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Transcript

BHP Billiton

Investor and Analyst Briefing

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1. Presentations

ANDREW MACKENZIE, CEO: Welcome, everyone, to our 2015 annual results presentation. I am here in London and Peter Beaven, our Chief Financial Officer, join us from Melbourne. In a slight break from tradition, we do not have any of the Business Presidents with us, either here in London or in Melbourne. Dean Dalla Valle, our Chief Commercial Officer, is with Peter, but our Business Presidents have been given a couple of weeks off from doing this normal chore of investor presentations and roadshows, and they are all in the field, driving safe productivity. I hope they are, as I asked them to. Anyway, let me point you to the disclaimer and remind you of its importance to this presentation.

As the structure, I am going to provide an overview of our strong operational performance and the solid financial results that we just reported for the 2015 financial year. Peter will then go into that in a lot more detail, and then I will share our outlook for our commodities, and explain why we are well positioned both to fund our dividend and continue to grow, through price cycles.

Our productivity drive has generated strong cash flow; it has funded the dividend, reduced the net debt and we continue to invest in everything we said we would do, in growth. We are confident in the future demand for our commodities. Cycles are part of our industry, and that makes it easier for large low-cost producers like us to move away from smaller peers. Improved productivity has stretched the capacity of our existing operations and increased volumes, at very low cost, with the prospect of much more to come on this front, as we fully realise the simplicity premium of the South32 demerger. We have also cut the capital required for growth, but we remain focused on value and we will only approve projects when the time is right.

Before I go into the details of our performance, I do want to reflect on our most important priority, which is the health and safety of our people. We are all deeply saddened by the tragic loss of five of our colleagues in this past financial year, at Worsley Alumina, Olympic Dam, Blackwater Coal and Manganese South Africa, and Escondida. These fatalities have had a permanent impact on families, friends and our workforce. The health and safety of our people must come first and so, across BHP Billiton, we have interacted with the whole workforce to reaffirm our commitment to their safety and wellbeing, and to insist any work that is unsafe must be stopped. It is vital that we all remain vigilant to ensure that all of our colleagues return home safely every day. Nothing matters more.

In the 2015 financial year, all our commodities had lower prices. Nonetheless, our operational excellence and the flexibility and increased capital efficiency of our investment delivered robust results, and our margins remain the best in this sector. Our strong cash flow from operations not only secured our dividend and growth, it also kept our balance sheet strong.

Underlying EBITDA decreased by 28% to $21.9 billion. Net operating cash flow, by 25% to $17.8 billion; and free cash flow, by 26% to $6.3 billion. In spite of this, we have we increased our progressive dividend by 2% to 124 cents a share and, at current spot rates, this represents an increase of 28% in Australian dollar terms or 12% in sterling. We reduced capital and exploration expenditure by 24% to $11 billion so that, at the end of the period, our solid A credit rating remains intact and net debt had fallen by 5% to $24.4 billion.

Our production performance has continued to improve. We have delivered production records for Iron Ore, Metallurgical Coal and Petroleum. Our copper production was unchanged, as strong performance at Escondida offset the impact of an unplanned mill outage at Olympic Dam.

Since the 2013 financial year, total production from our core portfolio has increased on a copper equivalent basis by 27%, which was well above our guidance. The latent capacity within our core businesses and the capabilities of our people will carry this momentum forward.

In the 2016 financial year, productivity will be the only source of volume growth at Western Australia Iron Ore, where volumes are now forecast to increase by 7%. In the Black Hawk and Permian onshore oil fields, where we acted decisively in the face of lower prices to reduce annual investment by over 50%, improved recoveries and lower drilling costs will deliver stable production.

The unique advantages offered by our simple portfolio and our integrated model have reduced costs faster, further and more sustainably than our peers. From their peak, our average unit costs have fallen by more than 30%.

In the 2015 financial year at Western Australia Iron Ore, we delivered a 31% reduction in unit costs, which fell to just $17 per tonne in the second half of the year. At Queensland Coal, we reduced operating costs by 23% to $65 per tonne and, at Escondida, we lowered unit costs by 8% to $1.07 per pound. Finally, in our Onshore US business, Black Hawk drilling costs declined by 19%. These are outstanding results and they reflect our unrelenting focus on productivity and costs and there is much more to come.

In the 2016 financial year, we will continue to reduce our costs so that, at Western Australia Iron Ore, we now forecast unit costs before freight and royalties of just $15 per tonne. At Queensland Coal, we expect unit cash costs to fall to $61 per tonne, despite the loss of the low-cost Crinum production, which becomes exhausted. At Escondida, on a grade-adjusted basis, we expect to reduce unit costs by 15%. Lastly in the Black Hawk, we expect drilling costs per well to average just $2.5 million.

We have built a strong track record over the last three years and delivered productivity gains of over $10 billion. We will continue to deliver lower and lower costs, as we run our operations more and more safely and more and more efficiently. I am now going to hand over to Peter, who will talk to our financial performance in more detail and then I will return to talk about the outlook for our commodities and our opportunities for capital-efficient higher-return growth. Welcome, Peter.

PETER BEAVEN, CFO: Thank you, Andrew. Our quality portfolio and continued focus on productivity across our operations has underpinned another robust set of results. Despite challenging conditions and the significant decline in commodity prices, we increased our dividend, we reduced net debt, we cut costs faster than anticipated, we have maintained our sector-leading margins and we generated strong free cash flow.

Looking at our financial performance on a continuing operations basis, excluding South32, there are four areas I will cover. To start, I will present our usual EBIT waterfall for the group and for each business. I will draw your attention to a few specific items in our accounts. I will talk about our ability to generate free cash flow through the cycle and, finally, I want to highlight the strength of our balance sheet.

