



Investor and Analyst Call 17 November 2015

Transcript



Andrew Mackenzie, CEO, BHP Billiton

Thank you very much, and thank you all for joining the call. As you, I'm sure, appreciate is that everybody here at BHP Billiton has been deeply affected by the terrible incident at the Samarco iron ore operation in Minas Gerais in Brazil just over a week ago. And we continue to be filled with both sadness and concern for the community there.

It has been reasonably widely reported that I've already been to the region last week with Jimmy Wilson, who most of you know is our President of Iron Ore. And the death and devastation that Jimmy and I were able to witness personally on the site and around the community was truly heartbreaking. It was important, of course, for us to go there and to learn more about the local situation so that we could really get to grips as to how BHP Billiton can best help, both now and over the longer term. So we did spend a lot of time with a number of people, certainly from the Samarco workforce and their management team, local majors and some of the citizens, the state governors and the President herself. And we told them that they could be confident that we will offer Samarco our full response in the response efforts. Now, that will change with time, but right now the immediate focus has to be on the safety of what is still there and continuing rescue attempts and the humanitarian support. And progress has been made, I think – strong progress – in all of those areas.

While we were there talking to all these people we heard some amazing stories of courage – huge courage, heroism and a real commitment to the response effort. And this courage, and the resilience that we saw, particularly in the workforce of Samarco and those communities most affected, and the first responders in the face of this awful event, was inspiring to me and Jimmy as well. Our priority, of course, now is the welfare of the workforce and the local community. I was very encouraged by the support I saw on the ground that Samarco are providing. They continue to provide food, water and emergency supplies to local communities. They're also working with the authorities further downstream to ensure that they can supply clean water to the communities who have been affected by some of the tailings entering the Doce River.

More than the 600 people who lost their homes in this tragic accident have been placed in hotels or bed and breakfast accommodation. And Samarco is now consulting with them each individually to understand whether they would like to stay where they are in hotels or move into rented housing. More than 300 potential rental properties have been evaluated and these will be validated by the community themselves before they move if they elect to do so. The first families were actually transferred into such rented accommodation over the weekend.

And I'm also pleased to say that today children from Bento Rodrigues and Paracatu, which are two of the biggest communities affected, are back at school today. And the classes are taking place in Mariana. And Samarco have made sure that they have the same teacher and the classmates that they had before the accident so that they can – that can help with the adjustment.

At BHP Billiton, we recognise that we have a responsibility to support Samarco and the local authorities in the response effort. And I can assure you that I am absolutely determined that we will fully play our part in the response. We have a growing team on the ground – that's BHP Billiton – including geotechnical, disaster relief and humanitarian response experts, senior health and safety executives, environmental scientists and a number of other support staff. And they're working, and will continue to do so, with Samarco, the communities, the local authorities and the team from Vale to determine what additional resources we can provide to support local authorities and Samarco's response effort, now and over the longer term.

You know, overnight, we can confirm that Samarco has today signed a Preliminary Commitment with the Brazilian prosecutors in connection with the state of Minas Gerais. And, under the Commitment, Samarco will guarantee the allocation of funds totalling R\$1 billion (which is around, at current rates, US\$260 million) to an emergency fund. The Commitment will guarantee funding for a wide range of emergency measures, including prevention, mitigation, remediation and compensation for environmental and social impacts of the incident. And Samarco will itself manage the emergency fund in conjunction with the Public Ministry, which gets the community's views heard, and they will also select an independent auditor to oversee and audit the fund's expenses.

And separately, we can also confirm that Samarco has signed a Commitment with the authorities in Espirito Santo, which is the problems further downstream, and this covers the measures to prevent and mitigate the socio-environmental impacts in that State. And there, most importantly, we need to make sure of a supply of water in the

affected areas, analysis of water in the Rio Doce basin and the recovery of the fauna in the area that may have been affected by some of the tailings entering into the river.

BHP Billiton fully supports Samarco in taking these necessary steps to enable the remediation of the affected areas as quickly as practicable. You know, we, of course, plan well and an Environmental Recovery Plan is also being developed in Samarco with the support of an external expert.

Samarco is continuing to monitor the impacted tailing facilities, including the remaining Germano dam and, again in conjunction with the appropriate independent experts, is developing a plan to reinforce the dam structures and stabilise the area.

Samarco's Germano mining operations were immediately stopped following the incident and you will know that Samarco's operating licence has been suspended. The operations will remain suspended as the authorities commence investigations and rectification work plans are developed.

The employees of Samarco have been put on paid leave and options are being considered by Samarco for managing the workforce longer term.

Samarco, as the operator, will provide you with the bulk of the updates as we go forward, as well as delivering the support efforts. And we will provide you with further updates as well as more information becomes available.

However, I hope you understand in this context that, whilst we will go to Q&A in a moment, we won't have the answers to all the questions that are out there. I do want to reemphasise, though, that we're deeply sorry to everyone who has and will suffer from this terrible tragedy. But, please, do let me be clear: we are 100 per cent committed to doing everything we can to support Samarco as it works to rebuild the local communities and restore the environment.

So with that, I'm happy to take questions.

Questions and Answers

PAUL YOUNG, DEUTSCHE BANK: First of all, Andrew, I just want to say again, following on from my comments on last night's call, I'd like to say best of luck to you, Jimmy and the team with dealing with the situation. Andrew, a few questions on the tailings dam. First of all, do you get a sense of the time that will be required to reinforce the Germano dam? And then also, what do you think is actually the solution on rebuilding a large dam to support the operation over the longer term?

