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resourcing the future

**Transcript**

**BHP Billiton**  
Preliminary Full Year Results  
Analyst and Investor Briefing  
22 August 2012

## 1. Performance Overview – Marius Kloppers

### Introduction

Ladies and gentlemen, welcome to today's presentation of BHP Billiton's preliminary results of the 2012 financial year. I am talking to you today from London and our CFO, Graham Kerr, will be speaking to you from Sydney. I am pleased to note that we are joined by various members of the BHP Billiton management team for this important presentation. We have Mike Henry here with me in London, while Alberto Calderon, Marcus Randolph and Mike Yaeger join us on the telephone lines. I think Andrew Mackenzie may be on a plane from South Australia on his way to Sydney. They are all looking forward to participating in the Q&A session that will follow today's presentation. I should also note that Ian Maxwell, who is our President of Energy Coal, is with Graham in Sydney. As usual, before I begin I would like to point you to the disclaimer and remind you of its importance in relation to today's presentation.

This morning I will provide a general overview of our performance, then I will hand over to Graham, who will go through the financial results in more detail. I will then conclude by making some comments about the economic outlook, the outlook for our core products, some comments on our strategy and particularly note that in the environment that we find ourselves in we believe that our strategy and our portfolio uniquely position us for the changes and inevitable evolution in commodities demand that is ahead.

The core elements of today's presentation can best be summarised by the strong operating performance, robust financial results and significant cost savings that we expect during the course of the next 12 months; the strong momentum that we have in our major businesses in the near-term; the substantial value that well-advanced, on-budget and on-schedule low-risk projects that are currently in execution will create; our commitment to continue to simplify our portfolio through the selective closure and/or divestment of unprofitable and non-core operations; and then the sector-leading returns that our strategy has delivered.

### Sustainability

However, let me start off by taking about sustainability, one of our core values. Our Charter is at the heart of everything we do. It clearly emphasises the importance of putting health and safety first, the need to be environmentally responsible and the role that we play in supporting communities.

In that context, we were pleased that we saw a 6% reduction in total recordable injury frequency rate to the lowest level on record. Regrettably, we still had three fatalities during that period, which is a very constant and salient reminder that we must start every day and make elimination of fatal risks our first priority. No fatality is acceptable and I would like to offer my condolences to families, friends and colleagues.

# Analyst and Investor Briefing

## Financial Results

Let me address now what we believe is a very robust set of financial results, that were achieved despite significant volatility and uncertainty in the external environment. Our underlying EBITDA declined by 9% to \$33.7 billion, while underlying EBIT declined by 15% to \$27.2 billion. Attributable profit was \$15.4 billion. That is a decline of 35% after taking into account \$1.7 billion of exceptional items.

Particularly pleasing is that our net operating cashflow was very strong at \$24.4 billion. The strength of our low-cost, diversified portfolio is additionally demonstrated in that there was only about 1% change in our cashflows from the first half to the second half of the year. Capital and expiration expense was \$20.8 billion and, as I said, we have a total of 20 largely brown field projects that are on-budget and on-schedule, with the majority of them delivering product before the end of the 2015 financial year.

The balance sheet remains strong, with gearing at 26%, within the parameters of our desired strong single-A. Today we declared a final dividend of 57 cents per share, extending the unbroken record of a progressive dividend since the company was formed in its present form. This brings the full-year dividend to 112 cents, or 11% up for the period.

## Strong Operating Performance

Growth in dividends can obviously only be achieved through strong operating performance and disciplined reinvestment in the business. With that in mind, let us review our performance over the last 12 months.

We have had a strong year of operational performance. The majority of our assets ran at or near capacity. The reliability of our facilities, our highly-skilled operators and the successful ramp-up of extended capacity all contributed to this outstanding result. We had a 12<sup>th</sup> consecutive production record at Western Australia Iron Ore; it was particularly pleasing since we took that decision to invest \$4.8 billion pretty much at the depth of the global financial crisis and that delivering tangible results has really been good to see. Annual production records were also achieved at nine other operations, including the export-oriented coal businesses in New South Wales and Cerrejon.

However, three of our core businesses were significantly affected by temporary challenges. The associated reduction in asset utilisation for metallurgical coal, Escondida and non-operated facilities in the Gulf of Mexico had a material impact. The release of latent capacity in these businesses in the 2013 financial year will underpin strong, low-risk growth in our businesses and obviously the improvement in production rate will also benefit our unit costs, given the economies of scale.

In that regard, I am happy to report that production in Queensland Coal has substantially recovered in the last weeks. Similarly, I can report that Atlantis and Mad Dog facilities restarted production in early August and are ramping up. A stronger contribution from these two major deepwater platforms is expected to increase total petroleum production to approximately 240 million barrels of oil equivalent during the year 2013.

## Analyst and Investor Briefing

Finally, a significant recovery in all grades in milling grades in Escondida led to a very sharp rebound in production in the June quarter. Total production at Escondida during the 2013 financial year is expected to increase by some 20%. The low-cost, high-margin growth that is associated with the reversal of these one-off events is of course very valuable, particularly given today's environment.

With that I would like to hand over to Graham. Graham will discuss our financial results, as well as the initiatives that we are doing in order to deliver substantial cost savings.

## 2. Preliminary Financial Results – Graham Kerr

### Overview

Thank you, Marius. I am pleased to be here today to present our preliminary results for the 2012 financial year. As Marius mentioned, this has been a strong year for BHP Billiton, with production records achieved at 10 of our operations. However, weaker commodity prices and cost pressures have presented a challenge for the industry. I am confident that the cost-saving initiatives that we have implemented will ensure that we are very well-prepared for the challenges that lie ahead.

In this section of the presentation I would like to cover six major topics: the benefits of diversity and our strong cashflow; the tangible results that our investment programme has and will continue to deliver; the significant opportunity for cost savings in the 2013 financial year; our well-defined growth pipeline and our capital expenditure plans; the unchanged priorities for our cashflow; and royalties, taxes and exceptional items.

### Strength in Diversity

Let me begin by discussing the strength of our diversified strategy. BHP Billiton has a uniquely diversified portfolio. The value of this level of diversification is most evident during times of significant market volatility, particularly given the different drivers that can influence world energy and metal markets. Three of the better measures of our success relate to the group's robust underlying EBIT margin of 39%, the strong cash generating capacity of the business throughout the economic cycle and our underlying return on capital, excluding capital investment associated with projects not yet in production, of 27% for the period. It is worth noting that our net operating cashflow reduced by a relatively modest 1% in the June 2012 half year, as a sharp increase in copper production at Escondida and an intense focus on the group's working capital largely offset the weaker commodity prices.

If we look at the contribution of the customer sector groups to underlying EBIT, the contrasting fortunes of our various businesses are clearly evident. For the 2012 financial year, the quality of our iron ore and petroleum businesses was demonstrated by their ability to sustain an EBITDA margin in excess of 65%. In contrast, industrial action significantly affected the performance of our metallurgical coal business, particularly in the second half of the 2012 financial year. I will discuss the potential for margin expansion at Queensland Coal as we increase production and reduce operating costs.

## Analyst and Investor Briefing

Lastly, it would be remiss of me not to mention our more downstream businesses of aluminium and nickel. The compression of their operating margins over recent years reflects both structural weakness in their end markets and substantial cost pressure, which has been exacerbated by weakness in the US dollar. These results only add to our belief that the rent in the industry has shifted further and further and further upstream.