We have divided our EBIT waterfall chart into uncontrollable and controllable factors. Weaker commodity prices alone reduced underlying EBIT by a considerable $15.2 billion. Putting this number into context, it is approximately two thirds of last year's EBIT. Inflation reduced EBIT by a further $433 million, although this was more than offset by a favourable exchange rate.

Macro conditions have made for a challenging year, but we have continued to achieve outstanding results in the factors that we can control. In total, these factors contributed $3.8 billion to EBIT. A 9% in copper equivalent production increased EBIT by $3 billion.

Growth volumes contributed $1.8 billion, while better productivity, for no capital cost, added $1.2 billion. Our relentless focus on being the best and most efficient operator across our businesses, reduced controllable costs by $2.7 billion. In total, our productivity efforts added $4.1 billion two years ahead of target, and we see much more to come.

These solid results were partially offset by an increase in non-cash charges, which reduced EBIT by $1.3 billion. This includes a number of the items that I will cover later in this presentation.

Now, to each of our four pillars in turn, our Petroleum business delivered strong performance contributing $1.9 billion to underlying EBIT, despite lower prices across our product suite. EBITDA margins remain high, at 63%, and production increased to a record 256 million barrels of oil equivalent. This was partially offset by higher non-cash costs, which reduced EBIT by $639 million.

The rise in non-cash costs was a result of impairments on non-core asset sales and higher depreciation charges associated with the increase in Onshore US liquids production. The rate of depreciation in our Onshore US business will continue to rise as the production mix increasingly shifts towards liquids.

We have significantly improved our capital productivity in Petroleum. In just three years, we have become the industry leader in Black Hawk completions. As Andrew mentioned earlier, we are now projecting our Black Hawk drilling costs to decline to $2.5 million per well next year, a 50% improvement from the 2013 financial year.

We prioritise value over volume. We have responded to market conditions by decreasing our level of capital expenditure in the Onshore US by over 50% next year, but we have preserved our ability to ramp up production both quickly and efficiently as the market improves.

Now, to discuss improving productivity in Copper, lower costs enabled this business to contribute $3.4 billion to underlying EBIT, despite the impact of weaker metal prices. With EBITDA margins of 49%, the strength of this business is clear. Our operations continue to improve productivity, with lower controllable cash costs adding $1 billion to EBIT.

Unit cash costs at our operated copper assets declined by 14% during the year. At Escondida, an 11% increase in truck utilisation supported an 8% decrease in unit costs, excluding the impact of Escondida's voluntary redundancy program. This is a one-off item; its implementation has reduced employee headcount by over 20% and will sustainably lower the fixed cost base. This unit cost reduction is even more impressive, given water restrictions, industrial action and the severe wet weather conditions we experienced.

Non-cash charges reduced EBIT by $839 million, and reflected higher depletion and deferred stripping amortisation, in line with increased material mined. It also included a $199 million asset impairment at Cerro Colorado, reflecting permitting uncertainty for the proposed mine life extension and lower copper prices.

Now, turning to the exceptional margins in Iron Ore. The quality of this business continues to underpin free cash flow generation, despite the 41% fall in average realised price. EBITDA margins remain outstanding at 59%, supported by our continued focus on efficiency. Centralised shutdown management has significantly improved the availability of our ore handling plants, which have typically been a bottleneck at the mines. As a result, productivity volumes increased underlying EBIT by $823 million, while growth volumes from Jimblebar contributed an additional $1 billion.

We continue to make exceptional progress in lowering unit costs, with cash costs declining 31% to $19 per tonne this year or $17 per tonne this half. Our focus on productivity will continue, with a further reduction in unit costs to $15 per tonne anticipated in the 2016 financial year.

The quality of our ore bodies in the Pilbara, their concentrated position and low strip ratio, cannot be replicated. This is supported by a low sustaining capital requirement of $5 per tonne. I would also like to highlight that this includes the minor investment at Jimblebar required to stretch our capacity to 290 million tonnes per annum.

On to Coal, where we remain profitable in a tough environment, lower prices alone reduced underlying EBIT by $1 billion. However, our Coal business still delivered EBIT of $348 million. Queensland Coal's unit cash costs declined to $65 per tonne and they are now more than 50% below their peak, as improving productivity and reducing costs at all our operations continues to deliver substantial benefit.

This enabled our Coal business to generate $0.5 billion of free cash flow this financial year – an enviable position for many of our peers, where continued low prices across both hard coking coal and thermal coal are putting enormous pressure on much of the industry.

In the 2016 financial year, we expect unit costs to decline by a further 6% to $61 per tonne, representing an almost 60% reduction in four years. Given the subdued price outlook, it is essential that we strive for benchmark levels of productivity. This will require everyone from leadership through to the frontline operators to be focused on rapidly and safely lifting operational productivity.

Now, I will draw your attention to a few specific items that affected group profitability this financial year. Included in underlying EBIT are: impairment charges of $828 million, of which $328 million related to Onshore US non-core asset sales, $199 million to Cerro Colorado, and $79 million to Neptune; Onshore rig termination costs of $123 million as we responded to market conditions and deferred near-term production for future value; and, as I mentioned earlier, costs of $188 million associated with the Escondida voluntary redundancy programme.

In addition, foreign exchange movements affected our financial results. While attributable profit included a benefit within net financing costs, this was more than offset by an unfavourable effect on our tax expense.

