hedging of gas. So that is another way that we are dealing with risk for our portfolio because the band of uncertainty for our gas wells has narrowed very, very significantly. And, of course, we are doing from an operational perspective a fairly different approach to the Permian that what I can tell you we've done with the other fields.

I am very proud to tell you, Paul, that when I was there at the end of 2012 we were ahead of all competitors, tagging the upper Wolfcamp as the most prolific acreage at the time. And one of the things we did is we quietly built up our position, increasing it by 60 per cent for an average of $4,000 per acre. Now, we did that, we've paid that's purely exploration for the Permian acquisition. In terms of development, what we've done is we've drilled around 100 wells so far, mostly upper Wolfcamp. And what we are doing in this month to come is we're doing several things. First is we are testing a different spacing formula to see what is the optimum spacing level within the upper Wolfcamp. The only thing that we are doing, Paul, is we are looking at what would not be a sequential development, but the possibility of a staggered development with the middle Wolfcamp if we can ensure that there is no pressure interference between the two intervals. We are also playing a little bit more with our completion fluids and completion size, although those have largely been advanced. In all of that, as you saw in that slide of Permian that we provided to you, the start of a very deliberate process to have that development. Let me just add one little quick thing that I think is worth noting in terms of rig management and that is technology. We just signed an MOU with an entity called GTI. If you look at GTI, they are a department of the Department of Energy of the United States. And GTI is working with us to lead an industry practise and what we're going to do there is we're going to take one well and we're going to core it through the fracked section of a couple of wells.

We're going to take that core out and we're going to actually see how the fractures are propagating in the Wolfcamp because each formation is very different, as you know, and not only are we going to do that, we're going to have pressure devices installed down holes so monitor what is the productivity of different parts of the completion as we move through time. So that is going to get together with all the other analogies that I'm telling you on spacing and staggering wells to tell us what's the right way to do that. Then, finally, on the midstream, yes, the scenarios show that we have an assumption that we are going to proceed with a third-party solution meaning we're going to become part of a system in which we're going to have a given commercial decision to secure our volume that would not be take or pay but as a result of that we're going to have tariffs going forward as opposed to us investing in the midstream ourselves like we did in Eagle Ford. So another different and more innovative way to do that because, as you know, in the Delaware county there is a chequerboard position for all us given the old history from the railroad commission and, therefore, different people would be producing at different times. So it is probably more efficient in many ways to have a third party come and install the infrastructure and then all of us bring value so we end up optimising the knowledge. So, all in all, when you see all that picture it is a very deliberate approach to Permian which we are trying to accelerate sensibly, but also play with price. At $40 oil, attractiveness is one. It is different if prices are going to move in a given direction. I hope that that helps, yes.

PAUL YOUNG, DEUTSCHE BANK: Thank you, Alex.

ADRIAN WOOD, BHP BILLITON: Okay, we will take one more from the floor here.

DUNCAN SIMMONDS, BANK OF AMERICA MERRILL LYNCH: Duncan Simmonds from Merrill. Just wonder on the detail, the EUR on the Black Hawk looks very light versus prior guidance probably about 50 per cent light. I wonder if you could walk through that and then, secondly, in both scenario 1 and 2 it looks like you've got a, I guess, constrained development for the remainder of the Black Hawk. Is there any – what's the view there? I guess you've got a lot of infrastructure. I would have thought that in a higher price environment you would have pushed it hard. So that's the first one and then I've probably got one follow-up for exploration.

ALEX ARCHILA, BHP BILLITON: Okay, Duncan, right.

DUNCAN SIMMONDS, BANK OF AMERICA MERRILL LYNCH: Yes, yes.