### Components of Robust Financial Results

Underlying EBIT decreased by 15% from the prior period to \$27.2 billion. As you can see from our usual EBIT waterfall graph, the uncontrollable factors of price, exchange, energy costs and inflation reduced underlying EBIT by \$2.2 billion. Weaker commodity prices had the single largest impact on our profitability and reduced underlying EBIT by \$2 billion net of price-linked costs. This pressure was most noticeable in our Base Metals business, where lower prices reduced underlying EBIT by \$1.6 billion net of price-linked costs. A provisional pricing adjustment of \$265 million related to our copper concentrate and cathode sales also contributed to the reduction in underlying EBIT.

In contrast, stronger prices for crude oil, liquefied natural gas and thermal coal highlighted the value of our uniquely diversified portfolio and the role it plays in reducing our cashflows at risk. In total, therm energy prices increased underlying EBIT by \$1.6 billion in the 2012 financial year net of price-linked costs. I should note that the Onshore US is fully exposed to market prices, with all legacy gas contracts now unwound.

Moving away from prices, production losses and cost increases associated with temporary operating challenges, principally in three major businesses identified earlier, reduced underlying EBIT by \$1.7 billion.

A 6% increase in controllable cash costs also had a meaningful influence on our financial results. I will discuss costs in more detail shortly, although I would like to focus on the strong contribution of volumes first.

### Investment in high margin organic growth delivered tangible results

As Marius has mentioned, we achieved a 12<sup>th</sup> consecutive annual production record at Western Australia Iron Ore in the 2012 financial year. The outstanding track record of this business reflects the major contribution that our Iron Ore operating and project teams have made to the profitability of our business. In total, stronger iron ore volumes, which included a 19% rise in Pilbara sales to a record 173 million tonnes in the period, increased underlying EBIT to \$2.3 billion.

In contrast, lower grades in milling rates at Escondida were the primary cause of \$138 million volume-related reduction in underlying EBIT in the Base Metals business. Importantly, this impact is only temporary and we have already started seeing increasing grades and throughput at Escondida consistent with the mine plan. Likewise, the \$160 million increase in the volume contribution of Antamina provides an indication of the upside that the recent expansion will deliver.

## Analyst and Investor Briefing

We have treated our Petroleum businesses separately in the waterfall charts, as oil fields by their very nature decline over time. In that context, while a component of the volume-related variance was attributable to downtime, the major contributor was natural field decline, most notably at our successful and highly profitable Pyrenees facility. Lastly, I would like to highlight the \$1.2 billion volume variance attributable to major outages and disruptions in the period. I will say more about that in a moment.

### Targeting Cost Savings

As mentioned, controllable cash costs increased by approximately 6% in the period and reduced underlying EBIT by \$2 billion. We have displayed the impact of general cost inflation that encompasses labour and raw materials, together with the cost impact associated with major outages and disruptions. We have done this in an effort to provide you with as much transparency as possible. This should also give you an idea of the level of savings that will be achievable if we address recent controllable cost inflation and return the major businesses of metallurgical coal and base metals back to their steady state.

As can be expected, the rate of cost escalation was most severe where we experienced disruptions, outages or other grade-related headwinds. If you recall Marius' introduction, you will also recognise that the businesses with the highest rate of cost escalation are those same businesses where a lower rate of capacity utilisation was recorded.

While these pressures will naturally unwind as those temporary, one-off issues are put behind us, we have also implemented a number of initiatives that will tackle underlying cost pressure head-on.

In our Metallurgical Coal business we announced in April that we would close the Norwich Park mine in BMA indefinitely following a review of its profitability. As one of the smaller BMA mines with the higher strip ratio, its viability was tested by general inflationary pressure and the strong Australian dollar. The viability of other high-cost operations is also being assessed as part of the broader portfolio review.

In our Manganese business you can see that the cost escalation was largely mitigated by our decision to close energy intensive silico-manganese alloy production in South Africa. Likewise, the temporary curtailment of production at TEMCO enabled us to implement other important cost-saving initiatives.

At Nickel West we stripped out costs by temporarily reducing mining activity at Mount Keith and by restructuring functional support with no associated impact on production. These decisions were made possible by the successful commissioning of the Talc Redesign Project.

Looking ahead to the 2013 financial year, unit costs in the Pilbara will fully benefit from the recent acquisition of the HWE mining subsidiaries. One-off costs related to the acquisition reduced underlying EBIT by \$156 million in the 2012 financial year.

More recently, we have implemented broader measures across the group to substantially reduce operating costs and non-essential expenditure in the 2013 financial year.



# Analyst and Investor Briefing

## Capital Review

Operating costs are not our only focus. We have recently completed a major capital review as part of our normal annual planning process and we have optimised our development programme. We have been working through this process since January and in the context of current market conditions, our strategy and capital management priorities, it became clear that the right decision for the company and its shareholders was to study an alternative, less capital-intensive design of the Olympic Dam open pit expansion that involves new technologies. This design has the potential to substantially improve the economics of the project. As part of this review, we have also decided not to commence the expansion of Peak Downs and we have carefully assessed our minor and sustaining capital expenditure.

We have intentionally focused on what we are doing today and we have provided you with an indication of the expenditure profile associated with our major projects and execution. This representation also shows that the majority of our projects are expected to deliver first production before the end of the 2015 financial year. These projects, when combined with the forecast recovery and operating performance at Queensland Coal, Escondida and the Gulf of Mexico, will sustain strong momentum in our business.

In total, we have 20 major projects currently in execution with an approved budget of \$22.8 billion. Based on this world class slate of projects we expect our minerals, and conventional oil and gas capital, and expiration spend to approximate \$18 billion in the 2013 financial year. This figure includes minor and sustaining capital expenditure and approximately \$1.5 billion of exploration expenditure.

I have intentionally separated guidance for our Onshore US business, given the significant discretion that we have in terms of where and how much we will invest. As I present to you today, we plan to invest \$4 billion in our Onshore US business in the 2013 financial year, with the majority of our activity to be focused in the oil and liquids-rich Eagle Ford shale and Permian Basin. I should remind you, however, that the rate of investment will be aligned with the external environment. Marius will discuss our work programme in more detail shortly.

## Priorities for Capital Management

I would now like to remind you of our long stated priorities for capital management: firstly, to invest in high return growth opportunities throughout the economic cycle; second, to maintain a solid A credit rating; third, to grow our progressive dividend; and finally to return excess capital to shareholders.

Our balance sheet has been managed in a disciplined manner within the framework of our solid A credit rating. This prudent approach has enabled us to grow our progressive dividend at a compound annual growth rate of 26% over the last 10 years. For the 2012 financial year, we declared a full-year dividend of 112 cents per share, an 11% increase on the prior period.

Over the same 10-year timeframe, BHP Billiton has returned approximately \$54 billion of capital to shareholders in the form of dividends and buybacks, an amount equal to almost 50% of our cumulative Underlying earnings over the period.

# Analyst and Investor Briefing

## **Royalties, Taxes and Exceptional Items**

To close my section of the presentation, I would like to touch on royalties, taxes and exceptional items.

For the 2012 financial year we paid federal taxes, state taxes and production royalties totalling \$11.9 billion, representing approximately 44% of underlying EBIT.

Our tax expense was reduced by a non-cash exceptional item related to the Australian MRRT and PRRT extension legislation that was enacted in March 2012. Under the legislation the group is entitled to a reduction against future MRRT and PRRT liabilities based on the market value of its coal, iron ore and petroleum assets. A deferred tax asset and an associated net income tax benefit of \$637 million was recognised in the 2012 financial year to reflect the future deductibility of these market values for MRRT and PRRT purposes, to the extent that they are considered recoverable.