Our 2015 financial year results also include a number of exceptional items. In the first half, we recognised an impairment for our Nickel West asset and derecognised the deferred tax asset associated with the Minerals Resource Rent Tax, following its repeal. Last month, we announced a $2 billion impairment in our Onshore US business. The gas-focused Hawkville accounts for the substantial majority of this, reflecting its geological complexity, product mix and amended development plans. Importantly, this impairment does not reflect the quality of our broader Onshore US business. Finally, we recorded a $2.2 billion accounting net loss on the demerger of South32. This was primarily a result of the difference between the initial trading value of South32 and the book value of the demerged assets.

Moving on from other items, our improved operating and capital productivity supported free cash flow of $6.3 billion. As I already highlighted, we delivered $4.1 billion of annualised productivity gains two years ahead of target, and our improved capital efficiency and flexibility has resulted in a 24% decline in capital and exploration expenditure to $11 billion. We now expect capital and exploration expenditure of $8.5 billion in the 2016 financial year, and $7 billion in the 2017 financial year.

The value that this delivers, for example, is evident in our Iron Ore business. Although no major growth capital has been approved since 2011, we have continued to grow. In the 2015 financial

year, productivity alone accounted for 50% of volume growth and, in 2016, will be the sole source of growth.

Despite prices declining by two-thirds from their peak, our margins were 59% in the financial year 2015. Against this backdrop, expansion of our low-cost capacity has proven to be absolutely the right strategy. We are delivering stronger margins today than the last time iron ore prices were at current levels, back in 2007, and yet we are achieving this with more than two and a half times the level of production.

Our demonstrated capital expenditure flexibility, coupled with strong gains in productivity, allows us to protect free cash flow and preserve our strong balance sheet. This best-in-class performance, along with our pipeline of high-return low-cost growth projects, underpins our commitment to our progressive dividend.

This year, we increased our full-year dividend by 2% to 124 US cents per share. This equates to a distribution of $6.5 billion. This means we have now returned over $65 billion to our shareholders over the last decade. This level of cash return is almost $35 billion higher than our nearest mining peer, and twice as much as any other company listed on the Australian stock exchange. It is a track record we are rightly proud of.

Finally, to our balance sheet, net debt fell to $24.4 billion at period end, for a gearing ratio of 25.7%. Simply put, our balance sheet is strong and we remain committed to a solid A credit rating.

We operate in a cyclical industry and we manage our balance sheet accordingly. A strong balance sheet has provided us with the confidence to increase our dividend and to continue to invest in our business.

In conclusion, we have delivered another solid set of results in a challenging environment. Despite significant falls in the prices for each of our key commodities, we have maintained sector-leading margins; we have delivered our productivity target two years early; we have demonstrated capital flexibility; we have strengthened our balance sheet; and we have generated strong free cash flow, and all this while continuing to invest in our growth pipeline. With this strong set of results, we are confident that we will maintain our disciplined focus on value and our commitment to returns to shareholders.

ANDREW MACKENZIE: Thank you, Peter. I am going to turn to the world's markets and the outlook for our commodities. In the 2015 financial year, the global economy grew at a modest rate. In China, government policy has recently cooled the property sector and some fixed-asset investment. It is also giving more weight to reforms that will bring about the transition from investment to consumption, secure jobs and improve competitiveness and, importantly, the environment. This is all going to increase personal incomes and grow domestic demand, especially for industrial metals, energy and fertilisers. As we look at things today, there are signs that the Chinese economy has begun to bottom out and that the second half will be stronger than the first. Longer term in emerging economies other than China, rising population, wealth creation and urbanisation will all increase demand for all of our commodities.

We now expect Chinese crude steel production to grow more slowly, driven in the medium term by recovery in the construction sector, as current levels of property stock are absorbed, and by growing consumption by the machinery and transportation sectors. We forecast Chinese steel production to peak in the mid-2020s at between 935 and 985 million tonnes per annum. However, the reduction in the growth of demand for pig iron, metallurgical coal and iron ore will be less, because lower steel growth and a number of other factors will reduce the supply of scrap, which competes with pig iron.

Even so, prices will remain subdued and high-cost operations will continue to be curtailed. At Western Australia Iron Ore and in Queensland Coal, as you have heard from Peter, we continue to increase the efficiency of our infrastructure to maintain competitive margins and stay at the very bottom of the cost curves for both iron ore and coal.

The copper and petroleum markets are still attractive though for long-term growth projects. Until 2018, new copper projects under development will keep supply and demand broadly balanced, but thereafter grade decline will trigger new brownfield capacity and, longer term, new greenfield projects. In crude oil, the market is rebalancing. The rig count for US shale oil is now 50% below its 2014 peak and industry capital expenditure is forecast to reduce by approximately 25%.

Over the coming years, new capacity for the production of petroleum liquids will be required since annual consumption is expected to increase by more than 1 million barrels per day and annual supply is predicted to decline by 3 to 4 million barrels per day, so that is 4 to 5 million barrels per day of additional capacity required.

Now to gas, although the US shale industry has very successfully unlocked large quantities of low-cost natural gas, we still expect demand to increase and, over time, to induce higher-cost supply. We set our targets on value, with volume growth an outcome, not an objective and so, as a result, we will only pursue opportunities for growth at the right time. The quality and diversity of our portfolio, and its security of tenure across all our growth options, combined with the strength of our balance sheet, make possible such a flexible approach.

We are confident that, towards the end of this decade, we will return to annual growth rates nearer our longer-term trend of 40%. This will be achieved, first and foremost, with expansions that deliver growth in volumes and free cash for very low to negligible capital, and achieve average returns in excess of 40%.

For example, at Escondida, the completion of the water supply project in the 2017 calendar year, combined with the extension of the life of Los Colorados facility, will give us three copper concentrators to offset the impact of grade decline and secure a strong recovery in production volumes.