ALEX ARCHILA, BHP BILLITON: Thanks. So on your question on EURs, let me start by telling you that as you see in our map of slide 11, the core of the Eagle Ford is shown there in grey and by that we are depicting the one that gives you the highest EUR given its combination of petro physic characteristics [INADUIABLE] characteristics and pressure characteristics. So the grey area you see has largely been drilled, so the guidance provided to you – let's say in 2014, for example, there was guidance of 1.2 million boe EUR, yes, indeed, you were right; the wells going forward have a lower EUR because they have either less fluid versus gas content or a different characteristic of the rock and its frackability. For example, our wells in the green part of the map that we would call the Northeast, they have high clay content, so the frackability and their productivity are varied. So that speaks to the EUR in there. We might need – the second question was about what?

ADRIAN WOOD, BHP BILLITON: Constrained rates

ALEX ARCHILA, BHP BILLITON: Constrained rates. Well, when you put all that together, we still have – as you can see in the chart to the bottom left of the slide 11 access to many locations coming to us from the Eagle Ford than what we already have in place. We're showing you close to 500 net locations to us, so we have 400 remaining including what's left of the DUCs. So we do have a little bit of space. In this scenario we elected a number of rigs for Eagle Ford, but you're spot on; you could make a case that once the learning of the trials are known – and that's going to take us, say, between nine months to let's say 18 through to 24 months – so once all that is settled, yes, indeed, Duncan, you can make a case – you could pick more rigs instead of the two that we have elected to show in that scenario, you could have three or four. Now, of course, the faster you drill that, the faster you're going to be dealt with it, but absolutely no restrictions for midstream and it's essentially a choice that we made in that particular scenario.

DUNCAN SIMMONDS, BANK OF AMERICA MERILL LYNCH: And then just a follow up on exploration, can you walk us through the Pemex auction process and I guess how BHP Billiton is positioning itself and organising itself and maybe some of the puts and takes that we should think about how that proceeds. Thanks.

NIALL McCORMACK, BHP BILLITON: Sure. So there's two separate things going on here in Mexico that are both planned to happen on 5 December. There's an exploration like putting around 10 blocks over both the Perdido – extension of Perdido in the north and the Campace in the Deepwater. It's an open transparent bidding process – 16 operators are prequalified – I think about 10 non-operators are prequalified. There's no constraints on bidding with other people or bidding independently and the way that bid will work is you will bid a royalty in a work program – an additional royalty in a work program – and whoever has the highest combination of the two to a formula that's weighted more to royalty than to work program will be the winning bid in that particular case. We've prequalified for the exploration round. On the discovery resource round, that's the first of four planned exploration rounds on an annual basis. On the discovery resource side, first out of the block is the Trion discovery. That has been the Perdido where the terms and how that's working is continuing to evolve and we don't actually have the final understanding of that today. We're expecting the final information on that either this week or next week.

So where that is today is that there is a Pemex format that's actually being run by the Government, so the Government is setting how the process works, when the intent there is that there will be at least two people – two companies that are prequalified to two operators that will bid together, one of whom will be the nominated operator for the ground. There's a small amount of additional royalty and, effectively, a promote is what you're bidding. So it's a cash basis promote on that. Overall, we submitted our prequalification. Those who have actually prequalified will not be announced until mid November. So our plan is that that's a December kick-off as well – 5 December currently is the plan for that. But there has been a lot of moving parts – the exploration side has been relatively set, resource side has actually been moving because it has got more moving parts within that. But currently, the Government is on target for a 5 December. So is that enough information, Duncan?

DUNCAN SIMMONDS, BANK OF AMERICA: Thank you, Niall.

NIALL McCORMACK, BHP BILLITON: Thank you.

DUNCAN SIMMONDS, BANK OF AMERICA: Look, let's go ahead and take a question from the phone now, operator?

OPERATOR: Your first question is from Lyndon Fagan, JP Morgan. Please ask your question.

LYNDON FAGAN, JP MORGAN: Thanks very much. Look, the first one just one on US on-shore costs. The chart shows them rising from $10 to $12 at boe from FY16 to FY17. Obviously, there's a 20 per cent rise there in OPEX and there's a big drop off in production. Can you talk a bit about the fixed variable cost split and some of the non-well cost that might be influencing that. The second question is on oil hedging and why you are choosing not to do that in the Permian and Eagle Ford. I thought one of the lessons of chasing IRRs that don't eventuate was to potentially start hedging. Can you talk a bit more about why you're not hedging oil, thanks.