For the 2013 financial year an effective tax rate of approximately 34-35% is anticipated for the group, including royalty-related taxation.

Other exceptional items booked in the 2012 financial year included a \$1.8 billion impairment of the Fayetteville shale dry gas assets and our \$355 million impairment of the carrying value of Nickel West.

Our decisive action to close or suspend various operations and the optimisation of our development programme also led to an impairment totalling \$342 million. Specific actions that contributed to the charge included: the decision to study an alternative, less capital intensive design of the Olympic Dam expansion that I mentioned earlier, the temporary suspension of production at TEMCO, the permanent closure of the Metalloys South Plant, the indefinite cessation of production at Norwich Park and the suspension of other minor capital projects. I should also note that the settlement of insurance claims that date back to the 2008 floods in Queensland led to a one-off gain of \$199 million in the 2012 financial year.

Finally, I would like to note that we invested almost \$1 billion in the communities in which we operate over a five year period, consistent with our commitment to voluntarily invest 1% of pre-tax profits. With that, I would like to hand back to Marius.



## 3. CEO Address – Marius Kloppers

### Overview

Thanks, Graham. I would now like to discuss the economic environment, the outlook for our core products and our strategy that uniquely positions us as the demand for various products change over time.

### Overall Economic Outlook

Before I talk about the longer term outlook, however, I am sure that a number of you are also interested in our short term view and the status of our order book. In relation to short-term concern regarding the stability of the Eurozone and the decline in economic activity that has accompanied the slowdown of growth in China is likely to weigh on the market for a little while longer.

However, on a positive note we believe that the supportive economic policy that we have seen, broad growth bias is likely to improve in the external environment beginning in the second half of the 2012 calendar year. Growth in fixed asset investment in China, for example, is expected to support the demand for our steelmaking and raw materials and a degree of stability in the global economy should limit downside for a number of our projects. As you know, our strategy is to always run our assets at full capacity, take market price, and in that context I am pleased to report that our order books remain full and we continue to sell everything that we can produce today.

Over the longer term we continue to believe that urbanisation and industrialisation of 250 million people in China over the next 15 years, and 1 billion people worldwide, will drive economic growth and demand for our products. Chinese GDP growth alone is said to virtually triple between 2011 and 2025, with growth equivalent to almost 25% of current global GDP. Growth in Chinese and Indian GDP in absolute terms is expected to exceed the growth in all of the other regions combined.

### Supply-side Impact on Pricing

However, demand is only one side of the equation. The degree to which supply either meets or exceeds demand is the other key consideration. In that context, the differential performance between, for example, copper and aluminium provides an interesting case study. We have shown the cumulative growth in demand for these two commodities and their respective price performance. From this we can learn that in copper a structural decline in ore grades heavily constrained the supply response, and rising strip ratios and grade declines steepen the global cost curve. As a result, the copper price increased significantly before consolidating in a range that is high enough to induce new supply and this all despite relatively modest demand growth.

Conversely, in aluminium, prices remain depressed, as rapid growth in Chinese smelting and refining capacity led to significant over-supply, despite relatively strong growth in demand for this product over the period. Ironically, actually, if we look at our slate of materials, aluminium recorded the highest demand growth of all of the major traded metals during that period.

## Analyst and Investor Briefing

I should also add that in the case of iron ore the combination of strong demand and a long lead time for large-scale investments resulted in inefficient supply response during some periods and scarcity pricing at times, even though there is no global scarcity of high quality iron ore resources.

### Supply Outlook

Having established that the pace of supply response is as important a contributor to commodity price formation, it is worth looking at the supply outlook for a number of our commodities and targeted commodities.

We have expressed the rate at which low-cost supply will meet demand growth and has met demand growth from the period starting 12 years ago – from 2000 to 2020. We are roughly halfway through this period and for the entire 20-year period in aluminium around 80% of the aluminium demand growth over that period has already been met by supply. By the end of 2015, we think that the entire demand forecast will have been met by low-cost supply. On that basis, the aluminium market is likely to change at the variable cost of production for the foreseeable future.

In iron ore, the strong financial returns that have been enjoyed by the industry have encouraged substantial investment in new capacity. As a result, the producer response is well-advanced. Our analysis suggests by the end of the 2015 calendar year about three-quarters of the demand growth for the 20-year period will have been met by low cost supply. Going forward, therefore, those who invest in iron ore should do so in the full knowledge that supply will meet demand in due course and that the scarcity pricing that we have seen over the last 10 years is unlikely to be repeated.

By contrast, by the end of the 2011 calendar year, only a quarter of the demand growth in copper over the 20 year period had been met by low-cost supply. Quite simply, the world has not yet found an obvious solution to resource depletion and the resource degradation that continues to constrain the pace of low-cost supply addition in copper. With 1 million tonnes of copper supply required every year, we continue to believe that prices will be set at a level high enough to induce the development of greenfield mines and other investments.

Going to potash, low cost supply has been equally slow to respond. By the end of the 2011 calendar year, only one-quarter of the potash demand growth for the 20-year period had been met by low-cost supply. With regard to the outlook, robust demand growth and a relatively limited set of brownfield expansion opportunities in this business suggest that potash prices too will be sustained at a level high enough to induce new greenfield capacity.

I should also note that given the decline rates of shale rates in the US, it is a situation somewhat analogous to the copper and potash situation that we just outlined. In that context, we remain confident that US gas prices will ultimately adjust to reflect the economics of incremental investment.

These differences in the supply and in the demand characteristics of these commodities just illustrate why always, consistently and over a long period of time, we have placed such great emphasis on the superior level of diversification in our portfolio and the superior asset quality.

# Analyst and Investor Briefing

## Strategy Priorities

BHP Billiton's charter describes our corporate objective and also describes our strategy. Contained within our charter is a 21 word statement that defines our strategy. It says: 'We're in the business to own and operate large, long life, low cost, expandable, upstream assets diversified by commodity, geography and market'. It is worthwhile analysing some of these aspects in the context of our results.

We have expressed Return on Assets as a function of Asset Turnover and Profit Margin for BHP Billiton and its peer group. BHP Billiton clearly has superior margins and superior returns. This outperformance is as a result of executing an unchanged strategy in a disciplined manner, plus the fundamental quality of our assets. Consistent with the priorities for capital allocation that Graham described earlier, we have 20 projects in execution with a total approved project budget of \$22.8 billion. The majority of these projects relate to the low risk brownfield expansion of those same assets that have generated those returns over the last decade. We are investing more in the same assets that generated that outperformance.

The commissioning of these projects plus the return to full production in that number of major assets that we outlined is expected to underpin significant growth and create substantial value for our shareholders. Beyond these projects, we have the unrivalled suite of development options beyond those in execution. However, given the recent commodity price declines and the associated impact on cashflow and changing project economics, given exchange rates, capital costs and so on, we are largely committed for the 2013 financial year. We do not expect any incremental major project approvals over that timeframe. Of course, as we complete these projects that we are currently busy with, we will allocate future money to those projects that maximise value, while considering the balance between short and long-term returns.

## Projects in Execution

In that context, I would like to give you a short update on the projects in execution, which I stated as a portfolio is on-budget and on-time.

In Western Australia Iron Ore, all of our projects remain on budget and on time. Completion of the Port Hedland Inner Harbour Expansion project in the second half of 2012 will deliver an additional car dumper and ship loader capacity. The project will increase our effective capacity at Port Hedland to approximately 220 million tonnes per annum. As a result we will for a short while be net long port capacity before our Jumblebar mine is commissioned in 2014. We are targeting another record year of production in 2013 financial year, with growth targeted year-on-year of approximately 5% increase.