At Olympic Dam, the move into the higher-grade Southern Mining Area will deliver extra volume at low capital cost. In our Onshore US business, we continue to increase our understanding of the Permian, where we now see ultimate production of potentially over 150,000 barrels of oil equivalent per day. As you have heard, at Western Australia Iron Ore productivity alone will increase the efficiency of our infrastructure and we now see the opportunity to achieve 290 million tonnes per annum without significant new capital investment.

Finally, at Caval Ridge, since the capacity of their wash plant exceeds that of the mine, as their market conditions improve, just the addition of new mining fleet can expand the production of high-quality metallurgical coal at very low cost.

Beyond these near-term very low-cost highly capital-efficient opportunities, we have the financial strength to invest in our attractive suite of medium-term opportunities for growth, such as the development of the hypogene resource at Spence or a low-risk modular underground expansion at Olympic Dam, and the Mad Dog Phase 2 development in our Petroleum business.

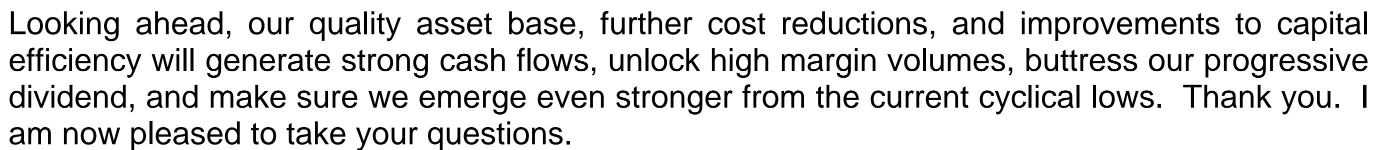
To repeat, we will only invest when the time is right, because we have long-term security of tenure and can use this to take more time to further improve capital efficiency and to reduce the cost of holding these important growth options.

The un-risked value of our growth portfolio under our long-term price forecasts is over $40 billion and its average rate of return for our preferred opportunities is in excess of 20%. In

total, these plans can deliver, at high rates of return, over four times the copper equivalent units that we currently produce at Escondida.

Our commitment to our progressive dividend is resolute, and this means that in every half-year reporting period, we aim to maintain or grow our dividend per share. This is a commitment which has withstood many previous cycles, and is and remains a key differentiator relative to our peers. It is testimony to the quality and diversity of our assets, and to the distinctive operational excellence and capability of our people. In this context, in the 2015 financial year, our cash flow from operations secured both our dividend and investment in growth, and our ability to deliver further improvements in productivity and capital efficiency underpins our dividend, balance sheet, and future growth. In the 2016 financial year, we now anticipate capital and exploration expenditure of $8.5 billion; that is half a billion dollars below the guidance I gave just a few months ago. But in the 2017 financial year, as Peter said, we anticipate further flexibility, so that investment will decline to just $7 billion. But, I repeat, the increased capital efficiency that we have achieved means that these reductions will not in any way slow our planned growth.

Looking ahead, our quality asset base, further cost reductions, and improvements to capital efficiency will generate strong cash flows, unlock high margin volumes, buttress our progressive dividend, and make sure we emerge even stronger from the current cyclical lows. Thank you. I am now pleased to take your questions.



2. Questions and Answers

JASON FAIRCLOUGH, BANK OF AMERICA: Just briefly on growth and where to from here, if we look at consensus estimates for next year, they are lower than consensus dividends, and if we look at your new capex numbers, they look like they are lower than depreciation. So it seems that you are paying out more than you earning; you are spending less than you are depreciating, and yet you have still got this target in the medium term for 5% growth. How can I square that?

ANDREW MACKENZIE: You can square it by talking about productivity. We delivered $10 billion, and that was before we actually de-merged South32. We now are unlocking a substantial simplification premium to create more productivity, which means that in capital terms – you have heard an example of this from the Black Hawk – we can now do what we previously thought we could do for one unit for half a unit, and that allows us to continue to squeeze the capital we require to grow. You have heard some of our cost flow targets coming through, which are new today. These are unit costs, and they are effectively a further increase in the 30% reduction in unit costs we have already announced, which gives us a bit more cash flow as well. We do have a strong balance sheet, and it is even stronger as a result of repaying about $1.4 billion of debt, which I think is on the upside of expectations. So I think this gives us the resilience to continue our balance our ability to look after the progressive dividend; to grow for the future; to maintain a stable balance sheet, and do it all safely.

JASON FAIRCLOUGH: So, in terms of the productivity, could you talk a little bit about the extent to which you see the productivity as BHP-specific, versus maybe just more general flattening of the cost curves across the industry?

ANDREW MACKENZIE: When you compare our productivity to our peers, we are running somewhat ahead, and we are fully intent on increasing that distance between us and the rest of the cost curve, so we can translate at least some of that into higher margin and therefore higher returns for our shareholders.

MYLES ALLSOP, UBS: I had a couple of questions. First of all, on the dividend, if you are not going to get credit by the equity markets – your dividend yield is almost 8% - why do you not go and have some fun, and look at buying acquisitions? In oil, you may be able to get some Tier 1 assets. In potash, there are potentially some assets and options. Should we assume that it is over your dead body that the dividend gets cut, because you are so focused on it, or could you see the Board changing their view on the dividend if the equity markets will not give them credit? Secondly, you mentioned in the presentation that there could be $40 billion of hidden value from these untapped projects. Could you just give us a bit more granularity on what you are thinking of there; what assumptions you are making, and whether that is NPV? It is a huge amount of hidden value that is potentially in the portfolio.