NIALL McCORMACK, BHP BILLITON: Right. Let me address the first on the OPEX. So look, as you have seen, these are the direct well or field operating costs and in the footnote you have seen that that includes lifting work and other costs and it does not include midstream and secondary taxes. And the midstream in the case of the Haynesville that we have explained to you in previous sessions, in 2014, we provided some views to you about our Haynesville take of pay obligations at the time and due to that capacity, those are there independent of production and there are a fairly significant chunk of costs that you don't see in here. We cannot give you the exact number by number because we don't do that, but I can tell you that in terms of our fixed costs, there are things that you will always have. You will have the people, of course, that that you need to operate and then you will have things invariability like power, chemical use, and those are the ones that would be largely a variable under activity, also work over activity is also variable. So I think that in the cost curve that you see here, the one thing that I would like to highlight to you is we achieve those cost reductions through attacking everything that we could including some of those fixed costs. I cannot give you much commercial detail other than to say that in some of our areas, we've spoken to the people that deal with our gathering fees and some of our partners that transport some of our fluid and we have obtained some support from them in reducing some of that cost.

MICHELLE TURNER, BHP BILLITON: Talk to take-or pay expiry timeframe as well because that's a big piece of that component.

LYNDON FAGAN, JP MORGAN: All right. So, you know, end of April, by FY20 – FY21, our take or pay obligations largely expire, so they're going to be on a declining trend from here until then, thanks, Michelle.

NIALL McCORMACK, BHP BILLITON: Okay, Lyndon, to your second question about why not hedge oil – it doesn't have the same fundamental aspects to it, characteristics to it that Shale Gas does, particularly in a steep decline. The reason we're not hedging oil is it's really two-fold. One is that as I had described before, we see a much steeper potential cost curve in oil than we do in gas, in the relatively abundant easy to access Marcellus in particular associated gas with increasing oil prices. Well, we don't see significant upside in US gas in the near run, okay. And the second really relates to the economic robustness of our oil shale investment activities, even in a lower price scenario. So that's important. Whereas, with our gas investment opportunities, we've seen a pattern emerge where a lifting of the forward curve induces significant incremental investment in gas – easy to access as I've said before. That then induces a significant surge of volumes that then creates over-supply and then those who have played into that without a gas price hedge suffer that over-supply and the low price. So it's really those two fundamental reasons – is that we don't expect that a scenario that surges in oil then creates negative returns the way we do gas, and again, we don't believe that we would be giving away as much upside on gas as we are in oil. Okay? Another question from the floor?

CRAIG SAINSBURY, GOLDMAN SACHS: Thanks. Craig Sainsbury here, from Goldman Sachs. Two questions from me. Firstly one for Geraldine, just in terms of the portfolio. I was just going through it before. I think you operate about 40 of the assets by number, 60% somebody else operates. Just given some of the issues you've seen globally, over the past five years, in terms of non-owner operated, in terms of when things go wrong, how does that stand out in your sort of portfolio? Is that something you want to increase that percentage? And how do you think that plays out with some of the other mega-majors out there. Are they potentially looking to maybe divest some stakes that they're non-operators in, and how that would sort of play out with any potential acquisition?

And then, second question, can I ask you about a scenario for like, volume over value is a pretty easy thing to say. A lot of mining companies are saying it at the moment. All your scenarios you did for shale, you got the price kind of going up from where it was three weeks ago, but it's all above $50 a barrel. Oil at $40/45, so down from here. Be

non-cashflow on the charts that you show. How do you combat that? So tell us your scenario for – what does that mean in terms of CAPEX, how far quickly can you pull that back to conserve cash? Cheers.

GERALDINE SLATTERY, BHP BILLITON: I will start with the first one. And I think what you were asking me was, in light of our current base portfolio and a significant portion of that being non-operated, how do we maintain sort of oversight of that when things don't go to plan. Was that your question?