My colleagues Andrew Mackenzie and Peter Bevan recently met with many of you to discuss a quite outstanding and exciting outlook for our Base Metals portfolio. Relatively rapid payback, low-risk, brownfield expansion projects that are well-advanced, on-budget, on-schedule and tracking to plan are expected to underpin strong growth in our copper business. For example, the \$435 million Antamina expansion delivered first production in the March 2012 first quarter. This expansion increases processing capacity by 38% and underpins a forecast 32% production increase of copper in the 2012 calendar year.

## Analyst and Investor Briefing

At Escondida, another one of our major assets, a number of projects are currently underway. The \$319 million ore access project achieved first production in June 2012. This project targets higher grade ore that underpins a 20% increase in total copper production targeted for the 2013 financial year. Our often overlooked Laguna Seca Debottlenecking project remains on track to increase processing capacity by 15,000 tonnes per day. The replacement of the Los Colorados with a new, larger concentrator in the first half of the 2015 calendar year will increase processing capacity by a further 32,000 tonnes per day. From the trough of production, we are targeting something like a 50% production increase in Escondida as a result of these projects.

### **Significant Latent Capacity in Metallurgical Coal**

In Queensland Coal, as discussed, our coal business has been severely constrained by industrial action and wet weather over an extended period of time. A strong Australian dollar and general inflationary pressure, as well as soft demand, have placed additional pressure on operating margins in this business.

In response to these challenges, we have chosen to delay the not-yet-commenced 2.5 million tonne per annum expansion of the existing Peak Downs mine. The other projects we are doing in Queensland – the 5.5 million tonne per annum Caval Ridge project, the Hay Point Stage Three Expansion projects of 11 million tonnes per annum and the Daunia Project – remain on schedule and will deliver first production in 2014. The capacity of our Queensland Coal business will increase to 66 million tonnes by the end of the 2014 calendar year. On the minerals side, we have very strong growth in a number of our core assets.

### **Accelerating Development of our Liquids Rich Shale Assets**

Lower gas prices have caused us to focus Onshore US drilling almost exclusively on the oil and liquids rich Eagle Ford shale and the Permian Basin. As Mike Yeager has commented on several occasions, investment in the Eagle Ford generates high levels of return, with production typically within three months of initial development and payback typically within a year. Our Onshore US capital expenditure is expected to rise to \$4 billion over the 2013 financial year, while production is expected to increase to approximately 100 million barrels of oil equivalent, inclusive, importantly, of a near 100% increase in oil and liquids production.

I note, however, that the flexible nature of production and shale development programme means that the rate and the focus of the activity will continue to be adjusted and aligned with the external environment. Our focus continues to be value and not barrels.

Before I move on, I would like to address the \$1.8 billion impairment of the Fayetteville dry gas assets. While disappointing for this dry gas asset against a backdrop of low gas prices, I can confirm that the decision to enter the North American shale business was taken after very extensive deliberation and due diligence. The analysis that convinced us of the potential of this business remains robust, and we are confident that our low cost position and broader oil and liquids exposure will enable us to create substantial long-term value in this business for our shareholders.

# Analyst and Investor Briefing

## **Strong Near-Term Momentum in our Major Businesses**

Our committed capital expenditure programme continues, largely on low risk, high return brownfield projects that will, by and large, deliver first production before the end of the 2015 calendar year.

Let me note a few examples: a run rate of 220 million tonnes per annum in Western Australia Iron Ore before the end of 2015 financial year; copper production growth of approximately 50% in Escondida; Queensland Coal growth of approximately 50% over the next three years as we recover from the challenges and as projects are completed; and then, a reminder of that the restart of our Atlantis and Mad Dog facilities, producing the most valuable barrels in the world of crude oil and condensate. Lastly, accelerated development of our Eagle Ford acreage will put us on track to produce at an average rate in excess of 200,000 barrels of oil per day in the 2015 financial year, with a prospect of 80/20 oil and liquids to gas revenue mix. Incidentally, this would make the Eagle Ford the largest producing field in our Petroleum business.

## **Longer-Term Development Options**

Let us talk about even longer term. We are really fortunate to have a large resource endowment in our major basins, which provides us with all of the options required to sustain and grow our business for the foreseeable future, in line with our defined, diversified core offering and strategy.

Like any past capital commitment, and like the commitments that are being executed right now, all of our projects will continue to be scrutinised multiple times as they move through our approvals process, and as always the highest return projects will be prioritised. Value has been, continues to be and will be our primary consideration.

## **Olympic Dam Project**

In that context, we've decided to study an alternative, less capital-intensive design of the Olympic Dam open-pit expansion, involving new technologies. When I say new technologies, these are things we have been studying for the last six years or so, pretty much since we started the project. They have the potential to substantially improve the economics of the project. As a result, the Group is not in a position to approve the Olympic Dam project before the indenture agreement deadline of 15 December this year. We are not yet certain what this means for the indenture itself, although we are and will remain engaged with the South Australian Government on this important issue.

## **Potash**

In Potash, we have established a major presence in the Saskatchewan Basin. The team has made significant progress since I last discussed our plans. Two underground shafts that will support at least an 8 million tonnes per annum mine at Jansen are well advanced. Their excavation is scheduled for completion before the end of the 2014 financial year. The shaft collars are both excavated and lined to nearly 50 metres; the shaft-sinking head frames are being erected and I was hoping to show you a picture of the boring machines being installed but we are just a few days too early for that.

## Analyst and Investor Briefing

In its fully expanded state, Jansen will operate at the bottom of the cost curve and generate strong investment returns. Existing pre-commitment funding will enable us to further advance this project in the 2013 financial year as we work, importantly, through the final engineering design and all of the mining lease conversions that are required before we can take this project to our Board for full sanctioning. Additionally, in the wider Saskatchewan Basin, we completed more than 25 kilometres of exploration drilling during the 2012 financial year.

### **Permian Basin**

In Petroleum, in the Permian Basin we have 440,000 acres, and a significant appraisal programme is underway. Early but encouraging results indicate the potential for 100,000 barrels of oil equivalent per day shale liquids business and 60 or so wells are planned for the 2013 financial year.

### **WAIO Growth Beyond 240mtpa**

We have been investing in growth for more than a decade in Western Australia. I just commented on that decade or more long production record sequence that has been set, which is testament to that investment cycle. As we optimise all of the investments in the supply chain that are stacked up on each other and we continue to squeeze asset utilisation with the development of pieces of infrastructure, such as the Mooka rail marshalling yard, we now see the potential to unlock substantial latent capacity in that supply chain. Such an increase in productivity and efficiency of our Pilbara assets could potentially deliver material growth beyond the 240 million tonnes per annum production rate that we have previously spoken about. The attractive economics associated with what is essentially an infrastructure optimisation exercise means that our initial focus, as we move forward, will be on the inner harbour, although we continue to progress a dual harbour strategy.

### **Committed to Further Simplify the Portfolio**

Divestments over time have played an important role in the development of our more simple, diversified, scalable and upstream business that we often talk about. This is a portfolio which, may I note, generates more cash per unit of product and a higher level of cashflow per employee than its peer group.

The pending sale of our 37% stake in Richards Bay Minerals to Rio Tinto is consistent with our strategy. I am unfortunately not in a position to provide you with any updates on the progress of this, or the continuing review of our diamonds business.

However, I want to stress – and as I have said in the past – assets must continue to earn their right to be in the portfolio. Our willingness to act decisively if our criteria have not been met has been demonstrated over many years, and most recently in the Norwich Park and silicomanganese decisions. While I am not going to identify additional assets for divestiture or closure today, I can assure you that this is a dynamic and ongoing process.