ANDREW MACKENZIE: 'Over my dead body' sounds a little strong, but it is almost right. You should not doubt the commitment of every single person who works for BHP Billiton to look after this progressive dividend, after we have made sure that our balance sheet is strong and our operations are safe. It is a pretty strong commitment, and one that we feel is part of the compact we have with many of our shareholders. We have fun doing it, by the way. The other sources of fun are still possible, because of the strength of our balance sheet and what we have done. Of course, we will look at the possibility of acquisitions, but we will not over-pay and, for us, the bar is very high for the type of asset we have. We have created this stunningly simple portfolio, comprised of almost exclusively Tier 1 assets. I do not want to lose that focus by

buying things that do not meet that standard. If a thing comes along, and it is a steal, we will be ready to move for that, but I think there are ways of doing that without compromising our commitment to the dividend.

The value is really just calculated on our prices, assuming that we execute everything that we have talked to you about. That does not include, for example, things like exploration success at Trinidad, but it does include, of course, a second shaft that would allow us to double the production out of Olympic Dam. It does include going ahead with Spence. It does include going ahead with Mad Dog 2. It does include, perhaps, pulling forward some of our gas developments, like the Haynesville, by reducing the costs that would work. At current prices, that is something we are working hard on at the moment. It ultimately includes the possibility of doing something in potash, but they are options, and they, of course, will compete with each other for capital and for other uses of our funds. But we have fun looking after the dividend, as well as having fun doing acquisitions. It motivates us all.

MENNO SANDERSE, MORGAN STANLEY: Clearly, this year has been a bit of a demand shock. It is interesting to see that BHP has refreshed its views, for instance, on steel. With respect to that, I have two parts to my question. First, has the company reviewed demand estimates, particularly for China, for other commodities – so, met coal, copper, and potash – at the same time? Secondly, what is the risk that this cut is a bit like the sell side: you make the first cut, but it is not really one you need to make, because there is another one following and another one following that. How confident are you that your team has taken a very conservative view of this new estimate?

ANDREW MACKENZIE: We have taken a realistic view. We redo our forecasts bottom-up, in incredible detail, every six months. You have seen evidence of what we are predicting in steel, which really dictates what will go on in iron ore and met coal, but we do similar things for copper, and as much as we can, in line with the majors, we do the same things for oil and gas.

Back to China, as I said, I think the signals coming out of China are more mixed than we are reading about in our newspapers. There are some signals that might be on the bearish side, but there are signals that are more on the bullish side. Taken as a whole, what they show is that China is taking a course that Marius and I have talked about for over three or four years as it moves from being investment-driven to more consumption-driven. We see its rate of growth coming off, but they are doing it in a way that we feel strongly confident that the Chinese people are going to pull themselves through the middle income trap, and in doing that, they are going to create stable growth for decades to come and demand for our products that we think is worth investing in.

CLARKE WILKINS, CITIGROUP: Thanks for the additional detail on the costs and things like that. Just looking at the Queensland coking coal cost, or the Queensland cost in terms of the 6% reduction expected for this year, you have a 12% currency benefit. What are the other factors holding back costs dropping there further, given that some of the other high-cost operations are being closed? Is it just dealing with labour productivity, or are stripping ratios increasing there?

ANDREW MACKENZIE: Coal was probably the leading-edge business in reducing costs in the first place. They have taken about $3 billion of their costs out already. But, as I mentioned, the Crinum mine finally becomes exhausted, and that is relatively low-cost, so with that removal from the mix, it boosts the average a bit. We have got a number of fairly significant shut-downs coming up, and longwall moves that are adding to costs that were not present in the half-year just closed. That is about it, but do not doubt our resolve and Mike Henry's commitment to do a lot better than that. All things considered, a reasonable estimate for next year sits at 61, with an

intention to go better through continuing to lead a charge on productivity there, as they have done so well in the past.

PETER O'CONNOR, SHAW AND PARTNERS: I had two questions, firstly on capex and secondly on costs. When you spoke in Barcelona, you gave the capex target for FY15 at $12.6 billion. Is that number in line with the $11 billion that you have just delivered? Is that comparable?

ANDREW MACKENZIE: I do not remember that number. Maybe you could get with the IR team afterwards. Because I am so forward-looking, I forget what we have cut it to. I think the FY16 number was about 11, but obviously we are now saying that we are going to come in around 8.5, and obviously intend to drive that down in the same way I spoke about coal. Then we will go to 7 for FY17.

PETER O'CONNOR: On costs – following up from the last question – within the iron ore cost and the Australian core costs in particular, could you give us the granularity and the moving parts that drive that? I note in the footnotes, you have said that the currency forecast in May was 80 cents. It is now 74. Are there any other specific drivers we should be aware of that have produced that quantum step down in just three months?

ANDREW MACKENZIE: Oh, absolutely. We are driving very hard to increase the availability of all plant and equipment, and its utilisation. Peter quoted a few numbers, which I will not quote again. We are doing that, and we are looking very hard at our supply costs; less on the price, but more on just saying, 'Waste not, want not', and being much more efficient with our resources and challenging ourselves, right down to the individual level, as to how productive we can be day after day, and do our job better tomorrow than we did yesterday. The whole organisation, right to its fingertips, is excited and urgent about what it can do in delivering productivity, but first and foremost, to do that safely.

PETER O'CONNOR: To follow up on the capex side, I have got your presentation from Barcelona in front of me, and the number you quoted there was $12.6 billion capex in exploration, which came in at 11. I am just intrigued how, with six weeks to go in the FY15, the number could have changed by that amount. Did you not spend at all for the last six weeks, or was there something that did not get committed to? Is there any reason why that capex did not go out the door and help with the debt reduction?

ANDREW MACKENZIE: But our capital expenditure for the year just closed was $11 billion. Maybe we could take this offline? There are a lot of numbers flying around.