ANDREW MACKENZIE: The most immediate reinforcement that's under way is on one part of the Germano dam. It's a dyke. It's part of the dam, but we've had a lot of consultation on that. They're working as fast as they can. I don't want to get too precise, but I think the time taken will be measured at most in a few weeks. But there are other parts of the dam that we will continue to look at as we go forward, or Samarco will, but that's the most critical part. I think there are a number of things that we will have to consider as to what we would have to do to re-open the mine to the satisfaction of the authorities. Clearly, until we establish an agreed cause for the incident, that's going to restrict some of the options we might consider. So, I think it's a bit early for me to speculate.

ANDREW HODGE, MACQUARIE: Hi Andrew. I guess the question I just wanted to ask was about – well, two questions really. One is to do with the tailings dam. Luciano on Vale's call this morning was saying that there was an option, obviously once you've dealt with the government, to be able to try and start up a lot faster than what people had anticipated – being able to sort of dump into the existing mine pit there. Could you give some idea about how large that might be, what you might be able to do there? And, the second question is about the other comment they made about the civil damages for Samarco's insurance policy. And they said that the R\$250 million fine that they got was already larger than that policy. Can you give some indication about whether or not, if the larger the fine grows, that that would start to go towards Vale and yourself?

ANDREW MACKENZIE: Look, I can confirm that some of the options that Vale talked about on the call are being considered, but I wouldn't want to go any further and actually really understanding which were the preferred options. And, as regards to timing, I think there are so many other things to consider, including repermitting, that I think it would be inappropriate to suggest anything firm on that one. I think, on the fines and the insurance and so on, I said on our call to the UK investors yesterday that the situation with insurance is very complex and I think we still have to work through that before we actually start sharing any numbers with you. And the fine is a fine. I mean, that's a matter of public record, so I don't dispute that.

LYNDON FAGAN, JP MORGAN: Hi, Andrew. All the best in dealing with this terrible situation.

ANDREW MACKENZIE: Thank you very much.

LYNDON FAGAN, JP MORGAN: I was trying to understand a bit more about what's involved in the clean-up. Will you be required to remove all of the dried-out tailings? And, in terms of an earthmoving-type project, will that need to be moved somewhere? And, is it possible to actually quantify how much of that material might need to be moved? And, following on, with the river, can you talk about how to clean that up as well? I'm just trying to work out a bit more around the scope.

ANDREW MACKENZIE: I understand that. I probably can't help you as much as you would like, Lyndon, because we really are only just getting started on understanding the environmental impact and what the recovery plan should be, and we have independent experts working on this at the moment. I did say last night that, as far as we know, and there is a lot of tests around that, that the tailings themselves are largely inert – so that may create a bit more scope in remediation. And likewise, that applies as we go further down the river. Right now the concern that we've had – and I think Samarco are moving quickly around this – is that the high turbidity of the water further down might interfere with, certainly industrial operations, but also the availability of drinking water or even water just for domestic uses. Through Samarco we've been working very hard to try and avoid this and at least mitigate it while we see how quickly the turbidity drops and whether there are other measures that we might be able to bring about that to affect that. And Vale talked to you about the fact that there's a number of hydro dams that can be used to at least clean up some of the material before it passes through dams. But it's early days. I mean, we are moving towards the environmental stuff whilst, obviously, concentrating primarily on the humanitarian issues but safety – some of the issues that fall out about the dam and the rescue and those humanitarian efforts has taken precedence up to now. The experts are now arriving to do a more effective environmental assessment and, clearly, we will obviously have to debate that – well, Samarco - with the authorities as to what they think is acceptable. But we will obviously listen to that and certainly we will absolutely back Samarco in recovering things in a way that we are requested and what we would see as reasonable and fair in the eyes of reasonable and fair men and women.

ANDREW MACKENZIE: So if there are no further questions, maybe just one thing I didn't say in my opening remarks. It's really just briefly to reflect on how we are handling this incident within the totality of BHP Billiton. I think you are all well aware that the vast majority of our workforce, and the overwhelming amount of our value, is concentrated on a wide range of assets beyond Samarco. These are areas which have continued to perform and do continue to perform well. Certainly in coal, iron ore and petroleum, we are delivering record production and once we get through some of the grade issues at Escondida we will see the copper production continue to climb. At the same time, we have actually continued on our journey of productivity and we have our operations between 30 and 50 per cent cheaper on a unit cost basis going forward. And we continue to work very hard on all issues of health and safety.

We have been working very hard to ensure that this activity continues and is in no way distracted by what we are facing in Samarco. It's a very small team obviously for now but I think that will change over time – a significant time. But we are evolving things so that we can really get back to what we think is essential in the current circumstances which is safely driving our productivity hard. We have had several meetings since this tragedy happened to ensure that business as usual is maintained and the strength of the underlying operational performance of this company shines through, and I can tell you that that is the case. Projects are still largely on time and on budget. We see improving safety performance elsewhere in the company. We see a continuing drive for lower unit costs and a reduction in our overheads. And clearly, when we get to the end of the reporting period, we will say a lot more about that. But that is, in many ways, when staff ask me how they can best help, the answer that I always give is "Keep running the part of the business that you're accountable for well, and even better."

In addition to that, we have some fairly significant inquiries underway. Obviously, we want to get to the root cause of this and we do want to understand about what is the appropriate governance of joint ventures like Samarco - and we have two others and you're well aware of that, Cerrejón and Antamina. But beneath that, we are obviously not waiting for that outcome in one sense. I mean, we are conducting a thorough review of our tailings dam operations all around the world. We do scrutinise them very closely just to make sure there is nothing we have missed. But I am very confident that through the learnings we get from an incident like this, we will actually improve the operational performance even further for the vast bulk of the company that remains on good travel towards lower costs, improved safety and therefore higher performance and, I think, further production records that are ahead of us. And, other than that, thank you for your interest.