# Analyst and Investor Briefing

## Superior Returns Throughout the Cycle

Above all else, we seek to meet or exceed our health and safety, environment and community obligations while providing superior shareholder returns. As you can see on this slide, our strong operating performance and disciplined execution of an unchanged strategy has delivered sector-leading returns during the last decade for a period of exceptional growth in commodity markets.

During this period, we have returned approximately \$54 billion to shareholders in the form of dividends and buybacks. Our unbroken, progressive dividend has grown at a compound annual growth rate of 26% over that period.

While I am proud that our low-risk, high-quality and diversified strategy has delivered substantial returns for shareholders over the last 10 years, I think that we are placed to do even better relative to our peer group over the next decade. A lower level of operating leverage, together with our multi-commodity exposure, ensures that we are very well positioned for the eventual mean reversion of industry returns and, importantly, given the diversified nature of our portfolio, changes in the consumption patterns of commodities that will follow.

## Key Themes

With that, I would like to conclude by summarising the key themes of our presentation: strong operating performance and robust financial results; significant cost savings targeted for the 2013 financial year; strong near-term momentum in our major businesses, particularly as those that have not yet run at full capacity return to business; substantial value out of a large, well-advanced, low-risk set of projects that are currently in execution; commitment to continue to simplify the portfolio through selective closure and divestment of unprofitable and non-core operations; and sector-leading financial returns that our strategy has delivered.



### 4. Questions and Answers

MARIUS KLOPPERS: On that note, I would like to thank you and please take your questions. It is best if we start in London, then I will move to Sydney and then the phones. It would help if you could state your name and then address your questions to me in the first instance. I will parcel out the questions to some of the other management team members as they fit.

JASON FAIRCLOUGH, BANK OF AMERICA MERRILL LYNCH: Just a quick question for you on iron ore. You made a couple of comments. You said scarcity pricing in iron ore is unlikely to be repeated; you have previously said that there is a finite window here for supernormal pricing in iron ore and then you have also gone on to say today that you are going to be net long for capacity for the next year or two. It kind of feels like the writing is on the wall for the outer harbour. You have said you are pursuing a dual harbour strategy, but do you really need to do that outer harbour?

MARIUS KLOPPERS: Let me step back. Our outlook for iron ore has not changed very much since Mike made an investor presentation about two years ago. If I overlay our most recent forecasts with a graph from two years ago on our website, there is really not much in it. There are, post 2025, some tweaks on the scrap rate generation, but by and large in this growth period no changes. However, while we would like to think that we have perfect insight, maintaining options in our business is unbelievably important. The way that I have explained it many times is that we cannot start something from scratch if a cashflow wave comes through because of a situation that we did not intend. We can only deploy cash to those valuable options that are ready to meet that. We always need to run option long, and we always need to drop off or defer options as circumstances change. I think I have perfect foresight because I have a great team in Iron Ore, but I am not sure; the iron ore price could be different. Having the outer harbour – if that materialises – to the upside is an immensely valuable option that we want to continue to develop.

JASON FAIRCLOUGH: Can I paraphrase you: minimum spend to keep the option alive?

MARIUS KLOPPERS: We certainly want to do some development, but we need to stage our activities commensurate with the fact that we do not anticipate any approvals over the next year.

DES KILLALEA, RBC CAPITAL MARKETS: Do you think we are seeing a peak in operating cost inflation, given what is happening in commodity markets and perhaps some pushback from companies on labour rates?

## Analyst and Investor Briefing

MARIUS KLOPPERS: We are determined to bend the trend. On balance, prices are mean reverting and costs have still escalated. How are we going to attack it? One, we have to get the operating rate of those key assets up; we have to get the volume dilution. Two, we have to continue to be absolutely determined to close operations that are non-cash generating. It is always tough love in our organisation over many, many years that we have to do that. Third, as we re-sequence and re-sequence – and next year we will re-sequence our options again – we need to match our development expenditure levels, some of which are going through the profit and loss, to the capital sequence. You cannot just keep on developing options and then put them on the shelf for a couple of years. If you know that they are going to move out, that will save costs. We then need to address the overhead structures; to what activity levels are they geared? We have to address the input costs, and that will come down because much of what we consume is what we sell and the combination of all of those things, we are absolutely determined to bend this trend, but I speak for our portfolio, not for others.

When people report costs in our industry, because there is not a strict accounting definition of how to present it, I get a million different representations. I, as you would do, try to decipher how a broad range of peer groups present that. It is often not that easy for me to do so. So, we continue to always look at cash generation. There is cash generation, and the cash margins that you have on your assets is the clearest indicator of where your cost structures are going. That will continue to be our focus.

SYLVAIN BRUNET, EXANE BNP PARIBAS: I have two questions. First, on the shale business, could you share with us your gas price assumption behind the impairment, or at least the delta in price? Second, on the number of rigs, I read that you were quoting 40 rigs. Is that a decline from last year, and by how much? My third question is on the nickel business –

MARIUS KLOPPERS: Gosh, I will come back to that, because I have already forgotten the first part of the question. Let me just try to go back. Shale: we targeted 70 rigs at acquisition. Mike is talking about 40 rigs or so, maybe a few more, maybe a few fewer. Brendan and I were clear to indicate in the results release that there is a little bit of flex in that as commodity prices unfold. In terms of expenditure – I am going to look for a nod here from my team – about \$0.8 billion spent last year to about \$4 billion this year on that activity. I do not have the exact average number of rigs that we had in the field during the past period, but I can tell you that the rig declines on the gas side have been very, very material, with, from memory, about 15 rigs in each one of those two gas fields going to effectively two or three or something like that. There has been a big change in where the rig counts have gone. Remind me of the second part of the shale price question.

SYLVAIN BRUNET: The delta in the gas price assumption behind the impairment.

MARIUS KLOPPERS: Our normal impairment process is to take the price protocols we have at year end, i.e. 30 June. That is what goes into the calculation because that is when you close the books. We do not disclose our price protocols, but I think it is fairly common knowledge that for the short and medium term our normal practice is to look at observable transparent markets to the maximum extent that we can, and you should take it as read that that is the practice that has been adhered to as well, even though we have not disclosed that. You then had a question on nickel.

## Analyst and Investor Briefing

SYLVAIN BRUNET: Just to get a feel of how far you were prepared to go in the restructuring of that business: would you be prepared to describe part of your nickel business as non-core within the portfolio, now?

MARIUS KLOPPERS: I think the guys have done a great job with nickel. If you look at their cost containment over the last year, Glen and the team, Paul in Nickel West and his predecessor have done an absolutely outstanding job in terms of cost containment. However, they have followed the nickel price down. The cost targets that we gave them some time ago which were targeted to maintain cash generation at the nickel price that prevailed. It is no secret that since we started that process nickel prices have come off more. Glen is going to respond to that and I have every confidence that he and the team are going to do that. Aluminium and nickel are clearly non-core from an incremental capital investment; that has been very clear for a long period of time. There is no change in our demeanour or status of that.

PETER DAVEY, STANDARD BANK: You leave the door open in your statement: 'No major projects are expected to be approved'. What extraneous event will change that and crack that door back open again? What major event will make you rethink that? Secondly, in terms of the cost inflation, where is the low hanging fruit? Which business units? Can you give us any idea?