PETER O'CONNOR: Alright.

RENE KLEYWEG, DEUTSCHE BANK: You have alluded to the fact that there is upside potential beyond the 150 at the Permian, and we are seeing continued progress on costs in the Black Hawk, in terms of drilling costs. Could you give us an indication of where completion costs are, as well, and then when you think you may be in a position to give us a bit more colour on the Permian in terms of capital intensity, given that it is a slightly more challenging operating environment? Then, on copper, I have the same sort of question on the Spence hypogene. In terms of timeframe on a green light there, what are we looking at, and can you provide any update on the discussions at Cerro Colorado, and whether that will be a firm decision by the end of the year? Thank you.

ANDREW MACKENZIE: I will maybe do them in reverse order. We still have not got everything signed off, but things are looking better for achieving the permit to continue to mine at Cerro Colorado. On Spence hypogene, we have to time this into market at the right time, and we have to get the benefits of capital compression by leading it in the study phase. But it is moving

closer, and we will certainly provide an update when we have our investor tour to copper inDecember of this year.

The intention with some of those projects is to put them into the market at what we think might be the perfect time in terms of the bottom of the cycle, where we can actually go to a lot of the construction companies and get some of the keenest prices that we have been able to achieve for almost a decade, but marry them with some incredibly capital-efficient designs. We are talking about plus or minus six months, here or there, as we move into FY16 and FY17, and I am sure that Danny will talk more about that if you go and see him in Santiago in December.

I am not over the exact detail of the completion costs of the Permian, but across the oil industry, people are working on all the elements of cost: finding, development, lifting, and SG&A. We are leading the charge here so that we can potentially develop the Permian at lower prices than we previously thought were appropriate, and obviously, we are not doing anything very much at the moment. We only have two. We were at 10; we are going down to nine rigs, and we will probably drop another rig, given the kind of prices that we are seeing at the moment. We will only have two, at most, in the Permian. We are really holding land at the moment until we feel the time is right, through compression in our costs and technology, and maybe some recovery in the crude price. When we are ready to act, of course, we will tell you the conditions that we are starting to ramp up drilling, but, of course, we are not completing anything in the Permian at the moment. We only have one frack spread operating, and that is in the Black Hawk.

TIM HUFF, RBC: I just had two quick questions, actually, on the back of Myles' question with respect to the dividend. Although you see the dividend as something you definitely do not want to be cutting, how has free cash cover of the dividend moved up in terms of priorities and financial metrics? Clearly, for capex, you have given visibility two years out, which is really helpful, and your medium-term view on China is a bit softer. I was just wondering if you could comment a bit about that. Also, on the $15 a tonne, with your view on steel in China and lower capex going into FY17, do you see the necessity to take that below $15 a tonne in the medium term?

ANDREW MACKENZIE: Our intention is to continue to drive lower, and I believe with the things that we are doing at the moment and the motivation of our people, we will go lower in time. But $15 is the guidance for next year, and then we will see what Jimmy and the team will do. We never give up, and right across our businesses, we still see a lot more productivity to be extracted; in part from the simplicity and focus that we get from South32. Obviously, we have to look after our balance sheet, and keep it strong and solid A, but although I have guided to a capital for FY17 of $7 billion, clearly, there is still further give in that. If prices are low, it may make good sense to defer some developments until we see prices are higher. We have a lot of capital flexibility, and we still have balance sheet flexibility while staying in solid A. Our commitment to the progressive dividend is both strong and underpinned from several angles.

PAUL YOUNG, DEUTSCHE BANK: I had two questions, Andrew, on your oil division, considering that production is now declining. First of all, on the US onshore, with the drop in well capex, I am interested in what you see as your current break-evens for both the Black Hawk and the Permian, and also what your view is on the oil price is for the next 12 months. Then, on conventional growth, you have got Mad Dog 2, but that is for the next decade, really. So I am just curious about, if the exploration in Trinidad and Tobago – which you seem to be banking on – is not successful, what is the strategy to grow the conventional business?

ANDREW MACKENZIE: The Black Hawk is still a good business, even at these prices. Returns are in excess of 30%. We do not quite know what the break-even price is on the Permian; clearly, it is a bit north of where we are today. In the past, we have talked about numbers as high as $70. I am very confident that, with the way that the team are working, they will bring

that down, but I do not have a number for you today. We are not banking on Trinidad; we are optimistic about Trinidad, and we do like Mad Dog 2. We do think – a bit like Spence hypogene – there is a chance that we and BP can bring that into the market at a time when we think capital will be particularly cheap, and possibly, it will be well-primed for a little bit of an upswing in the price in the future, in the way that you have described. But we are looking at Mexico, and we are doing things that I cannot talk about at the moment, looking at the possibility of where we could buy something at a price that we think is appropriate, but we will not overpay. So I think we have several ways in which we can extend our Petroleum business; both onshore, and in the conventional business.

PAUL YOUNG: Thank you. Just on the conventional strategy and the inorganic-led growth, you mentioned there about buying something. I have heard Tim Cutt's view, but what basins do you prefer when it comes to conventional?

ANDREW MACKENZIE: I do not want to give away too many of our secrets, but we are fairly clear that we like fairly 'conventional' conventional, and so we are not chasing things in the Arctic or tar sands. We are into offshore areas – they can be deep-water; that is what we are good at – and areas with large areas of yet-to-find, where there is a fair degree of political certainty.

GLYN LAWCOCK, UBS: I want to push you a little bit more, if I can, on costs.