CRAIG SAINSBURY, GOLDMAN SACHS: That's kind of – how do you deal with that, and how does the industry deal with that?

GERALDINE SLATTERY, BHP BILLITON: Yes. Well, I think in our operated business, you're right. The book of our legacy access by volume, our non-operated. Now, the non-operated part that we have, Woodside, BP, Esso, where we maintain very strong relationships, and have done over a long period of time, through the development concepts and through the execution, and through the operation. And in fact we recently completed, across the corporation but also very specifically and deeply within Petroleum business, on the merits and the validity and the integrity of the strengths, including all the governance processes across those JV businesses, and we were very pleased, and very encouraged by the result. I think, without maybe formally doing so, we had a high level of confidence in those JV partners, but working from an external benchmark perspective, we were able to demonstrate that the capital governance, the risk management, be it operating performance, provisioning for abandonment, that the processes and the methodologies and the principles were very akin to our own. So we don't have any particular concerns with the current portfolio legacy assets.

Now, having said that, I think, as Niall alluded to, the vast majority of our exploration acreage is operated, and we believe we have a competitive advantage to bring to that. Our strategy does have a bias towards operatorship and high working interest for many of the reasons we talked about in terms of both our capabilities but also in terms of, you know, what we bring as part of the wider BHP Billiton. Does that answer your question?

ALEX ARCHILA, BHP BILLITON: Okay. So back to the question – is we have a world of $45 per barrel. Protracted, you know, two, three more years ahead of us, how do you deal with that? Don't end up sinking into negative cash flow. Let me give you a couple of views. The first thing is we are convinced that we still have more optimisation to do in terms of our drilling and completion costs, and especially at Permian that is early in its age. So we have line of sight to some additional savings that we are going to be chasing. So we're not done with that. Certainly, in the operating costs and our total dollar value, we will continue chasing that, which seems like automation and centimetric.

In the past 12 to 18 months we have installed surveillance centres in each of our fields, and those centres are now communicated remotely electronically with our wells. So part of the savings you've seen is our ability to start driving that, because in the past our pumpers had a given route that they would follow every week or every day of a given number of wells that they had to visit. What we're doing now is they're only going to the wells that are needing the work based on what we see with the telemetry.

So it's things like those that can help you drive. We're looking at chemical usage. We're looking at several things. The other thing that I would mention to you that we will continue doing regardless of the scenario, but in this particular scenario will become more important, is the new operating model is beginning to be implemented at Petroleum. We believe that there's still a little bit of room to grow in that this year and probably next year, and Michelle can talk to you about our effort that we're doing in Trinidad and other parts of the world. So that would be a second one.

Another avenue that we would use if we're dealing in a world like that, you know, I'm assuming they go together lower gases - you notice that when we quote our incremental return for Haynesville we said north of 30 per cent. So those are very healthy returns. We could in a lower gas environment and lower oil environment we could still continue hedging some of our gas wells and make pretty health incremental returns. So we still have some space in there.

The final thing that I would say is when you look at the scenario of $50 and indicate that you think, you know, "Okay. What if it's lower than that?" Other than the Permian work, that is HBP needed to retain your acreage, we don't really need to do any of the other. All the acreage in Eagle Ford is held by production, all the acreage in Haynesville is held by production, so we don't need to drill it. We're drilling it because we see economic advantage.

Now, the final point – the bigger point – that I wanted to give to you is we have – when we give you, in the column of the appendix that says number of wells that give you 15 per cent rate of return or more at this price band, that is a mix of wells. There are some wells in there. They're going to make pretty good money at $45 per barrel. So we're

giving you just enough of the other. So you're acting calculator on your own. If you take a given wealth decline, you have – its OPEX, its gas, etcetera, etcetera. But I can tell you, especially Eagle Ford, the pool of very, very attractive wealth is still there. So that is one thing that we could tap to maintain our positive cash flow if oil was, you know, protracted at 40 – 45 plus.