MARIUS KLOPPERS: The statement was meant to say we would be very surprised if we approved new projects in the next 12 months, just to be crystal clear on that. We have a very large work programme in place over the next year. We unfortunately cannot start and stop things very quickly. We always have to steer things, and we have to build up or build down project teams in order to do so. I would be very surprised if there is a very material investment that can be triggered in the next 12 months, even if conditions are very benign or we get a surge to the upside because we started reconfiguring our business – well, we are always reconfiguring. I have described it once as you steer on what you see on a five-year horizon to pop out at the back end what you can do. The statement was meant to be very, very clear that we are committed and comfortable it is going to deliver. It was not meant to leave the door open. With you having triggered that, there are always exceptional circumstances, but our base case is that we are going to be working on the things we have worked on.

On low-hanging fruit, for us it is taking advantage of the raw material price decreases and making absolutely certain that our normal sell at the market price/procure at the market price strategy flows through the bottom line. I do think that the fact that you are adjusting the rate at which you are engineering new projects to come in will have a pretty direct knock-on onto cash. That is pretty predictable.

The third question is high-cost operations. You have seen where the pressure has been: on our Nickel, Manganese and Aluminium businesses. Lately, given the coal price decline, in a backdrop of a high Australian dollar and a high energy cost, small, high strip ratio metallurgical coal and energy coal mines in Australia are at the intersection of those things. We have to look very, very carefully at what capacity we want to run in that business and what capacity we should not run, being very, very deliberate, in line with our hallmark: if it does not generate cash we are going to exclude you from the production portfolio. You are going to see that continue to be our hallmark going forward.

## Analyst and Investor Briefing

ROB CLIFFORD, DEUTSCHE BANK: What has happened to the concept of flag-fall capex within BHP? Your big T1 assets – Pilbara, Escondida – had these originally. You appear to be balking at the hurdles now at Olympic Dam and the outer harbour. Under what conditions can you get back to the point where you can be comfortable with that?

MARIUS KLOPPERS: You have to make infrastructural investments at some point in time. If you look at Iron Ore, we made a flag-fall investment in a complete new rail line a couple of years ago. Now we want to fold that up. If you look at the Queensland coal fields in Hay Point and in the Daunia, you are basically setting the stage for the next two or so stages of incremental production. If you look at the shafts that are being sunk in Saskatchewan, that is the infrastructure that will be built out to an 8 million tonne per year mine. We should not confuse flag-fall with changed economics. In Olympic Dam, high exchange rates, high capital cost inflation and uncertainties about the long-term uranium price outlook, changed economics, not 'we do not want to strip the open pit'. Changed economics: we have to go back, find a solution to put less capital in. Out of this is inner harbour; at some point you run out of capacity in the inner harbour. It is a finite thing and there will be a time where you run out of capacity. However, we probably now view that that point is being pushed out relative to what we thought a couple of years ago. We always need to take the high-return business first when we can get that. We have always got to, at some points in time, invest in major infrastructure.

DAVID BUTLER, JP MORGAN CAZENOVE: It is a similar question to Rob's, on hurdle rates. Are they changing at all?

MARIUS KLOPPERS: No David, we do not change things that quickly. We do not have a specific hurdle rate, because things are so associated with product, the shape of the distribution we can expect. We have historically said that we hope to achieve a 15% real post-tax return on projects. I hope that the \$20 billion that we invest in the next year will get a 15% real post-tax return. While there is not a specific hurdle rate that probably gives you guidance on what we think the projects and execution are going to deliver for us.

ADRIAN WOOD, MACQUARIE: I have two questions. First of all, you talk about your commitment to a stable A credit rating. Can you just talk a little bit about whether that means you would be happy to go to single-A or even A-minus, or if it is a commitment to A-plus? Second, on the US gas business, we have seen what happens when a lot of majors throw an awful lot of money at drilling a lot of wells in the onshore US gas and the impact that has on the Henry-Hub gas price. You, along with all of your peers, are also now all moving into the liquids rich areas, and we are starting to see the early signs of a similar impact on the NGL prices. Are you concerned that perhaps this strategy and herd mentality we are seeing could end up damaging the liquids rich part of this business as well?

## Analyst and Investor Briefing

MARIUS KLOPPERS: Let me answer the second question and then I will throw that to Graham to talk about rating and gearing and so on. From memory, Eagle Ford has, on a revenue basis at today's forward strip, approximately 20% exposed to C1 – that is methane or natural gas revenues – about 8% or 9% on C2s and C3s – I am digging back into my chemical engineering background here – another perhaps 10% in C4s and C5s; and 60% on C6s and longer chains and rings. Clearly, we are seeing the C2 cracker feed trading at – I am looking at Mike here – \$30 barrel of oil equivalent, about \$60 for the C4s and C5s and at PI for the remainder. There is a reason why every chemical company in the US is looking for expansion plans at the moment, but I do want to take it down to the characteristics of the individual reservoirs that we are drilling. We are basically not that exposed in the Eagle Ford and, should the Permian be successful, from memory we are even less exposed there than in the Eagle Ford. It is basically oil. I do not know if that helps, Adrian.

As to gearing, Graham, why do you not take that question?

GRAHAM KERR: Thanks, Marius. I think the important point I made during the presentation was that our commitment around capital management has not changed and, as part of that, we have always seen a solid A as an important part of our capital management principles. Clearly, over the last 10 years we have managed within that boundary condition of a solid A, but we have always talked about the solid A being an A and an A-plus. If you look at our current position we have managed towards that direction and we see no change.

PAUL YOUNG, DEUTSCHE BANK: I have a question on cashflow and another one on Olympic Dam. First of all, from your FY13 capex, it looks like you will be living outside your means for perhaps one year. If we look at your capex guidance, your progressive dividend and potentially cash inflows, you are looking at a \$6-8 billion funding gap for FY13. I know you invest through the cycle. I know divestments may assist and the balance sheet is strong, but would the board be comfortable with a \$6-8 billion increase in debt?

On Olympic Dam, I am intrigued about the new technology and how you reduce the capital intensity on that project. Are we talking in situ leach? Are we talking getting rid of the smelter expansion? Could you just give us some more information on that?

MARIUS KLOPPERS: I will try to give you a very preliminary thing on the second piece first. Dean and the team in South Australia have been working on off-leaching of the ores. From memory, I think maybe even Western Mining may have started on that. They have progressively been scaling that up. They went from lab scale to normal columns and cribs and so on. You never know with ore bodies what it leaches. The leaching cycle on this ore, as you can imagine, is likely to be pretty long before you get there – 300 days or so, maybe a little bit more – but recovery that we have seen at scale-up has been very good. Clearly, if you are going to do that, you are going to build not new smelters; you are going to go to a different metallurgical sequence. While I do not want to be precise on that as the only enabling technology, that is one thing that has come into prominence as capital cost escalation has been very profound.



## Analyst and Investor Briefing

As to the first question, on living within your means, I think that what we have said today is exactly living within our means. We are seeing a change forward estimate of cashflow generation over a five-year period and we are adjusting our rate of forward capital deployment in order to live within our means over that time. Living within our means, as Alex and I – sorry, Graham, to quote your predecessor – have said many times, does not mean perfectly balancing your cashflow in any given year. However, it does mean that if you take on debt at a given moment, if it goes outside the parameters that you would like it to be, you have to repay that. Therefore, I think that we are comfortable using the balance sheet judiciously within that overall sequence of capital allocation and within a target strong single-A gearing range. As you said, divestitures of non-core assets, some of which are visible and some of which – as I spoke about today – are not yet at an advanced stage, but which I clearly pointed out has always been and will continue to be a core part of the strategy – simplify as you grow – will contribute here as well.