GLYN LAWCOCK: Maybe Peter will answer a little bit. Jimmy likes to talk about utilisation, availability, and rate. If you think about that, and look at where the business was a decade ago, where are you on that journey? If I look at iron ore, 2005 costs were about $11 a tonne at the same exchange rate today. If you think about tonnes per man, where do you think you are on the journey? Are you 80% of the way towards getting back to those peak availability, utilisation and rate metrics? I am just curious where you are heading.

ANDREW MACKENZIE: I do not like to put too many limits on it, Glyn. There was a chart in one of the slides I showed that more or less demonstrated that what we have done so far is, across our portfolio, bring costs back down to where they were in 2005/6. Clearly, we want to keep driving them down further; hopefully, to the levels that you have spoken about there. When you look at things like availability and utilisation, particularly for mobile fleet, and benchmark them against the more static or classic manufacturing operations, then there is an awful lot still to aim for, and our intent is to aim for it.

GLYN LAWCOCK: My second question is on the 5% volume growth guidance. I am just wondering, beyond 2016, what assumptions have you made on commodity price – particularly oil – to drive that 5% volume growth? Do I need to see oil back up, and for you to commit to more rigs and more spending in the US onshore, for me to get that 5% growth?

ANDREW MACKENZIE: Not necessarily, because we have a number of things that we can do in the near term, which are across all of our commodities. Conventional oil is there as well as non-conventional oil. We have things in copper I spoke about; things in iron ore, and things in coal. We assume that some of them will come off, but I would not provide you with guidance on price. Anyway, it would not be entirely helpful, because it is my strong conviction that we are going to reduce costs, so we can make things work at prices that today would not work. The answer to the first part of your question is that there is so much to aim for there, and I think the industry, with us in the lead, will capture some big prices as a result.

GLYN LAWCOCK: Could you do it with $1.5 billion a year in capex in US onshore?

ANDREW MACKENZIE: Well, remember what we have said: we have reduced the capex requirements for Onshore US – leaving to one side the cost of completion; we are working on

that at the moment – by 50% over two or three years. So, who knows? Maybe we can do it with even less capital, and do more for less. Which is what we keep pushing.

BEN MCEWEN, CIBC: This might be a question for Peter, but looking at slide 23, which provides maintenance capital expenditure guidance of about $2 billion, if I apply the $5 a tonne for Western Australian Iron Ore and then the $6 a tonne for Queensland coal, that gives me about $1.5 billion maintenance capex. That implies $500 million for the remainder of the portfolio. That seems low, in the context of FY15 capex for those divisions being about $9 billion. I was wondering whether there might be some additional granularity on that maintenance capex.

PETER BEAVEN: The way we allocate that sustaining capital is to maintain the integrity of the existing gear. Going forward, we also have $5 a tonne embedded in some of that guidance. For instance, as we talked about, there are some amounts allocated to improving the capacity of iron ore from the 254 million tonnes per year we have today to 290 million tonnes per year. We can get with you and provide a little more granularity, if you wish to model that, but I think it is safe to say that – as Andrew was saying – the important thing to know is that we should always, of course, maintain the integrity of our existing operations. That will consume around about $2 billion a year. The balance above that that we have got in our capital expenditure guidance means absolutely tremendous opportunities, but *in extremis*, it would be something that would have to be weighed up against the other calls on the capital, such as returns to shareholders and maintaining a strong balance sheet.

ANDREW MACKENZIE: There is about $1.5 billion in the capital budget of $8.5 billion for this year That isis minor capital, which includes things like in-fill drilling and oil, but it also includes part of the $5 a tonne that you mentioned in iron ore, and another portion of it is in the $2 billion that we have to do to basically maintain the plant and integrity. You really have to add the two to the 1.5. Now, some of that 1.5 is in-fill drilling and oil, so we do have a little bit more to play with in the other businesses within that two than you'd think.

SLYVAIN BRUNET, EXANE: Just following up on Petroleum, could you perhaps help us with some guidance beyond the current share on the breakdown between the liquid part and the dry part? My second question, following up on the dividends, is whether it is fair to assume that you are not prepared to draw from the balance sheet to pay the dividends if need be, depending on prices?

ANDREW MACKENZIE: There are a lot of numbers. I do not have them all in my head in the breakdown of liquids, but you will have seen from Peter's presentation that we have increased liquids production from the Onshore by about 67%. We can more or less stabilise that going forward, so that means that there is a reduction in the gas portion, as we wait for some recovery in the gas prices, but I do not have the exact details.

We think about it a bit differently to the way you are thinking about at the moment. That is what the last slide was about. Beyond the $2 billion that we must do to sustain our business, we would regard capital as coming to some extent after the dividend, so that capital – which we can do and we fund through increased productivity – is to some extent a greater discretionary item than we would ever inflict on our dividend, which, as I said, we want to buttress – and our resolve is very strong to keep it. That is how we see it and, at the moment, as we go forward, as I say, we can make the whole thing work and keep our balance sheets strong for a capital expenditure of $8.5 billion this year and $7 billion next year – and, obviously, the progressive dividend, which is around $6.5 billion.

I will take one from the phone, because they are all second questions here. Can we have another question from the phones?

LYNDON FAGAN, JP MORGAN: Hi, Andrew. Thanks very much. I have a few questions. Firstly, just back on slide 23, where it looks like there is about $5 billion of growth capital, I am just wondering how much flexibility you have in that FY17 capex guidance, should conditions deteriorate further. I guess, further to that, how much of the capex budget is unapproved by the Board – discretionary, if you like?

The next question is just reflecting back on the South32 demerger. You have made mention of the phrase 'simplification premium'. I am wondering whether you could perhaps expand on what you mean by that and how we should measure the success of the demerger. At this stage, I guess you have lost $1.85 billion of EBITDA. It cost almost $1 billion to do it. I am struggling to work out how to justify it in my own mind.