At the end of the day, I think that we've said this week one of the great things about being an oil company within BHP Billiton is the company – as Steve said earlier – doesn't feel compelled to drill into something when prices are low just to maintain net cash flow or whatever. Our view is value, and if it makes sense from a value perspective we're going to do that. If it doesn't, then we walk.

STEVE PASTOR, BHP BILLITON: Does that answer your question, or were you looking for any follow-on there?

CRAIG SAINSBURY, GOLDMAN SACHS: …

ALEX ARCHILA, BHP BILLITON: No, no, no. The other way around. The opposite is true. The only thing that we need to do if prices are – let me put this way. When prices hit $35 we stop fracking and we reduce drilling in Eagle Ford right there. And we told you guys, the guidance was we will come back when the prices compel us to do some more of this. It took me 30 days to get four … into Eagle Ford, with a fifth coming up this week. Indeed, we have plenty of flexibility. The only one that I caveated was Permian, because the NPV of that is so large that not holding your section – I mean, those sections, some of them are growing $35,000 per acre right now. That's such a – such a waste of value. So that would be the only one that I would say we have to do.

STEVE PASTOR, BHP BILLITON: Great point. So, look, less than less than half of the 600 million that we're spending this year is dedicated to holding acreage in the Permian. You could think of the rest of that as discretionary, I think that is what Alex trying to say.

ALEX ARCHILA, BHP BILLITON: Definitely.

STEVE PASTOR, BHP BILLITON: We think that's highly – highly unlikely.

GERALDINE SLATTERY, BHP BILLITON: Coupled with the safety and maintenance of that as well. Part of that, yes.

STEVE PASTOR, BHP BILLITON: Okay. Let's take another one from the floor. Please.

PAUL McTAGGART, CREDIT SUISSE: Paul McTaggart from Credit Suisse. So a lot of what we've talked about today is quite long-dated in terms of free cash regeneration, production profile. You know, do you act – are you still actively looking at M&A opportunities for production opportunities today that you could bring into the portfolio that kind of fill that gap, if you like, and what are the criteria? What are you looking for? How would you judge those – those opportunities?

STEVE PASTOR, BHP BILLITON: So let me address kind of the two parts of that. First, the supposition that, you know, everything that we're working on is fairly long-dated opportunities that – that's not exactly the case. I mean, clearly, US Onshore is a lot more flexible and offers an opportunity to play more rapidly and to improving market condition. And, further to that, the very robust pipeline of brownfield opportunities that Geraldine is talking about, a lot of that is in flow. Some of the Bass Strait, Longford gas conditioning plant should be starting up in the next couple of months, and that enables the deeper, higher CO_2 content Kipper gas to come online, and so – I mean, you've got the North West Shelf suite of brownfield opportunities, and so – you know that, I think, and so it doesn't invalidate your question a bit. To your question about whether or not we're looking at M&A. The answer is absolutely we continually look at M&A. The criteria are it needs to be a strategic fit, so it needs to be in basins where we understand and have high confidence that the geology can yield tier 1 material liquid opportunities to BHP Billiton that are material to BHP Billiton. Further to that, it needs to play to our strength and our competitive advantages. We have to have an opportunity to enter in, establish a position, strong preference for operatorship, again, conventional deepwater, you know, big basins around the world. And all that's now to follow on with, well, how do we actually filter it? How do we look at the global endowment on the planet and filter down to the locations that we actually consider?

But it has to be those things: understanding of the geology, tier 1 all potential, strategically aligned with what we do well. The fiscal circumstance and the economic potential has to be there. And so, obviously we rack up economic – potential economic outcomes across that – that suite of opportunities. And, obviously, places that we know like Australia and the US Gulf of Mexico compete quite well in terms of government-take and versus investor-take. Mexico is evolving, so we've got reasonable expectations that they will be competitive for capital on a global scale.