Therefore, Paul, rather than say what does living within your means mean, I think the announcement today about the pace of approval of new projects is a very, very serious and strong commitment to continue to live within our means, as we have in the last 10 years.

TIM GERRARD, INVESTEC: I have two questions; the first is on alumina and aluminium and the second is on exploration.

With respect to alumina and aluminium, was that business subject to impairment testing in the June half and, if not, is it highly probable that that would be done in the current half?

Secondly, Graham mentioned exploration spend probably this year of around about \$1.5 billion. That would compare with \$2.1 billion last year. I was wondering if you could give us a rough split of that and, given that you have already told the market that minerals exploration will be wound back, it would be interesting to hear what the split would be.

MARIUS KLOPPERS: Clearly, the alumina and aluminium assets were subject to impairment testing. There is a slightly wider band of production and cost outcomes in those assets that are ramping up, which is Worsley. If I look at [inaudible] our aluminium price expectations and so on, as you know, matches the forward curves. Those have not changed too much. The biggest variable for us, as we look at our cost structures, continues to be exchange rates in South Africa and in Australia. However, they were subject to testing, although I do want to flag that we have one asset that is in the process of ramping up.

In terms of exploration expenditure, I am going to look at Graham to perhaps help split this out for us a little bit, otherwise we may have to come back to you offline. Graham, can you help on the \$1.5 billion?

GRAHAM KERR: Half of it goes towards conventional oil and gas expenditure. The other half is in the mineral space, of which around \$170-180 million is on copper exploration for new mines; the rest is more focused on drilling out and understanding our current brownfields.

MARIUS KLOPPERS: It is 750 on conventional oil. Clearly we have given you a separate figure for the shale gas. It is 750 on minerals, of which approximately, in engineering terms, 200 is on pure greenfield exploration activity and almost all of that is going into copper exploration and almost all of this is going into the Andean region.

## Analyst and Investor Briefing

GLYN LAWCOCK, UBS: When you approved Peak Downs and Caval Ridge, I was pretty critical of those projects not even making cost of capital. You have now killed Peak Downs and I know you have not started it, but you spent a lot of money doing the studies. Without Peak Downs, we are building an eight million-tonne washery with only 5.5 million tonnes of output. I am trying to understand whether this project makes sense. Given you were that far advanced, why kill it? Secondly, can we still expect this to make a decent return without optionality being brought into the picture?

MARIUS KLOPPERS: We talked earlier about how sometimes you have to invest in infrastructure and clearly this is a case where we have had to put substantial infrastructure in place. We have every expectation that our coal business is going to grow over time and, as you know, we would like to expand both the Caval Ridge mine and the Peak Downs mine. Those are the highest yield units for us in the market. We had not started this project, spending money at a high capital cost environment, when we were not certain if the market was going to be there, if we could delay it at zero cost. That was the decision that was taken. Clearly, though, we need to fill up that infrastructure in due course. We have every anticipation that we are going to fill up the harbour infrastructure, the washing infrastructure and beyond as we go forward.

PAUL MCTAGGART, CREDIT SUISSE: I want to get a sense of what you think went wrong with gas prices in the US regarding the initial work that you did, because it has obviously had a negative impact both on shale gas acquisition and, secondarily, into the coal markets, as we have seen tonnage coming out of the US markets. What do you think were the factors that you did not anticipate, what do you think is changing and how are we going to get back to a rapidly improved gas price and hence maybe some relief in thermal coal markets as well?

MARIUS KLOPPERS: Perhaps taking a self-interested view, the majority of our investment went to things that had broad shale hydrocarbons exposure. That is the first thing that I want to emphasise.

On gas, I think there were two things that happened: one, we had a very, very warm winter and gas usage was very low; secondly, the rate of technological advance, i.e. the yield that the individual gas wells delivered, caused more production at given rig rates than people anticipated. That means that the industry overshot the number of rigs that they put in on two counts: one, anticipated demand; secondly, anticipated production. What we are seeing now is that rig rates are dropping very, very dramatically – and I am looking at Mike Henry, who is sitting in front of me – from 900 rigs to 500. Hence almost a halving of the rig counts on gas and, in due course, the decline curves will put you back into inducement prices. What the market says on a forward view basis is that that inducement price is at \$4.50 or \$4.25 at the moment and capital allocation in this business is pretty efficient, so my view is that capital is allocated to the marginal unit of production there.

On the coal side, if we just extrapolate a bit further, there have been a couple of other factors apart from just the gas that have been at play here. Clearly, we saw all of the peaking plant – effectively open cycle gas turbines and other gas turbines that were bought during the Enron years – being put to alternative use, with gas generation in the last months exceeding coal-fired generation for the first time in the last 30 years. That pushed out coal into the export market.



## Analyst and Investor Briefing

However, we should also note that the differential movement of exchange rates of some of the producing commodity-based countries relative to the US dollar has changed some of the relative economics of coal production as well. We have to take that into account as we look at cost curves in general shifting around.

The last aspect is obviously coal production and consumption in China combined with their exchange rates.

If we put all of these factors together, we probably do not see a dramatic upside in coal prices over the short and medium term. We see recovery in markets in general and you have heard positive statements on our overall outlook, but I would not say that we anticipate or our base plan is for dramatic changes in coal prices.

HEATH JANSEN, CITI: I was interested in the supply additions required to meet demand. Could you give us some indication where US natural gas may fit on that spectrum, further to the left or right, and do you expect that additional demand is going to be needed by the end of the decade?

Secondly, that chart matches your capital allocation preference and I know that you said you were targeting a 15% real rate of return post tax. I am just wondering if you have made any differentiation between the individual commodities. For example, are you running at a lower hurdle rate for potash than you would be for aluminium?

Finally, in your release you also made a note that you are paying a retention package to Petrohawk employees and that you have already paid out 56 million that has been expensed to date. Could you give us some details about that and the magnitude of those retention payments?

MARIUS KLOPPERS: On natural gas, we have not done a graph like that because the drop down in natural gas production if you stop drilling is so quick that you absolutely need to continue to invest money in order to maintain production. Therefore, if you stopped drilling today, I do not know what fraction of the gas would fall away over a 10-year period, but it would be an incredibly substantial portion. If you stop investing, your gas production falls away, which means that you go to inducement prices for marginal investment.

On capital allocation, I want to stress what I have said here, that we do not have a set hurdle rate. My response was: have you changed your overall aspiration? No. What do you anticipate you will achieve? If I run through the price deck on the approved project costs, that is approximately what I come up with across the portfolio as a whole. For individual projects, we always have to take into account whether it is expandable, how much is coming after this, what the downside risk is to the commodity price, where the ceiling and floor prices are on commodity prices. Nickel's ceiling price is around \$7.50 or \$8, because then you get nickel pig iron. Maybe you have a floor price at a different level for iron ore. Those things come into play. Political risk. We have to consider the product that we are in: i.e. what the propensity is for that product to remain at inducement price levels, given the rate of capacity decline, the capacity that other people hold and so on. It is very much a project-by-project approval in which there is not a single number or a magic number that we need to get over the line.

## Analyst and Investor Briefing

On retention payments, we have probably paid about half of what we committed to. There were clearly some short term, some medium term and some long term commitments commensurate with the level of the organisation that we were targeting towards retention. Perhaps at a more operational level, the retention period is slightly shorter rising up through the organisation in order to give Mike the opportunity to build the organisation in a sustainable manner. I do not think there is much more that I can say about that. About half of the retention payments have probably been paid out.