ANDREW MACKENZIE: Okay, regarding the capital you refer to on slide 23, there is a lot of flexibility there and a large part of it has not yet been approved by the Board. We can use that flexibility, if we require it. Our intention, of course, is that we maintain it and we maintain our investment in growth, unless we can constrain it more through capital efficiency through the delivery of cash through productivity.

That links to my other question. Increasingly, we are guiding what we do to unit cost and how all of our savings, whether they come out of overhead or whether they are operating costs, flow through to the unit cost for iron ore, the unit cost for coal, the unit cost for copper and so on. I would put it you, first of all, that being able to deliver our $4 billion target early is an indication of the focus that has come onto the management. I can tell you a lot of overhead, much more than we thought would happen, is disappearing from the company, with more to go at. And you have heard our conviction and you have heard our forecast, which suggests there is an awful lot more to come. I would just put it to you that a goodly proportion of what is yet to come has been enabled by having a much simpler company where we can connect things up much more and we can aggregate costs at a higher level than if we had not had South32.

It is also just the management having the time to see through and spend an awful lot more of our days, probably a lot more in the business presidents day worrying about the availability of plant and equipment and making sure that best practice that improves that travels at lightning speed around our organisation.

RENE KLEYWEG,DEUTSCHE BANK: To follow up on that theme, you have talked previously enthusiastically about the opportunities from the manufacturing and aviation industries in terms of changing practices in the mining industry. I guess things like fleet availability feed through in various different ways from long-term capital intensity, maintenance in the medium term and then some short-term gains. I think at this stage you are not comfortable putting any real numbers around that in terms of guidance for the near term, but could you talk about it a bit more holistically, on a five-year view or from a blue-sky perspective, what you are seeing internally?

ANDREW MACKENZIE: I can do. We can put firm numbers about it. Peter put some into his presentation. I would have to go back; I do not remember them all in my head, about some of the improvements that we got at Escondida in terms of availability. We can be quite concrete about them: the IR team can follow-up with you afterwards with all of the examples.

However, in terms of rough numbers, average availability sits in the 70-percents for mobile equipment. We strongly believe we can move it into the 80-percents or even higher. Sorry, it sits in the 80-percents; we believe we can move it into the 90-percents. Then on utilisation we tend to sit in the high 50-percents and we believe we can move that into the mid-70-percents. And that is more like a manufacturing operation. They are kind of targets we have in our maintenance shops around the world.

RENE KLEYWEG: Is that a three-to-five year view, in terms of getting there, is it? What is the journey time?

ANDREW MACKENZIE: They are aspirational. We are putting particular focus on it. It will be interesting to see what rate of progress we have made in 12 months' time. What we have tended to see in some of the better performers have moved ahead. We now have to deal more with the laggards.

ANDREW MACKENZIE: I will take one last question from the phones and then I will take one final question from here. Go ahead, James.

JAMES GURRY, CREDIT SUISSE: Thanks very much, Andrew. Congratulations on a reassuring result in these difficult markets.

ANDREW MACKENZIE: Thank you.

JAMES GURRY: I have two quick questions. In copper, how long do you think you will be running the three-concentrator strategy at Escondida. Is it going to be a five-year thing or a 10-year thing or is it going to run even longer than that?

In potash, can you just give us a bit of a project update? You seem to remain committed to the concept of it being a possible pillar for the company. Are you past the peak point of risk in terms of the shaft development? Are you spending still $500 million a year – that is the last number I have in my head – on this?

ANDREW MACKENZIE: I will concentrate on the second question, which I will answer and then you can remind me of the first one quickly. We are spending at $350 million a year. I expect that to go down. I would like to think we are past the peak point of risk. We have certainly resolved all the issues about stress around the shafts and what the appropriate level of temporary reinforcement is as we sink the shafts. However, until we have actually taken one shift all the way to the bottom and seen all of the geology and so on, we cannot be quite confident we have passed the risk through.

We are making good progress, though. I would stress that this is a very long-term investment. We are not in a hurry, and we will probably take several more years of completing shafts and looking at the market before we commit to any more expenditure. I should say at this stage there is no risk we will overspend the money already allocated to complete the shafts.

Remind me again of your first question? I am sorry.

JAMES GURRY: It was on the three concentrators at Escondida.

ANDREW MACKENZIE: Yes, it is certainly more than five years – and we will see how it goes. Our intention would certainly be to stretch it to 10.

Okay, can we have a final question from here?

JAKE GREENBERG, BANK OF AMERICA MERRILL LYNCH: Just to follow up on Jansen, can you give us some thoughts around potash pricing? We have seen oligopolies break down in iron ore and in oil. Do you have any sense of where potash markets are or any thoughts about pricing going forward, particularly in light of weak crop pricing?

ANDREW MACKENZIE: No. I am not sure it has completely collapsed in oil, but there has been a weakening of, if you like, the oligopolistic or cartel-like structure. Certainly, that is what has happened in potash. It makes it much easier for us to model and generally we are quite good at that. If you look back, our predictions on the whole for things like coal prices, iron ore prices and copper prices have more or less come in with what we have seen. That is why we have confidence with many of our predictions going forward to invest.

As markets become less cartel-ised and less politically controlled, they are easier to predict. For a company like us which really understands markets, it means we can time our investments more effectively. I would say that we would attempt to predict the potash price now assuming it is a completely free market. We certainly have scenarios for oil which assume it is a free market as well, but that is one of several outcomes to the current turmoil in the oil markets.

Okay, I think at that point we will close. Thank you for listening and thank you for all of your questions. I look forward to meeting many of you in a more intimate setting in the coming few days. Thank you very much.