And so I could go through a few other regions that we consider – we have looked at a number. We're not very public about exactly what we're looking at and bidding on. As you can appreciate, there's some confidentiality associated with that. But I will be just be very clear. We're not waiting to see what our exploration portfolio yields to then decide, you know, what, it wasn't as successful as we had hoped, now we need to go do M&A. Clearly, M&A opportunities don't wait for that, and so – particularly those that, you know, are – fit that – meet that filtering criteria that I just described. So we've been quite active, although it hasn't been very public. Did you want to say anything more about the global endowment and how we filter that?

NIALL McCORMACK, BHP BILLITON: There's something in the region of 12,000 assets available and, by the time you get through our filtering criteria, you're probably left with 150 that are things that actually fit the bill in terms of strategic fit, have running room so that you're not just buying something that's a dead asset, and we actively look at that ahead of Petroleum strategy development, and myself go through all of those assets.

We have a focus on what we're looking for, there are specific criteria – would not be that dissimilar to the kind of things that we're talking about from – that we're exploring for, and at the end of the day the geology has a significantly large overlap from – because of the fact that we're looking at things that are not late filed life; we're looking for material opportunities that are early in the system. Probably enough – it may also be worth commenting, Alex, if you will, on the way we think about M&A, including trades, as part of the onshore unconventional portfolio.

ALEX ARCHILA, BHP BILLITON: Right. So I will talk very quickly. You know, we have looked at every transaction that has taken place in the onshore, including Permian, and we've – we've participated in all of them, and elected not to – not to do when we didn't have to do, but in some of them we have made offers, when it made sense. This is also referring to the fact that we have taken a proactive approach with the operators of the area in Permian, and what you are doing is, as you know with this chequerboard position that we all have, there is a significant value creation opportunity by swapping acreage where we have opposite interests.

If you have our, and theirs and our, and the reverse is nearby, we can shift those positions and create three sections, one following the other, that we can then go and drill a long lateral. And, as you know, those wells are so much more economic, so much more profitable, because with the same vertical section you capture up to three sections horizontally. So we've executed 4,000 acres of those swaps with operators in the area. Right now, we are negotiating another 5,000, and if we get it right, next time we meet, next time we give you information, we should be able to report on that as well.

ADRIAN WOOD, BHP BILLITON: All right. Thank you, Alex. One more question from the floor.

GLYN LAWCOCK, UBS: Thanks. It's Glyn Lawcock from UBS. Steve, I asked you last week about the risk involved and what it does, and I think you referred me to a chart which said that 1,400 net wells drops to 750 when you risk it. That was all the Eagle Ford. Given what we heard last week, and again reinforced today, that the midstream is not resolved yet for Permian, you're still doing a lot of work on the Permian, you know, trials etcetera, why when you risk it, it doesn't change, you know, or is that chart not showing you the risk Permian outcome? Just trying to understand why if you risked Eagle Ford, which is obviously much more mature, and you drop a lot of wells, what's happening in the Permian?

And then I guess I'm just – you know, heard you talk about won't hedge oil, you know, but you will hedge gas. You know, I mean, it's companies like brokers are terrible at forecasting the oil price, or any commodity prices. If I look at this business, we spent $20 billion buying it; we probably sunk another $20 billion; we're not making free cash flow. If you take a $50 oil price, let's say it is, you know, what can I get out of this business? You know, why is it core? Because, you know, $50 oil, which is, by your own admissions, not a bad price; you can make money, everyone else can. Geraldine's talking about Deepwater make returns of $50 as well, both on Mad Dog 2 but also future. You know, why is this business core? I mean, no free cash flow till the end of the decade. Maybe we can put some more money in at $50 oil, because we are wrong, but how long do you sit there and – without making free cash, and you know, no returns on a $40 billion investment to date doesn't seem good for shareholders.

STEVE PASTOR, BHP BILLITON: That's a great question to end the day on. So, Alex, why don't you take the first part of that and then let me give a go at the second part.