JAMES GURRY, CREDIT SUISSE: Just a quick question on Jansen, given that that seems to be the favourite project at the moment. Have you approved enough capex to see you through to the completion of the two shafts by the end of financial year 14? Will you need more and when might you need more, either at the mines or, for that matter, at the port?

MARIUS KLOPPERS: We are not in a position today to approve the full project. Why? I always say you need money, you need people, you need resource and you need all of your permits. We do not have all of the permits in place yet to give us complete title and tenure security over what will be a very substantial commitment. Tim and the guys need to deliver that and while they have made good progress, they still need to deliver a number of key milestones there. In a sense, that is one possible rate-determining step for the pace at which we can approve this. The second is we were careful to speak today about this financial year. Things will move around again and we will talk about the next financial year when next year comes out. I do not want to signal a target date for approval today. Clearly, that project has seen some drift out of a couple of months and so on as we have looked at additional engineering, as perhaps the permitting process has been slightly slower than anticipated. Also, from memory, we lost a couple of months in setting up the shaft excavation with very wet weather as well, so I do not want to target a new date today. However, what you should take from our comments today is that we have enough money pre-approved to take us through this financial year.

JAMES GURRY: On iron ore, is the window of opportunity still there or have you missed it? Is it either current cost inflation that you are having an issue with or, if you are still running that dual track inner and outer harbour process of optionality, can you talk about whether you would run into pressure with the LNG projects that are being built in Western Australia?

Semi-related to that, can you talk about your offshore gas business in WA and how you see that?

MARIUS KLOPPERS: I do not know how much money we are spending on an instantaneous basis in WA at the moment in iron ore. Perhaps \$1 billion a month at the moment is going into Iron Ore, because we are at peak investment. We feel that we have hit the window of opportunity extremely well. If you look at our growth rates, they are higher than our competition has been over the last five years, principally because we invested money in the global financial crisis when everybody else shut their projects down. Therefore, we are extremely happy that we have projects that are basically close to completion and we have some near-term bottlenecks, which inevitably is quicker to the market than what we would have been to the market with a longer-term project. So I am very comfortable that the outer harbour decision is not going to be taken in this year, because we have plenty to work on.

## Analyst and Investor Briefing

We have a project team. In fact, we are likely to reduce the size of that project team slightly over the next period, as Jason noted earlier, as we match the pace of engineering to when the project has to be ready for approval. However, we have the teams in place. They have built for 10 years. They have been phenomenally successful and so on, so I do not think that project team capacity is really the bottleneck here for us. It is the first things first that we have to work on.

In terms of the gas projects, the operators of the two things that we are involved in are ExxonMobil and Woodside. I really do not have a lot to add on the Browse project, because we are only a 10.5% shareholder or so in there and there is a well-publicised and well commented on timeframe for Woodside to make that decision.

On Scarborough, the way I look at it is that it is a fairly early-stage project, but one of the things that will come into play as that project is examined is that construction costs in the LNG business in Australia are not cheap at the moment. It is not cheap because it is a very heated market, there are specialised skills involved and the exchange rate is high. Therefore, I think what you are going to see – and I will make a more general comment – is that as we look beyond the suite of currently committed LNG projects – Ichthys, the three in WA plus the two or three plants in Queensland – more and more, where possible, I think operators are going to look at how to externalise as much of the construction as possible to locations other than Western Australia, for example. Again, I am taking a medium to long-term view here and I think that you are going to see operators focus more on things like floating LNG and other techniques to take capex out of a heated environment. As we progress that early-stage development, you will no doubt see something like that being examined as well, as an alternative to an onshore development.

ABHI SHUKLA, SOCIÉTÉ GÉNÉRALE: I have three questions, if I may. Firstly, on your US Shale assets. Clearly you are focusing on the liquids there, but my concern is whether that is a sustainable process or is it like a high grading of a mine, which will mean reward to the reserve grade within a year or two.

MARIUS KLOPPERS: Let me take the questions one at a time. Basically, what Mike and the guys have is a preferred drilling pattern in the entire Eagle Ford sequence. Obviously, that will change a little bit as the various NGLs and gas prices and so on change, because the various pieces of the reservoir respond to those different prices slightly differently. However, you basically have a set drilling pattern and you are going to start at one end and, over the next 10-15 years, drill it out end to end until full field completion has been achieved. Therefore, it is not like a mine that you are high grading. You have a full field completion piece and it obviously goes from the most prospective to the least prospective within a number of other boundary conditions, but that is no different from how a mine is developed: you start with a high grade and you progressively work your way through it. However, we are certainly not cherry-picking the asset and poking holes all over it. In fact, one of the things of Mike's whole approach is to minimise the number of movements, maximise the number of pad drills and maximise the repeatability and the predictability of the process.

ABHI SHUKLA: Suppose you were to invest something like \$4 billion per annum for the next decade. How will your proportion of liquids to total production evolve and how much production are we talking about?

MARIUS KLOPPERS: I lost track of that question; if you could just repeat it quickly.

## Analyst and Investor Briefing

ABHI SHUKLA: Let us say you keep on investing roughly \$4 billion per annum for the next decade. How is your proportion of liquids, as opposed to the rest of the petroleum ratio, going to change? How will it evolve over the decade and how much total production are we talking about?

MARIUS KLOPPERS: I cannot give you a 10-year forecast today, but we have released some numbers. I suggest you contact Brendan Harris and his team at Investor Relations and I am sure he will be able to shed more light on that.

Do you have a last question?

ABHI SHUKLA: Yes, thanks. This question is on the cash costs of the Petroleum business. It appears that they have gone up quite a bit from the first half to the second half. Your revenue is down about \$500 or \$600 million, but your EBITDA is down \$1.3 billion, so why has there been such a large increase in cash costs in the second half?

MARIUS KLOPPERS: It certainly is not a cash cost element, but it may be associated with the expenditure and the shale. Graham, I am looking at you. I do not know if you can answer the question. Otherwise, Abhi, I will have to get back to you. If I look on a barrel for barrel basis, in fact, Petroleum has had one of the best cost controls, together with Nickel and Manganese, in our portfolio.

GRAHAM KERR: There certainly is change in the D&A costs after the acquisitions of Fayetteville and Petrohawk, so there is a higher allocation to what each unit cost. However, on a cash cost basis, Petroleum has trended very well.

MARIUS KLOPPERS: I think you are looking at a D&A number in shale, but again Brendan and the team can help you.

At the risk of making people mad here in London, I will close on the telephone lines. I will take one last question here in London and then I genuinely do need to close this out. I am sure we will have opportunity post this.

TONY ROBSON, BANK OF MONTREAL: The need to prove the technology at Olympic Dam suggests several more years of work is required there and that would suggest again a multi-year delay before the board ratifies that project.

MARIUS KLOPPERS: It is certainly not something within FY13 financial year. New technologies have to be proven properly. As I have said, from memory, I think we have worked on some of these – I just noted one – for the last six years or so. So you do measure things in years as opposed to months, but I do not want to be drawn further than that today.

## Analyst and Investor Briefing

I am sorry that I cannot answer all of the questions. Let me close. We have had a strong set of results. Instantaneously, there are three businesses that are going to have huge upside as we go forward. We have \$20 billion of projects that are nearby, well advanced, on budget, on schedule, targeted towards the core products that we target. We have an environment where mean reversion favours our strategy of higher margin, lower operating cost, lower operating leverage, more diversification, relative to a situation where prices increase and where single commodity companies normally perform better. We have a great story. We have had great results. We are going to have great growth in a portfolio that we believe is the defining portfolio in the industry and with growth rates in volume that are very, very material over the next couple of years, from things that are on budget, on target and in core products.

Thank you very much for your time this morning.