ALEX ARCHILA, BHP BILLITON: Okay. So, on the Permian and the risking, it has to do with where you're coming from. In the areas of Eagle Ford that we have yet to develop, we haven't drilled a lot of that, and the areas are different from the previous ones. To be more specific, we see a lot of potential in the upper Eagle Ford, but we have those indications from our maps, we have several wells that went through the upper Eagle Ford, but we really haven't produced the wells. We do have data of wells where we have equity interest, so we have that data from our

operator, so we know it's real, we got to have to do that, and of course the outcome of that depends on area. In terms of the staggering, our partners, they want to continue to look at the potential benefit of staggering, but the science and the mathematics of predicting the effect of staggering in the shale business is still very early days, so you know, we already have data that's showing us some positive notes on staggering, and then we have a third element which is the type and size of completions.

Again, it – well, it's different. In the grey areas where we already had a whole bunch of wells, then the areas that we don't have wells, so we need to test that, and that's why we're calling it – you saw the choice of words, we're calling it expected number, right? But we wanted to show you that because I didn't want – you know, if the results are different, to say "Alex, you know, you said this, and now this is that. You know, given that we are bringing all these appendices with all that detail." In Permian is not like this, because in Permian, we come from about three years, since I was there, of confirming that what we are seeing in the upper Wolfcamp is fairly consistent results, and the risk that we have in the potential outcome of the trials, be the size of the job, you know, that we're using optimal spacing between wells, it is not so much, and it doesn't change the economic result within that band of prices. So, if you look at $50 to $60, even if they vary as we expect them to vary, they don't move within the band. So, yes, there is risk, but given where we're coming from where we have three years of history. Now, I have views about your second question, but I will let Steve to comment first.

STEVE PASTOR, BHP BILLITON: Please.

ALEX ARCHILA, BHP BILLITON: No, no, no. Go ahead, sir, and then I don't want to – no, go ahead.

STEVE PASTOR, BHP BILLITON: Because I'm going to wrap up after I finish up.

ALEX ARCHILA, BHP BILLITON: So your second question was if you are not making cash flow why hold this, right? Why not get rid of it? Well, let me say first that we are making cash flow. This year we're going to have positive cash flow. Not a lot, but we are no longer draining the corpus of the corporation through all these efforts, so we are making cash flow. Second thing is I don't think I'm done helping the business with my team. They have things to do and I can see that. Third, you are absolutely right; the investment community, the brokers, ourselves, we all are terrible at forecasting prices. Now, we do extensive work about supply-demand and the intersection of price and we don't agree with a lot of you guys, right, so if my long-term view of something is one based on my analysis and I don't think that the $35,000 per acre that somebody would offer us for the best of our Permian is a right number for me, why sell it? We have a different view. That would be mine.

STEVE PASTOR, BHP BILLITON: That's good. And, look, instead of – we may be talking directly to your question, I'm going to roll that into the wrap up and say when we think about our Petroleum business looking forward, okay, we are very pleased and proud of the fact that we do have Tier-1 assets across Conventional and Shale and we continue to improve our productivity to drive the investability, lower break evens and give us something that we can go and create value from going forward. I think that's exactly what we're doing in US onshore. I think it's appropriately considering both the opportunity to accelerate investment like we are in the Haynesville where we're ready to go and we can lock in with confidence competitive rates of return and in the oil shale, which are much more finite and a relatively smaller proportion of our US shale position if you think about oil to gas, we're being patient, we're working trials, we're trying to unlock additional investable inventory in the Black Hawk, we're working to optimise the development plan for the Permian so that, ultimately, we can generate maximum value there. In the meanwhile, we're in deal flow constantly. We always understand the deals that are going on in and around us. Those approach us, we talk to others trying to high grade our position where we think there's a valuable opportunity to do so, okay. But unlike many other peer pure-play oil and gas companies, we're going to make value maximising decisions that compete effectively across the BHP Billiton Group and we're not going to be compelled to go and chase volumes and chase reserve replacement at a price or at a time that doesn't make sense to do so.

So a thank you to my leadership team for their second week of being away from their core business to front up with you guys and talk with you. This is extraordinarily beneficial and valuable to us to hear from you. You get great perspective. We're looking forward to the next three days here in Australia hearing from you and continuing this discussion, so thanks for coming this morning.

OPERATOR: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.